



Hera Group consolidated annual report

as at 31st December 2011

includes financial statements
describing performances, result
and key indicators.

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0 introduction

Letter to the shareholders

Dear Shareholders,

We would like to present to you the tenth financial statements of the Hera Group for the year 2011, which saw a continuation of Group activities with satisfactory results, in line with the continuous growth achieved each year since the formation of the company.

In our opinion, this result rewards the commitment and strategic decisions that have characterised the path of our company in a structured manner.

It should also be pointed out that this result was achieved over the last three years despite a gradual worsening in the general economic situation, which obviously affected our reference areas too.

Over the last 10 years, investments have exceeded Euro 3.7 billion, and EBITDA has increased from Euro 192 million in 2002 to Euro 644 million in 2011.

With the contribution from all business segments, EBITDA also increased last year, up by 6.2%, marking an increase of Euro 37.5 million from the previous year.

In terms of the volume of business handled, certain sectors were hit harder by criticalities in the economic context, but the expansion in the customer base, including in heavily competitive sectors, and the greater contribution from the energy sectors in particular, made it possible to record the aforementioned overall growth.

Limited changes were made to the company perimeter which, in any case, contributed to the aforementioned result in the renewable energy and gas sales sectors.

In light of the above, we are able to submit for your approval a dividend in line with the previous year, and for an amount envisaged at the time despite the net profit having to cover higher taxes introduced during the year.

And so today is an opportunity not only to take stock of the results achieved, but to assess the wider picture as regards the results achieved up until now.

Certain elements which, from the outset, set us apart from the rest of the industry operators, remain the bedrock of our long path of growth: I am referring to the long-term view which has guided our investment decisions, a strong focus on limiting risk, which has led us to searching for a balance between regulated and deregulated activities and, lastly, an approach oriented towards continuous, linear development, by combining the acquisition process with the natural growth achieved.

In expanding the company, we have attempted to maintain a strong link with the area, by managing and innovating the multi-business portfolio, with the objective of ensuring the loyalty of our customer base by offering a complete range of services.

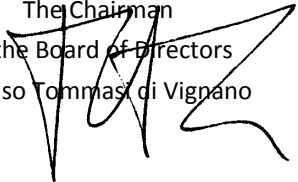
The quality of said services in respect of other market operators was also further borne out at the end of 2011, by the degree of customer satisfaction, which has been at a high level for some time.

The year 2011 also saw the introduction of regulatory changes for certain business segments with the definition of new players for regulatory functions, both national and local, against which we must measure ourselves in the new phase of market competition that will affect the majority of sectors regulated up until this point.

Owing to these latest changes and the complex national and international economic situation to be dealt with, it will be even more important in the future to maintain the solidity of the Group's structure and close involvement of our shareholders in further developments.

Bologna, 27 April 2012

The Chairman
of the Board of Directors
Tomaso Tommasi di Vignano



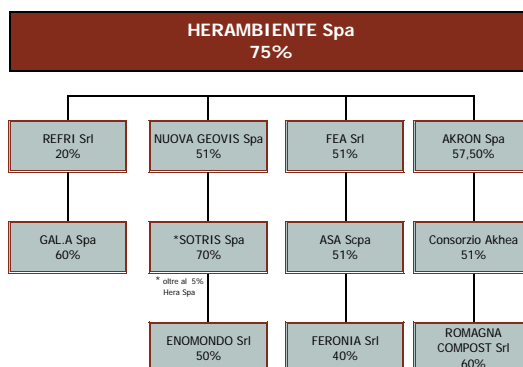
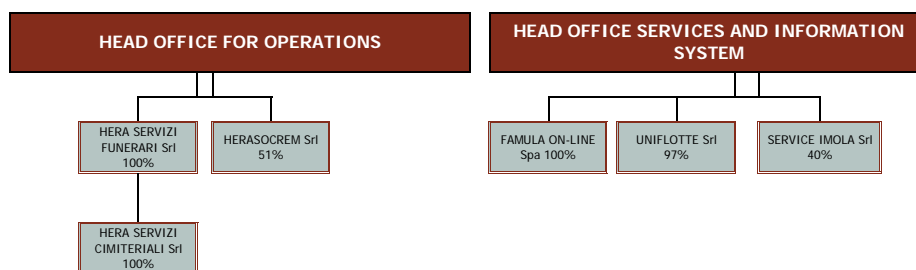
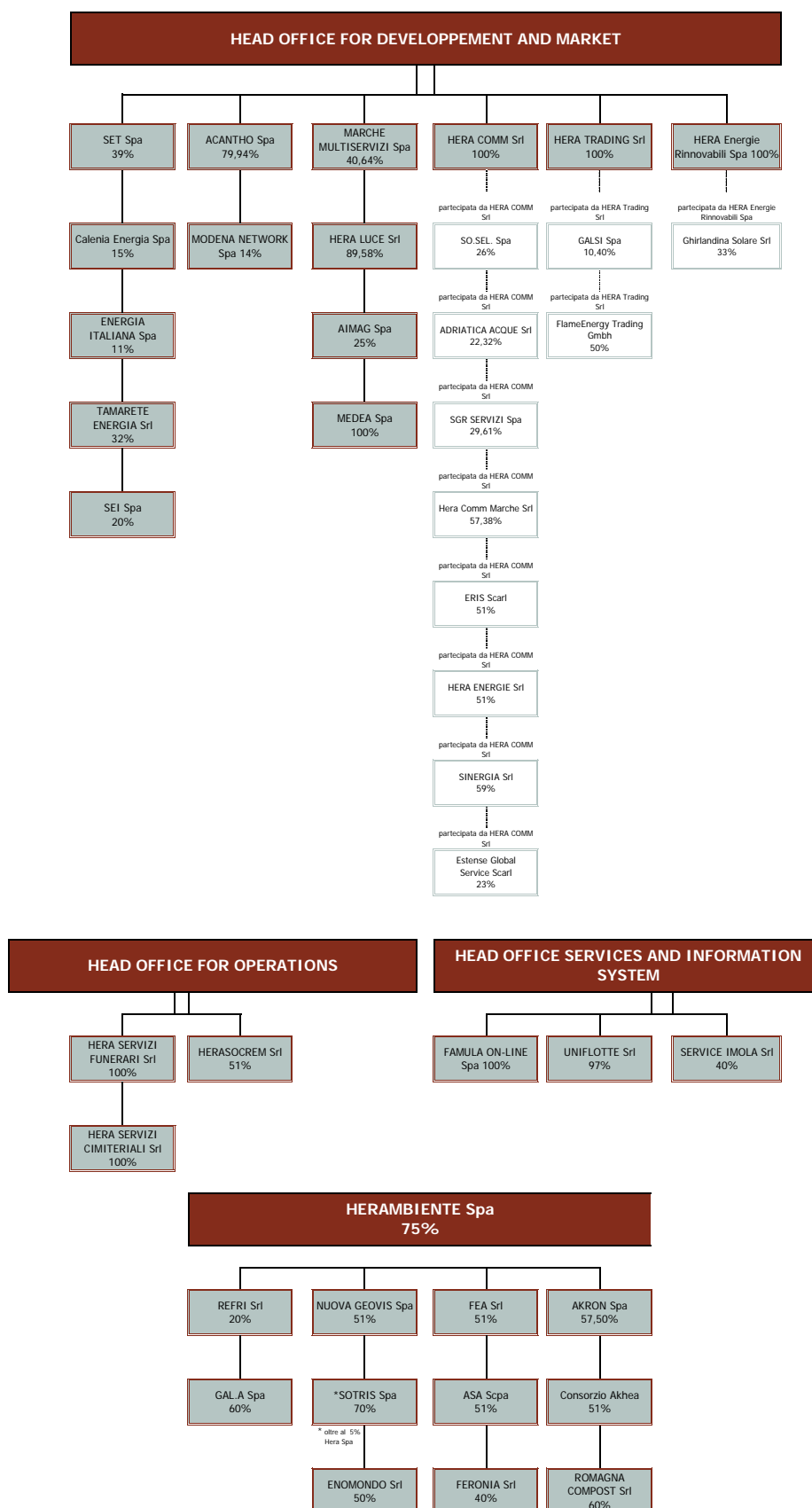
Hera's Mission

"Hera's goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by respecting the local environment".

For Hera, being the best means inspiring the pride and trust of: customers, who receive, thanks to Hera's responsiveness to their needs, quality services that satisfy their expectations; the women and men who work at Hera, whose skills, engagement and passion are the foundation of the company's success; shareholders, confident that the economic value of the company will continue to be generated, in full respect for the principles of social responsibility; the areas in which Hera operates, where economic, social and environmental health represent the promise of a sustainable future; and suppliers, key elements in the value chain and partners for growth".



Structure of the Group



Administrative and auditing boards

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
Vice-Chairman	Giorgio Razzoli
Chief Executive Officer	Maurizio Chiarini
Director	Filippo Brandolini
Director	Mara Bernardini
Director	Marco Cammelli
Director	Luigi Castagna
Director	Pier Giuseppe Dolcini
Director	Valeriano Fantini
Director	Enrico Giovannetti
Director	Fabio Giuliani
Director	Luca Mandrioli
Director	Nicodemo Montanari
Director	Mauro Roda
Director	Roberto Sacchetti
Director	Rossella Saoncella
Director	Bruno Tani
Director	Giancarlo Tonelli
Board of Statutory Auditors	
Chairman	Sergio Santi
Standing Auditor	Antonio Venturini
Standing Auditor	Elis Dall'Olio
Internal Control Committee	
Chairman	Giorgio Razzoli
Member	Luca Mandrioli
Member	Fabio Giuliani
Member	Rossella Saoncella
Remuneration Committee	
Chairman	Giorgio Razzoli
Member	Marco Cammelli
Member	Nicodemo Montanari
Member	Bruno Tani
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice-Chairman	Giorgio Razzoli
Member	Maurizio Chiarini
Ethics Committee	
Chairman	Giorgio Razzoli
Member	Filippo Bocchi
Member	Mario Viviani
Independent auditing firm	
	PricewaterhouseCoopers

Introduction

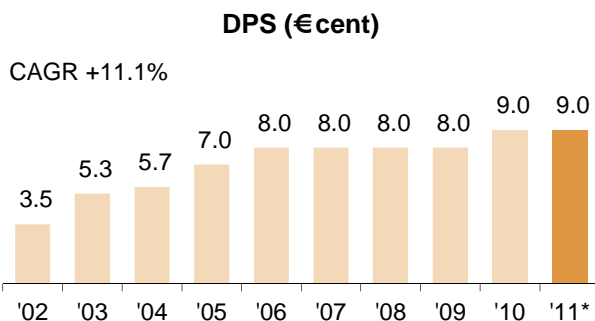
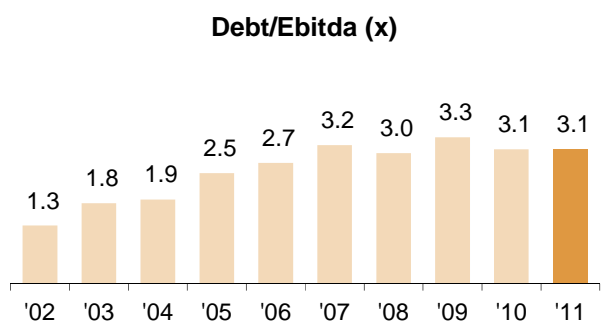
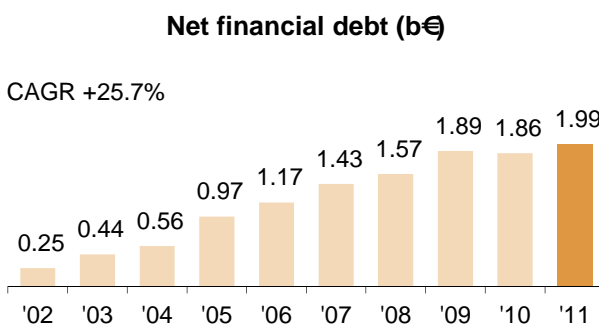
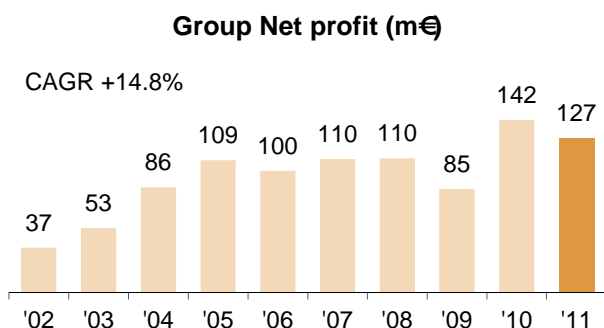
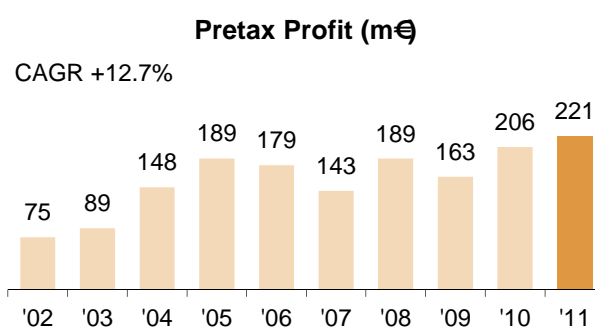
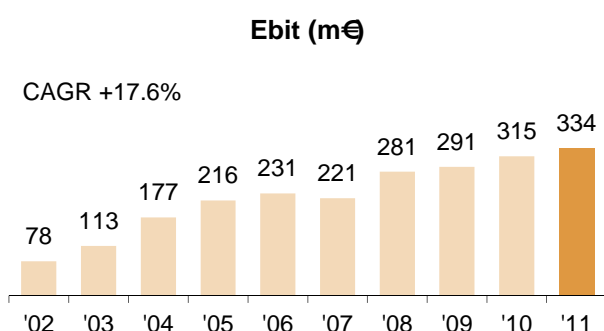
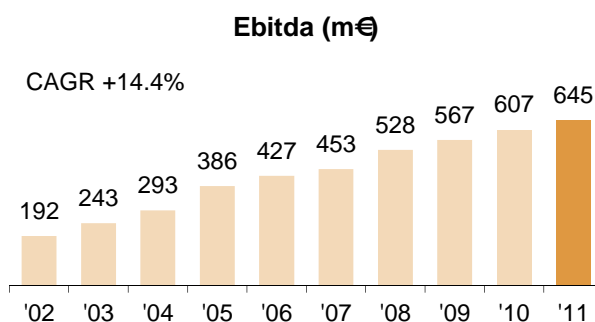
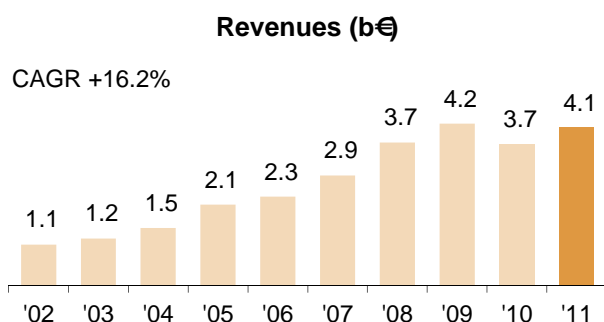
This year will be the tenth anniversary of Hera Group which will be celebrated with an Annual Report once again dedicated to both economic and financial growth. It makes an important statement, taking into consideration the continuing crisis which has led to almost all the main players in the industry, even the largest ones, suffering financial stress and needing to seriously rethink their strategies.

In an historic context, these financial statements confirm the long, uninterrupted path of growth over a ten-year period which has featured significant challenges: local public services liberalisation processes, legislative developments in all primary services and serious crises in the banking and finance system, culminating in the sovereign debt crisis that has greatly affected Italy.

The results achieved have managed to satisfy the best expectations of those who, in 2002, pursued the forward-looking plan of uniting 11 public utility companies, in the hope of bringing together the valuable business cultures and strong territorial links against a background of serious disruption.

On the occasion of this tenth anniversary we propose to take a look at where Hera Group is now and the results achieved to show what makes the Group stand out from its competitors. The brave risk-averse approach, long-term strategic choices and linear strategies pursued, set against the context of turbulent events and staying on course to achieve the targets set, can all be cited as examples. This analysis is useful for evaluating the soundness of the positions reached and understanding how they represent a greater “certainty”, compared with the past, for continuing along the path of further growth in the future.

Key financial information



* Proposal of the Board of Directors to be put to the Shareholders' Meeting in April 2012

History

Hera was **established through the merger of 11 local public utility companies** in November 2002. The establishment of the Group, one of the major Italian players in the business, was the largest domestic transaction in the local multi-utility industry.

On 26 June 2003, only seven months after the merger, the Hera privatisation process came to an end with its **listing on the Milan Stock Exchange**, the first IPO after the dot-com speculative bubble burst. The placement ended successfully, with the placement of 100% of the greenshoe to satisfy the extensive market demand.

After the listing, the public ownership structure remained essentially unchanged, with the exception of capital increases reserved for public shareholders of the companies that the Group managed to consolidate year after year, through the original organisational model.

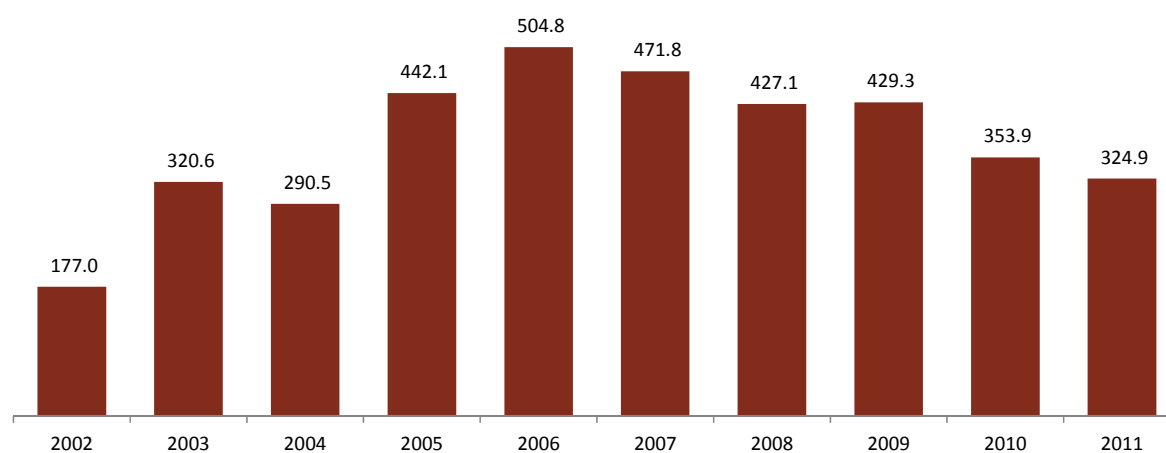
The subsequent **mergers of several surrounding organisations** brought the total enterprise value to almost €1 billion. The mergers also involved multi-utility companies like Geat of Rimini (which took place in the **same year as the listing on the Stock Exchange**), Agea of Ferrara **in 2004**, Meta of Modena **in 2005**, Sat of Sassuolo **in 2006**, Aspes of Pesaro **in 2007** and the acquisition of 25% of Aimag, operating in the province of Modena, **in 2009**. These transactions led the Group, which began its operations in five provinces in the region, to cover 70% of Emilia-Romagna, continuously and evenly, crossing over the borders in the north of Le Marche.

The mergers and acquisitions made the management of the **initial integration process** more coordinated, but simultaneously led to a creation of value through the synergy and rationalisation of activities throughout the entire last ten-year period.

The single management of all the territories covered (through the implementation of the original organisational model), with the management of personnel, acquisitions, finance and control, planning, legal affairs and operational management concentrated in a single business holding, made it possible to undertake corporate rationalisation measures, with the sale of more than 60 associate companies/businesses deemed not strategic, standardisation of procedures and operations, as well as standardising information systems. This contributed to transforming the collection of businesses into an efficient and integrated Group.

Organisation also underwent a gradual transformation in response to the different competitive dynamics of the markets and led the Group to the unbundling of activities (corporate separation of various activities), without, however, weakening either the synergic links between the various activities or the close bond between the Group and the reference territories.

Total investments (ml€)



Over 10 years the Group has supported development with gross investments of over €3.74 billion in infrastructures in the territory, extending and improving the efficiency of plants dedicated to all activities relating to primary services and customers, as well as improving safety and environmental sustainability. The Group has been strongly committed to expansion and investment activities throughout the period, which has involved more than 86% of total EBITDA produced over ten years.

Hera's development over the decade has, through efficiency measures, investment and corporate mergers, allowed it to consolidate competitive advantages in all core businesses, **gaining the leading position in terms of efficiency and size** in Italy. The Group has also promoted growth in electricity sales (originally managed by the Group in the Imola area only) at a faster rate than any other company, encompassing various regions in Italy. Market research has also shown that, as far as customer satisfaction is concerned, there have been constant improvements made, culminating in "complete satisfaction" for the large majority of the customer base.

Hera has maintained a risk-averse approach throughout this period of development, opting, in the various changes in the scenario and in the choices for emerging development opportunities, for a balanced and prudent reinforcement of both regulated activities and liberalised activities, without ever going after speculative or short-term options. This path has led to linear growth, without changes to the strategic route over the ten-year period, which has allowed the Group to gain ground in all reference markets, without interruption, achieving prominent, defensible positions.

Strategy

Hera's strategic objective has always been the creation of value from a multi-stakeholder perspective, in the medium- and long-term, competing autonomously and **effectively** in liberalised markets. The objective is to replicate the "unique" business model for expanding the Group and **managing primary services** in an increasingly **efficient** manner in order **to satisfy the main stakeholders**.

In 2002, the newly-formed multi-utility was a composite reality and de facto not integrated, which needed to deal with the critical problems of "protecting" the reference territories from the imminent breaking down of protective barriers in several core activities. The dimensions of the newly-formed Group were, however, limited compared with those necessary to deal with the competitive context opening up to large players, including international ones.

Against this background, Hera formulated a **strategy based on its strong points**, in other words an "open" organisational model, capable of allowing an efficient increase in size through external lines, national leadership in the waste sector and a loyal, extensive customer base concentrated in the reference area.

Maintaining the customer base was chosen as a "strategic imperative"; quality of service, after-sales service and an integrated offering including a complete range of primary services were deemed to be the competitive tools to achieve this aim. The multi-business portfolio (with traditional gas, water, waste and electricity services) was seen as key in protecting the customer base, capable of allowing the Group the time needed to improve the quality and competitiveness of its services and achieve more sustainable dimensions. The development strategy was also directed at maintaining a balance between the various activities of providing all the services to the customer base and guaranteeing a low variability profile of the multi-utility portfolio results.

Hera's strategic plan was made up of five priorities, which guided the Group's management on a continuous and linear path throughout the first ten-year period:

- 1) Pursuing a process of **extracting synergies** from corporate mergers, through the complete integration of the businesses that are incorporated into Hera
- 2) Implementing the plan for **constructing large plants** and developing networks, balancing the growth of all businesses to increase the efficiency and quality of services
- 3) **Preserving a sound, low-risk economic-financial profile**, capable of satisfying stakeholders through a sustainable approach in the medium- to long-term
- 4) Pursuing **merger and acquisition opportunities in the liberalised sectors** (waste treatment, energy sales and generation), both to consolidate the leadership position in the environmental sector and to expand, from a defensive perspective, the range of services to customers with electricity services in line with the development guidelines pursued by large international groups. The acquisition of the assets needed to achieve the goal has supported growth in the electricity business, only present at the birth of the Group in an embryonic stage
- 5) **Rolling out the innovative Hera aggregation model in multi-utility businesses** in neighbouring areas with a territorial continuity logic, focused on compatible activities and with economic-financial profiles capable of guaranteeing the financial soundness of the Group.

To ensure greater efficiency and exploit economies of scale, **the mergers** were integrated in the original model based on a business holding company. At the same time, “direct operational supervision” of all local territories was guaranteed to preserve the crucial competitive advantages of proximity to customers and local roots.

The strategy of focusing on core activities led to the rationalisation of the portfolio, with the consequent disposal of smaller businesses and corporate rationalisation through a leaner organisational structure in line with the new Group’s management logics.

In the field of energy activity, the development strategies were always aimed at consolidating the important position in core sectors (distribution and sale of gas) in the reference territory, both through improvement of networks and quality of service and through improvement of after-sales service. The dual fuel strategy, involving the expansion of the electricity services offered to existing customers, was supported by a parallel and **prudent upstream strategy** of self generation development complementing the market procurement sources. All of this made it possible to maintain a low risk-exposure profile in an area in which the Group did not have obvious capabilities.

In the waste disposal market, in which Hera is the market leader in Italy, the strategy was aimed at strengthening the plant structure for sustainable management with regard to the environment. In a market featuring a seriously underdeveloped infrastructure, the Group’s goal was to develop a fully-integrated plant system, capable of reusing waste materials and extracting energy from waste, through an ambitious investment policy involving the improvement of efficiency and rationalisation of operating activities.

In regulated businesses Hera adopted a strategy to improve efficiency and develop plants through infrastructures in the reference territories, strengthening positions in local markets and consolidating strong points with a view to gaining contracts when they expired and were put out to tender.

These basic strategies, albeit implemented in a way which is appropriate to the new reference scenario, were confirmed yet again in the **2011-2015 business plan** (presented in November 2011). Expectations for future growth, in effect, rest on the continuation of processes aimed at improving efficiency, the completion of large plants with the development of other complementary technologies in renewable energy, and maintaining expansion strategies in liberalised markets. In anticipation of tenders for gas distribution, the Group is planning to extend services in the new basins defined by the Authority in the current reference territories, in which the businesses operating have a significantly lower presence than Hera.

The generation of cash expected from these “organic” growth initiatives satisfies the strategic objective of improving financial soundness and maintaining a policy of distributing satisfactory dividends for the period of the plan.

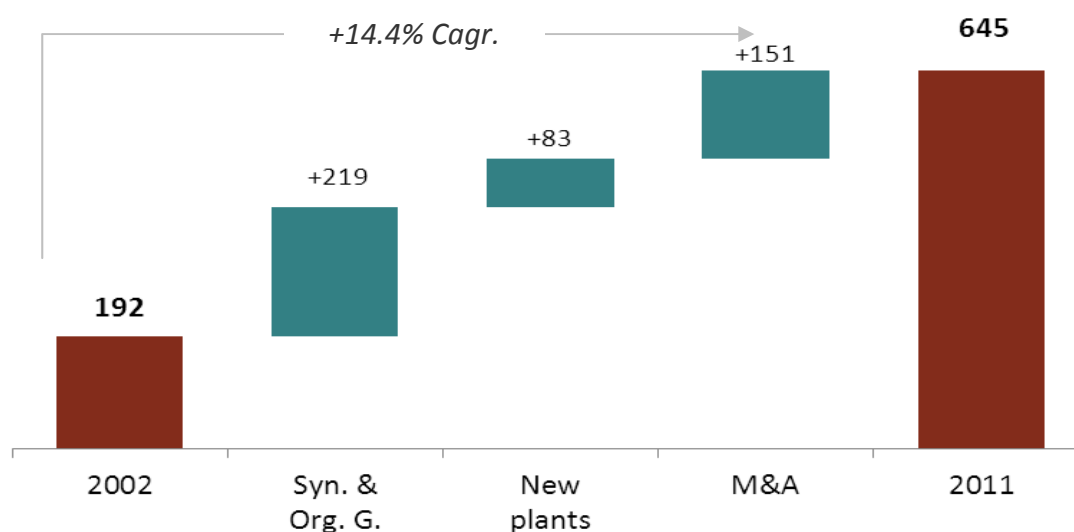
The expansion strategies for external lines, under the logic applied in the business plan until 2015, also remain and constitute a priority for expansion in the multi-business sector in neighbouring areas and for strengthening positions in free markets at a domestic level. These strategies are directed at maintaining a “balanced” assets portfolio and can be expressly pursued thanks to the current flexibility of the financial structure, considered to be one of the most sound in the industry.

Economic-financial results since 2002

P&L (m€)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Cagr.
Revenues	1,099.3	1,241.0	1,528.9	2,147.6	2,364.5	2,905.1	3,792.0	4,436.0	3,877.3	4,315.9	+16.4%
Ebitda	191.9	242.5	292.5	386.4	426.7	453.4	528.3	567.3	607.3	644.8	+14.4%
D&A	(114.3)	(129.7)	(115.3)	(171.0)	(195.3)	(232.8)	(247.6)	(276.0)	(291.9)	(310.3)	+11.7%
Ebit	77.6	112.8	177.2	215.7	231.4	220.6	280.7	291.3	315.4	334.5	+17.6%
Pre tax profit	75.4	88.6	147.5	189.3	179.2	142.5	188.9	162.6	205.6	221.2	+12.7%
Tax	(38.7)	(35.6)	(61.1)	(80.5)	(79.0)	(32.6)	(78.6)	(77.6)	(63.6)	(94.5)	+10.4%
Net profit	36.7	53.0	86.5	108.8	100.2	109.9	110.3	85.0	142.1	126.8	+14.8%
Minorities	3.5	3.5	5.5	7.4	10.1	13.7	15.5	13.9	24.8	24.8	+24.5%
Hera net profit	33.2	49.5	81.0	101.4	90.1	96.2	94.8	71.1	117.2	104.6	+13.6%

The economic results for the entire decade show constant growth in **sales**, which have almost quadrupled compared with 2002 (with a strong contribution from electricity sales and activity connected with trading energy raw materials). **EBITDA** and **Operating Income** increased respectively by 3.4 and 4.3 times compared with the starting figure, with constant and uninterrupted growth.

The improvement in operating results was supported by **organic growth**, which contributed to two thirds of the growth in EBITDA.



Organic growth relating to **synergies, operating efficiencies and development of markets** constitutes the most important organic factor, with a contribution of +€219 million (equal to 48% of growth in EBITDA over the ten years) compared with €192 million in EBITDA in 2002. This factor has contributed to growth, year after year and on a continuing basis, making an incisive contribution to the rationalisation of costs in the first years and operating efficiencies in later years, while the expansion of the markets has been a constant feature throughout the decade.

Organic growth has also been supported by the **development of large plants** (which contributed +€83 million, equal to the 18% increase in EBITDA): five new waste-to-energy plants, two thermoelectric power plants, an 80 MW cogeneration power plant, plus the acquisition of a waste-to-energy plant for hazardous waste, a biomass power plant, several photovoltaic plants and the electricity distribution network in the province of Modena. The development of this significant plant structure has committed the Group to a challenging investment plan which has gradually started to make a contribution to results in the second part of the ten-year period. One third of the growth in EBITDA has been supported by **external growth** activity, which has contributed approximately +€151 million, thanks to merger and acquisition transactions which took place almost every year and which have, in effect, constituted a “constant” improvement factor in the period.

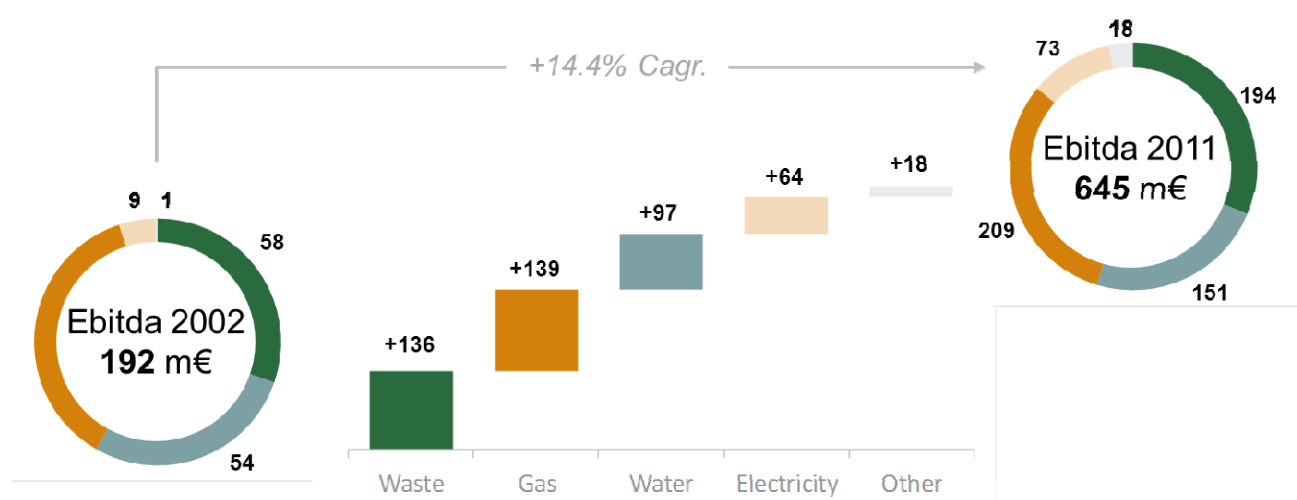
M&A target	year	EV/Ebitda	Business	Turnover	Ebitda	NPF	Stake (%)
11 Companies	2002	-	multi-utility	1,100.0	192.0	(252.0)	100%
Agea	2004	5.9x	multi-utility	144.0	25.0	(15.0)	100%
Meta	2005	7.7x	multi-utility	278.0	65.0	5.8	100%
Aspes	2007	5.5x	multi-utility	90.0	13.0	(5.7)	42%
Geat	2007	7.0x	multi-utility	13.0	2.0	(1.4)	100%
Modena province network	2006	8.2x	Electricity network	51.0	12.0	0.0	100%
SAT	2007	8,5x	multi-utility	62.0	12.0	(18.5)	100%
Aimag	2009	6,0x	multi-utility	31.0	31.0	(41.0)	25%

All the core businesses contributed to EBITDA, each with average growth rates in double figures over the ten years.

Thanks to appropriate management, both regulated activities (integrated water service, collection and disposal of urban waste, distribution of methane gas, electricity and district heating) and liberalised activities (sale of methane gas and electricity, trading energy commodities, treatment and disposal of waste and public lighting) have made a balanced contribution to company results. The balanced collection of activities, thanks to the various portfolio businesses internally offsetting the effects related to external variables (GDP, inflation, taxes, exchange rates, weather conditions, etc.) has ensured that the Group’s consolidated results for the entire period have been soundly protected.

Ebitda growth

(m€)



The effectiveness of this multi-business approach has been particularly evident in 2006 and 2007 when, following an unusually mild winter, the negative effects on the results of gas and district heating activities were more than offset by growth in other business areas (unaffected by weather conditions). Therefore, in recent years, affected by the crisis in the reference context, growth in the liberalised activities of waste disposal has slowed down as a result of the fall in consumption and production levels in Italy; this dynamic has been more than offset by growth in energy sales and trading activities, in which the Group has created structures which have benefited from energy commodity market conditions caused by the macroeconomic crisis.

The results for **net profit** over the ten years, which have fluctuated due to changes in tax laws (and periods of disruption such as the tax moratorium, goodwill tax redemption transactions and, recently, the introduction and subsequent increase in the Robin Hood Tax) have increased to over €104 million, almost triple compared with 2002.

The Group's economic development has been associated with maintaining a solid **financial structure**, which has supported the execution of a significant investment plan and mergers and acquisitions (approximately €4 billion).

Balance Sheet (m€)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Cagr.
Total net equity	865	895	1,064	1,484	1,516	1,539	1,579	1,701	1,870	1,879	+9.0%
Net financial position	254	444	562	974	1,173	1,432	1,572	1,892	1,860	1,987	+25.7%
Net invested capital	1,119	1,339	1,626	2,458	2,690	2,970	3,151	3,593	3,730	3,866	+14.8%
D/E book value	0.29	0.50	0.53	0.66	0.77	0.93	1.00	1.11	0.99	1.06	+15.3%
NFP/Ebitda (x)	1.3	1.8	1.9	2.5	2.7	3.2	3.0	3.3	3.1	3.1	+9.8%
EBITDA/OF (x)	13.9	12.8	11.0	9.5	7.9	5.7	5.6	4.8	5.3	5.4	(10.0%)

This financial soundness has essentially been achieved without the help of **capital increases** (to which the Group only has recourse for the inclusion of new public shareholders into the Group through "reserved" increases). **Financial leverage** has constantly increased during the years of the implementation of the plan for constructing large plants and then decreased and stabilised over the last two years thanks to the gradual increase in cash generation by the plants constructed. Thanks to the alliance with a financial partner, with a minority share in a subsidiary and the continuous

improvement in cash flows, the Group is currently renowned for the sustainability of its debt, which has a ratio of 3:1 with EBITDA and 1:1 with regards to shareholders' equity.

Financial debt has an average duration of 9 years and is fully protected against the risk of interest rate variations. It is also accompanied by committed credit lines which have not yet been used, equal to €280 million.

Company capitalisation has also strengthened since the establishment of the Group, with reserved capital increases related to the mergers and the provision of profit sharing, resulting in shareholders' equity of more than Euro 1.7 billion, approximately 1.5 times the market capitalisation recorded at the end of the year.

The development of sustainability in Hera

Hera Group has developed a multi-stakeholder approach with a view to guaranteeing sustainability and sound business operations in the long-term as well. The milestones in this development can be identified as the development of a **Code of Governance** with a **traditional** approach, based on a Board of Directors which, over the years, has seen an Executive Committee, an Internal Control Committee and a Remuneration Committee added, in line with the best practices promoted by the Borsa Italiana code of conduct.

The Code of Governance includes wide-ranging powers for the two Executive Directors. This arrangement, together with the constant reconfirmation of the mandate of the Executive Chairman and the Chief Executive Officer (which has changed only once), has guaranteed the necessary continuity and sustainability in management for the entire period.

The revision of the corporate “**mission**” in 2005 led to the clear expression of the sustainable approach to the management of the Group, inherited from the tradition of the integrated companies, to strengthen the commitment to satisfying stakeholders in the medium- to long-term.

The creation of the code of ethics in 2007 and, at the same time, the setting up of the Ethics Committee within the Board of Directors, led to the preparation of the Groups’ **ethical principles**. The introduction of an incentive-based remuneration system for directors and managerial staff (**Balanced score card system**) based on reaching economic-financial targets and environmental-social-ethical KPIs, completed Hera’s “sustainable” system, guaranteeing the implementation of the approach and rooting it firmly in corporate culture.

Company results with regard to the satisfaction of major stakeholders clearly show an improvement in performance from a point of view of quality of service, respecting the environment and employee satisfaction. The proposed timescale includes the years characterised by a homogenous comparison between KPIs (in terms of consolidation boundaries and type of KPIs).

	2005	2006	2007	2008	2009	2010	2011
Gross value Added (mln€)	722.1	802.5	817.1	923.8	977.4	1,010.4	1,042.6
Personnel							
Training (K h.)	18.5	20.1	24.3	33.2	23.0	23.0	28.1
Occupational accidents*	50.1	47.5	42.4	37.6	32.6	29.6	23.4
Gravity of damage**	1.1	1.5	1.1	1.2	1.8	1.0	0.5
Customers							
Customer satisfaction index (max 100/100)	67	67	65	67	69	69	70
Respect of AEEG standards	95%	95%	95%	96%	98%	99%	99%
Gas Emergency Service (requests satisfied within 60 min.)	95%	96%	97%	96%	97%	98%	99%
Avg waiting time - call center (sec.)	70	35	46	66	33	34	37
Avg waiting time - customer desk (min.)	27	24	21	19	15	15	11
Ambiente							
Energy from renewable sources (incl. 51% from WTE)	51%	51%	51%	54%	63%	68%	71%
WTE emission ratio/respect of by law standards (best <100%)	22%	21%	19%	17%	13%	13%	12%
respect of Kyoto standards (Best <100%)	98%	86%	64%	70%	89%	57%	56%
Not sold water: water leakage (Inc. Administrative l.)	n/a	8.4	8.3	7.9	7.9	8.0	n/a
Sorted collection	29%	31%	36%	42%	45%	48%	50%
Kg of sorted collection - per capita	199	217	250	297	310	340	347
Urban waste disposed in landfill (% on total waste collected)	n/a	37%	37%	36%	30%	25%	23%

* Total number of accidents in total hours worked

** Days absence in total hours worked

Special mention should be made of the environmental performance indices which reflect the effort made in these years to gradually decrease the effect of **environmental impacts** (in terms of emissions into the atmosphere of methane gas from the various activities of the Group) in the light of the continuous increase in volumes of activity.

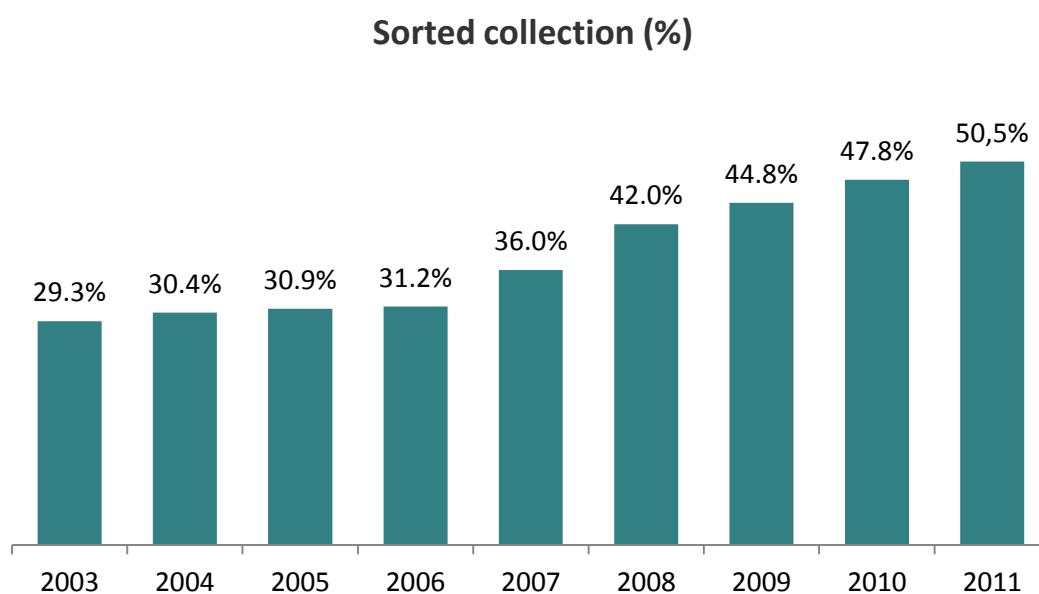
GHG emissions (ton CO ₂ eq.)	2007	2008	2009	2010	2011	Cagr.
WTE	0.26	0.35	0.42	0.38	0.42	+12.3%
Landfill	0.55	0.40	0.38	0.41	0.38	(8.7%)
Vehicles	0.06	0.06	0.06	0.06	0.06	+0.0%
Waste management	0.87	0.81	0.86	0.85	0.86	(0.3%)
Volums (kton)	4,398	5,158	5,114	5,703	5,107	+3.8%
Sorted collection/recycling (kton)	620	788	840	937	965	+11.7%
Percentage of sorted urban waste	36.0%	42.0%	44.8%	47.8%	50.5%	+8.8%
WTE Electricity (GWh)	328	392	476	526	585	+15.5%
District Heating	0.12	0.10	0.20	0.24	0.24	+20.2%
Heat distributed (GWht)	392	423	476	534	499	+6.3%
Gas network leakage	0.31	0.33	0.33	0.37	0.36	+3.5%
Gas distributed (m cm)	2,150	2,370	2,334	2,504	2,389	+2.7%
Electricity consumptions	0.23	0.23	0.24	0.23	0.23	+0.0%
Water distributed	241	257	257	251	254	+1.3%
Headquarter	0.004	0.004	0.005	0.005	0.005	+4.2%
Total emission (direct & indirect)	1.49	1.48	1.68	1.70	1.70	+3.3%

The sustainability reporting system, prepared and approved by the Board of Directors at the same time as the economic-financial statements, underlines the importance attributed to them in corporate governance. Hera's "sustainable" management system has received important recognition and is included amongst the best practices in Italy.

Development of the businesses

Hera is the leading domestic operator in the **waste management sector** through the quantity of waste collected and treated.

Waste collection activity regulated by concession contracts has developed over the years through the inclusion of companies, and now covers all the areas from Modena to Pesaro-Urbino. Thanks to constantly raising customer awareness and supporting local institutions, the Hera waste collection system is based on recycling the majority (over 50%) of waste materials (glass, paper, plastic and metals and biomass) and on the development of the energy content of the remaining part, through waste-to-energy treatments and extraction of biogases.



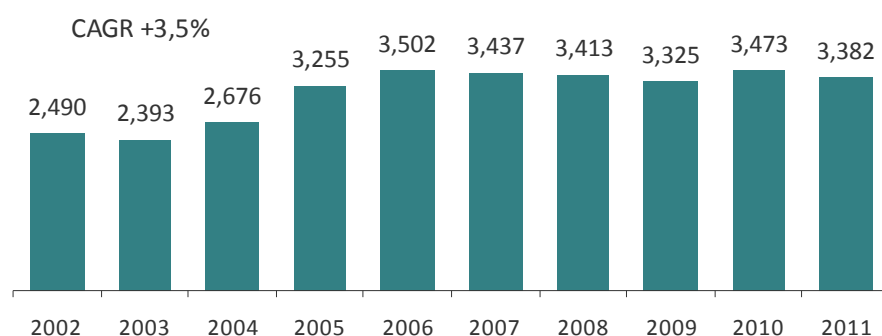
This effective system has made a considerable contribution to the decrease in the amount of urban waste disposed of directly in landfills, thereby reducing soil pollution.

The activities of waste treatment and disposal have benefited, over time, from significant expansion and renovation of the plant structure. The multi-year plan for the modernisation of large plants was completed in 2011. Landfill capacity was also expanded and the biomass treatment plants, already part of the Group's assets, were upgraded.

Plants	Installed capacity (MW)	Authorized treatment capacity (t)	Waste treated (t)
Forlì WTE	10.7	120,000	115,741
Ravenna WTE	6.2	56,500	42,118
Rimini WTE	13.0	150,000	114,375
Modena WTE	24.8	240,000	176,295
Ferrara WTE	12.9	130,000	129,837
FEA WTE	22.0	220,000	201,020
Ravenna F3 WTE	4.2	40,000	39,955
Biomass plant Enomondo	13.7	114,000	103,690
Total	107.5	1,070,500	923,031

Today, the structure comprises 79 plants, capable of satisfying waste treatment and development requirements of all kinds. It is a part of the Group's excellence on a national scale and has made a contribution to supporting the considerable expansion in the volume of activities over the ten-year period and also satisfying the complex requirements of disposal and drainage at production sites.

Totale rifiuti da mercato ('000 ton)



With the generation of approximately 0.7 TWh, the Group has become one of the main operators committed to the recovery of electricity from waste and is the only company in recent years that has managed to build and activate five new WTE plants in Italy. This operation has led to the installed capacity reaching approximately 100 megawatt, with 1 million tonnes/year.

In the light of the insufficient infrastructures in the waste treatment sector in Italy, which are typical and culminated in the waste emergency in Campania, Sicily, Calabria, Puglia and Lazio, invitations to tender were put out for the construction of new WTE plants in several Italian regions. At the end of 2011 Hera was awarded the contract to purchase a 40% stake in the construction and management of a WTE plant, producing 140 thousand tonnes a year, in the province of Florence, and was committed to increasing its market share in order to put the unique expertise it has gained in the market to good use.

In order to best rationalise the business in line with market logics, in 2010 the Hera Group set up the company Herambiente which became responsible for all waste disposal, treatment and recovery liberalised activities. In the same year, the Group opened up the Herambiente share ownership to Eiser, an infrastructure investment fund, thereby guaranteeing financial support for the future development of the company.

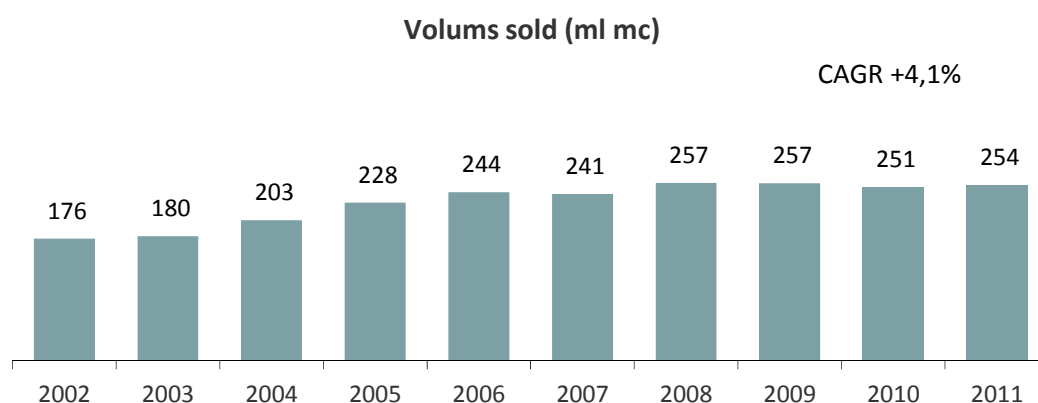
(mI€)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Cagr.
Revenues	288.4	284.6	362.3	481.7	539.7	553.6	632.1	642.1	703.1	740.1	+11.0%
Ebitda	58.2	62.3	85.7	130.5	150.5	156.3	186.3	187.3	195.1	194.2	+14.3%
Ebit	15.9	20.6	47.3	63.9	73.8	81.8	100.3	92.3	86.9	84.6	+20.4%

Growth in the Waste Management area, which supported the growth of the Group's results over the ten years, has caused EBITDA to almost quadruple. The development dynamics saw results over the last two years stabilise as a result of the economic-financial crisis which affected industrial and consumer businesses in Italy. In spite of the difficult market context, the waste management area recorded a double digit average growth rate, higher than the Group average for the ten years under consideration.

Since its inception, Hera has also operated in the field of **integrated water service** management, from the distribution of drinking water to the collection and purification of waste water, and has the exclusive right to these services in seven provinces in Emilia-Romagna and the north of Le Marche, based on long-term concessions (on average until 2022).

Following the mergers that took place, the physiological development of activities and investments made, the Group has essentially doubled its number of customers, upgraded the purification plants, expanded the distribution and sewerage networks by around 10 thousand linear km and increased the volume of activities by an average annual rate of 4%.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Customers ('000)	617	640	800	914	982	1,015	1,154	1,166	1,173	1,184
Water network (Km)	17,900	17,900	18,465	23,919	24,508	24,623	26,118	26,296	26,535	26,772



The water network, like all Group networks, is currently controlled by a single remote control system, created in 2007 and deemed to be one of the most advanced in Europe. Remote monitoring of networks has made it possible to optimise maintenance and supervision processes, guaranteeing greater efficiency and lower running costs. Thanks to these systems and the modernisation of the networks, recorded performance (in terms of average leaks per kilometre) has been amongst the best domestically.

The entire environmental control system, from the analysis of the water before distribution to the waste water collection and purification systems, has recorded important progress and guaranteed a high quality of service and maximum safety for customers.

The Group is the second most important operator in Italy by sales volumes, with a continuous and extensive presence in the reference market.

(ml€)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Cagr.
Revenues	240.7	248.0	304.9	346.2	398.4	407.6	459.0	583.7	579.2	596.7	+10.6%
Ebitda	53.6	66.4	76.5	94.3	107.5	118.5	130.2	131.4	142.0	150.2	+12.1%
Ebit	20.7	27.8	39.4	50.3	59.4	57.1	71.7	59.1	69.7	73.0	+15.0%

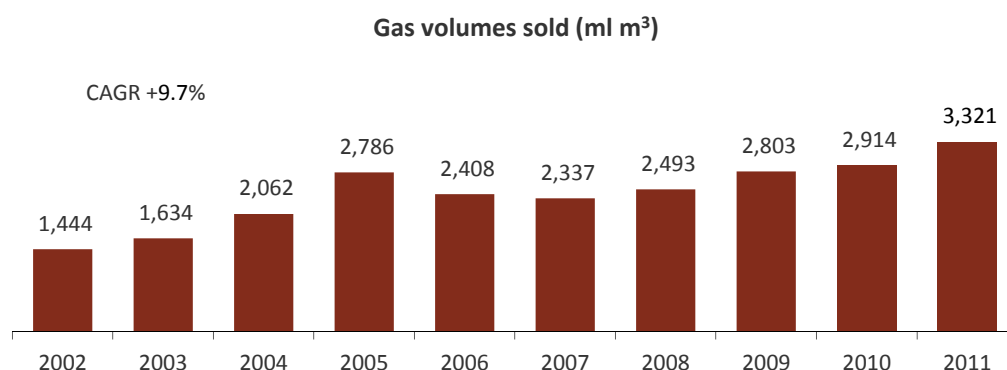
For the entire decade, Hera's results have shown constant growth of EBITDA; running costs and operating investment costs have also been covered with a trend towards a cash balance.

The referendum of June 2011 repealed the regulation governing the charge on return on investment, although the Ministerial Decree of 1 August 1996, which defines the standardised tariff method for the integrated water service ("Di Pietro" Ministerial Decree), remains in force. The resulting uncertainty should however be overcome following Law 214/2011, which gives the Electricity and Gas Authority the task of defining the tariff structure in future. In this context, however, the Hera Group is applying the agreements defined with the individual local authorities, some of which expire on 31 December 2012 and others in subsequent years.

The Group almost entirely covers the reference territory in the **gas sector** as well. This includes distribution services and sales services, plus methane gas trading, as well as the management of district heating. Hera is currently among the leading "local" firms and the fourth nationally in terms of sales volumes. In spite of the liberalisation of the sales market, the Group has maintained and developed its original customer base, reaching 1.11 million users, in other words almost doubling it in ten years, thanks to successive mergers.

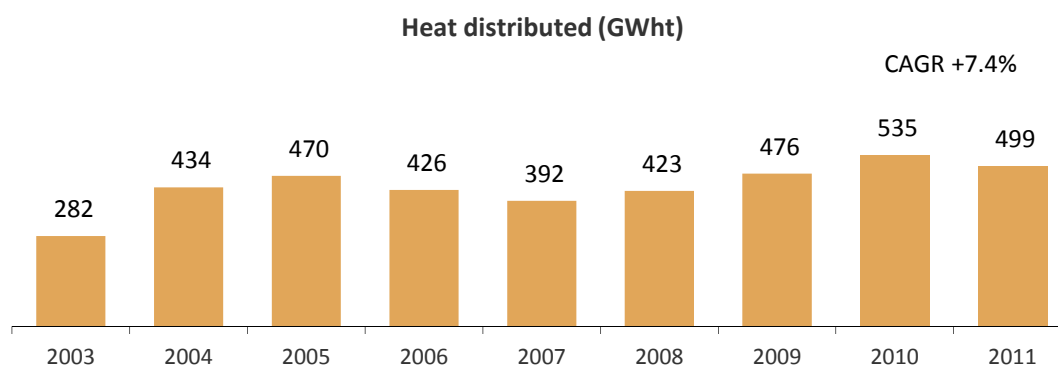
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Volums distributed (ml m ³)	n/a	1,661	1,912	2,399	2,312	2,150	2,370	2,334	2,504	2,389
Customers ('000)	668	700	799	940	1,003	1,019	1,066	1,071	1,072	1,115
Gas network (Km)	7,880	8,261	8,261	11,804	12,294	12,377	13,186	13,342	13,514	13,734

Sales have also more than doubled in this period, with volumes handled reaching more than 3.3 billion cubic metres. The distribution network, developed through direct investment and the acquisition of companies, has reached 14 thousand km.



The uncertain situation has led the Group to pursue prudent and flexible procurement policies, taking the opportunities that arise from the slow process of opening up and developing raw material import capacities and the international and Italian wholesale markets. Hera has a multi-year gas importing capacity of almost 500 million cubic metres per year through the TAG gas pipeline (Russian gas). It has also gradually diversified internal (domestic) sources, striving for maximum flexibility through annual agreements (multi-year contracts are currently present in 10% of total supplies). Lastly, there has been an organisational breakdown which has led to the establishment of a sales company (Heracomm) and a trading company (Heratrading), thanks to which Hera has established direct operational activities in Baumgarten and at other European hubs. This supply portfolio structure has protected Hera from the risks of purchasing “predetermined” materials many years ahead and, in recent years, has allowed it to derive benefit from the growing availability of methane gas in the country. Another means of safeguarding supplies, set against a background of maintaining a low risk profile, has seen Hera purchase a stake of more than 10% of the capital of Galsi, a special purpose vehicle for the construction of a gas pipeline with a capacity of 8 billion cubic metres, which will go directly from Algeria to Italy. The pre-contracted capacity comes to approximately 1 billion cubic metres per year, a quantity that allows Hera to focus on diversifying gas supplies with a third from North Africa, a third from Europe and a third from Italian operators.

Sales volumes relating to district heating have also almost doubled. As is known, this is a way of transforming energy into heat more efficiently and with less impact on the environment than independent housing heating systems.



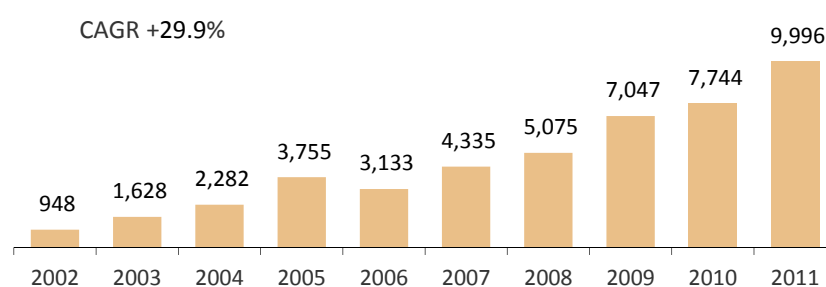
The district heating network has been developed in urban areas in the territory near the large waste-to-energy and cogeneration plants built in the last ten years, thereby exploiting heat sources which would not otherwise be used.

(ml€)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Cagr.
Revenues	473.1	514.1	589.8	871.2	987.6	922.0	1,216.4	1,290.7	1,237.1	1,490.2	+13.6%
Ebitda	70.4	99.7	106.0	118.5	116.1	104.7	143.8	174.4	193.9	208.7	+12.8%
Ebit	35.9	66.1	81.7	85.9	77.9	60.6	82.6	111.9	135.0	149.2	+17.1%

Economic results have constantly improved (with the exception of 2007 as mentioned previously) bringing EBITDA to over €209 million which is triple the original figure in 2002. The growth of this result is mainly due to investments, efficiency, mergers and acquisitions and, lastly, the noted flexible upstream structure.

The dual fuel commercial strategy has allowed the **electricity market to develop** at sustained growth rates, both through cross-selling activities to existing customers and through expansion into new markets. The strategy has protected existing customers in the gas sector, as shown previously, and placed Hera among the top eight domestic operators, with annual sales of approximately 10 TWh, with a tenfold increase in the customer base to almost 500 thousand (compared with 49 thousand at the beginning in 2002).

Electricity sold (GWh)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Cagr.
Volums distributed (Gwh)		509	536	1,507	1,880	2,248	2,263	2,117	2,238	2,304	
Customers ('000)	49	50	54	177	264	273	287	335	383	482	28.9%
Electricity network (Km)	1,410	1,423	1,429	5,586	6,521	9,363	9,528	9,659	9,743	9,942	24.2%

Commercial development in the electricity sector has been accompanied by a parallel **cautious development in electricity generation for the sustainable management of customer demand**. Over the years, Hera has been involved in the construction of two base-load new generation CCGT **plants** in Campania (an area with a poor infrastructure), with a capacity of 1,200 MW. These plants have been built through a joint venture with the purchase of minority stakes by foreign partners of international standing. The relatively small financial commitment has allowed access to cost price electricity, while the signing of special agreements (PPA), which include flexible supply conditions, guarantee a low risk profile. Since the establishment of the Group, it has held a 5.5% stake in Tirreno Power as part of this initiative, through the company Energia Italiana.

In 2008, an 80 MW gas cogeneration plant was completed in Imola, which guarantees self-sufficiency for the province if there is a national grid black out. Lastly, Hera's generation facilities included the development of more than 100 MW of clean energy from waste-to-energy plants, a further 13 MW from biomass thermoelectric plants, as well as the

recent development of small biogas and photovoltaic generation plants, which complete the diversified portfolio of the Group.

The production of electricity destined for Hera end users covers more than 30% of customer demand; the remaining part is purchased on the market with a widely diversified portfolio of supplies.

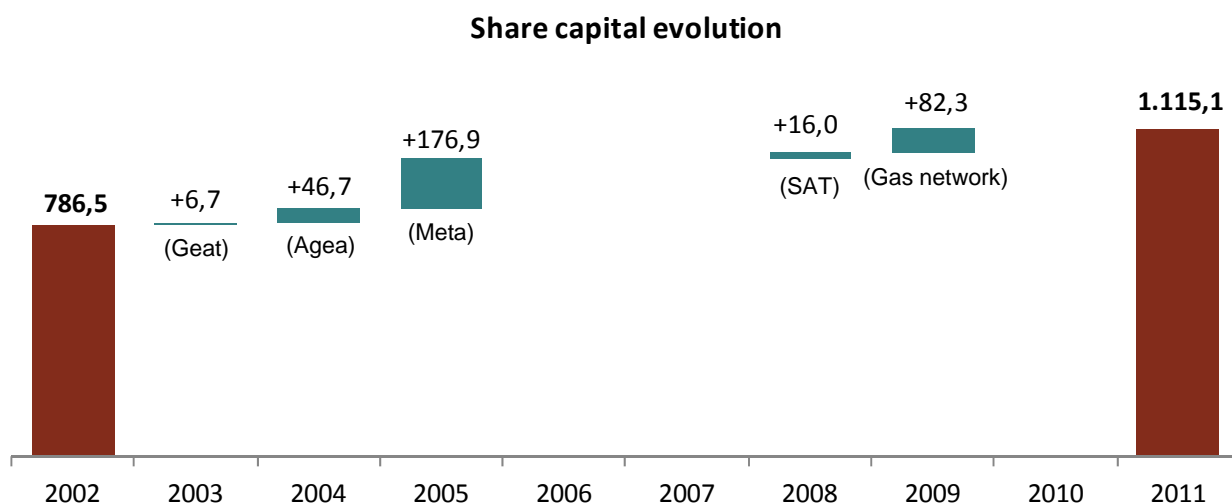
Electricity distribution activities have recorded significant development since their establishment. The merger with the Modena multi-utility (Meta S.p.A.) in 2005 and the acquisition of the Enel electricity network in the province of Modena have contributed to the expansion of the network to almost 10,000 kilometres which, thanks to the investments made, is fully equipped with electronic meters and managed remotely through a single, state-of-the-art remote control centre.

(m€)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Cagr.
Revenues	78.4	126.6	205.0	396.7	389.4	989.2	1,557.3	2,032.5	1,468.3	1,585.2	+39.7%
Ebitda	9.3	8.2	7.4	22.5	25.3	42.7	54.4	53.0	59.8	73.2	+25.8%
Ebit	6.0	2.8	5.0	12.2	10.2	9.8	22.6	26.3	26.6	39.7	+23.4%

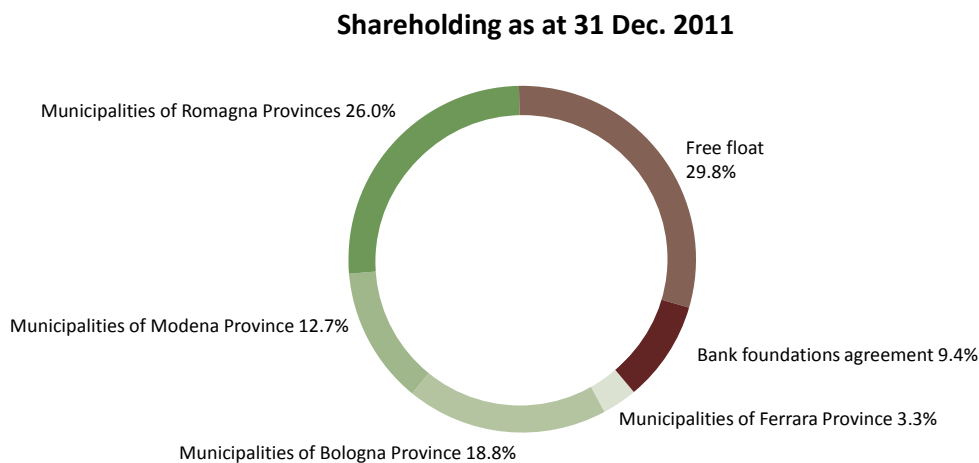
The strong impetus of market and trading activities, the merger with Meta of Modena and the subsequent acquisition of the Enel network in the province of Modena in 2006, has led to EBITDA increasing more than seven times over in ten years.

Development of the ownership structure and remuneration of shareholders

The public ownership structure has mainly developed as a result of the inclusion (through reserved capital increases) of new public shareholders following various mergers.



Today, public shareholders are represented by 187 reference territory municipalities and they hold 61% of Hera's share capital of ordinary shares, made up of 1,115,013,752 ordinary shares.

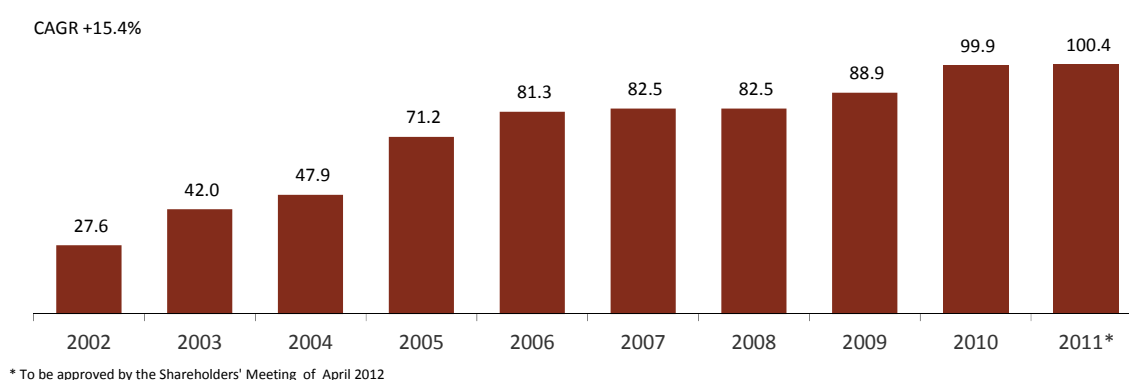


The team has a significant presence (approximately 16.2%) of international investors and is denoted by the presence (approximately 3.5%) of private investors (around 10 thousand people) resident in the reference territory (and therefore Hera customers) who were involved in the Group's placement on the Stock Exchange.

Since 2006, Hera has conducted a share buyback programme with a maximum of 15 million shares, for a total amount of €60 million. This programme aims to finance any opportunities to buy small companies and to rectify any unusual movement in the Group's share price compared with its major domestic competitors. The Shareholders' Meeting on 29 April 2011 renewed the plan for the purchase of treasury shares for a further 18 months, up to a maximum total amount of €60 million. Hera held approximately 9.7 million treasury shares in its portfolio as at 31 December 2011.

Over the course of the ten years, remuneration for shareholders has always involved **constant or increasing dividends**, even at the most delicate times following mergers or during the macroeconomic crisis of recent years.

Total dividends (m€)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Total dividends (ml€)	27.6	42.0	48.2	71.2	81.3	82.5	82.5	88.9	99.9	100.4
DPS (€)	0.035	0.053	0.057	0.070	0.080	0.080	0.080	0.080	0.090	0.090
PayOut ratio (on Hera net profit)	83%	85%	60%	70%	90%	85%	87%	125%	85%	96%

* To be approved by the Shareholders' Meeting of April 2012

In the period under consideration, the dividend per share went from €0.035 to €0.09 cents and the Board of Director's proposed dividend for 2011 confirms that of 2010.

The share price over the ten-year period is illustrated in the graph below.

Performance of Hera share since IPO



After listing (placement price of €1.25), the shares registered constant growth, which began and coincided with the announcement of good results in 2003 (an increase in EBITDA of 25% with a 50% increase in net profit). The positive trend, often above the sector average, was supported by good financial statements and business plans marked by growth and mergers. The share price reached its highest value in 2007 of €3.4.

The world financial crisis, which began the second half of 2008 (the collapse of Lehman Brothers) and continued for most of 2009, also had serious repercussions on global financial markets throughout 2010-2011 and created a great deal of uncertainty among operators. The crisis then turned into a sovereign debt problem in several nearby European countries which reached levels felt to be excessive, worrying investors; the crisis specifically affected Italy with a further negative emphasis in the second half of 2011. The joint actions of the Community institutions, together with rigorous financial policies implemented in the European countries involved, have still not managed to restore faith in the financial market with a return to normal conditions. In this difficult financial market context, the European utility sector suffered negative market trends in recent years, recording a performance that was slightly worse (around 5%) in 2011 as a result of factors specifically related to the sector (tax on nuclear fuel, the June referendum for the abolishment of the water tariff system in Italy and the increase in the Robin Hood Tax introduced by the Italian Government). These aspects also affected the Hera share price, in spite of the fact that their impact on the Groups' fundamentals was less important, compared with that on other operators in the market, thanks to the prudent strategies pursued by the Group.

Hera share in 2011



The FTSE Italia All Share Index closed 2011 with a performance down 24.3% compared with the start of the year, while the Italian Local Utility index closed in the same period down more than 32%. In 2011, but also for almost the entire ten-year period, Hera stock often fared better than local utilities, with an official price at the last trading session of the Stock Exchange in 2011 of €1.096, in other words a negative performance of -29.7%. Hera's best relative performance (compared with the local utility sample) coincided with the publication of good results for quarterly financial statements and business plans. The average daily trading level stood at 1.3 million shares, with an average value of €1.8 million in 2011.

The Hera Group market valuation at the end of 2011 involved a 2011 EV/EBITDA multiple of 4.9, a 2011 P/E ratio of slightly more than 11 and a dividend yield of 8.4%. Market capitalisation, equal to 70% of the book value, does not seem to fully reflect the improved financial soundness of the Group compared with its competitors, the prospects for further growth forecast in the business plan and the opinions of financial analysts, who have expressed an average valuation approximately 36% higher than at the year end.

Since its listing, the Group has promoted and improved relations with financial analysts. In 2002 stock coverage was represented by four studies, only one of which was issued by an international broker. Over time, this coverage has increased to 14 studies, with international brokers such as Citigroup and Merrill Lynch. In spite of the financial crisis in these years having caused major restructuring in banks, Hera still enjoys extensive coverage from 11 independent studies, half of them international: Alpha Value, Banca Akros, Banca IMI, Centrobanca, Cheuvreux, Deutsche Bank, Equita, Exane (BNP Paribas group), Intermonte, Kepler and Mediobanca. In addition, the Banca IMI, Cheuvreux, Kepler and Deutsche Bank analysts include Hera stock among the best investment opportunities for 2011. At the end of 2011, Hera includes nine Buy/Outperform evaluations, two Hold/Neutral opinions, and no negative ratings. The 12-18 month average stock target price, expressed by analyst evaluations, is €1.48 per share. At the end of 2011, Banca Aletti began a study into Hera. With the publication of its first report at the beginning of 2012, Banca Aletti preferred Hera stock over others in the local utility sector, by virtue of the sustainability of the Group's financial debt (also confirmed by research into the sector by Cheuvreux) and its dividend distribution policy.

Hera stock is included in many SRI indices: it has been part of the Kempen SNS Smaller Europe SRI Index for many years. In 2008 it was also included in the ECPI Ethical Index Euro. In 2009 it was included in the ECPI Ethical Index EMU, made up of 105 companies featuring sustainability consistent with the ECPI SRI method and listed on the EU money market.

The Group's main means of communication with shareholders and stakeholders is undoubtedly its website **www.gruppohera.it**. Over the course of the ten-year period, the section dedicated to shareholders/financial operators (Investor Relations) has been continuously improved, with the implementation of interactive tools, timely updates and publication in **real time** of price sensitive releases and company documents. For the third consecutive year, Hera's online financial communication has been recognised by the Hallvarsson & Halvarsson web ranking in the national class among the major domestic listed companies: in 2011 the Group's website took third place, ahead of many larger Italian organisations.

Since its establishment in 2002, Hera has placed special emphasis on direct communication with investors, culminating in a Road Show introducing the stock in Italy and abroad (United Kingdom, France, Switzerland, the Netherlands, Germany, Austria and the United States). Thanks to the positive feedback and the interest shown by foreign investors, meetings were also arranged, from 2005 onwards, with Finnish, Swedish and Danish investors. In 2011 Hera intensified its dialogue with European and American investors, with an average of 350 contacts per year. Timeliness of reports and transparency in communication has been improved further, also in response to the growing sense of uncertainty felt by stakeholders at this time of deep disruption.

Notice of calling of the Shareholders' Meeting

Shareholders are called to the Ordinary Shareholders' Meeting in the Auditorium of the CNR CONGRESS CENTRE at 101 Via Gobetti, Bologna on 27 April 2012 at 10.00 am, on single call, to discuss and resolve the following matters:

Agenda

1. Financial statements as of 31 December 2011, Directors' Report, proposal to distribute the profit, and report of the Board of Statutory Auditors: consequent resolutions;
2. Presentation of the corporate governance report and remuneration policy decisions;
3. Renewal of the authorisation to purchase treasury shares and procedures for arrangement of the same: consequent provisions.

The full text of the proposed resolutions, together with the related reports and the documents which will be put to the meeting are available to the public at the company headquarters, at Borsa Italiana S.p.A. and on the Company website (www.gruppohera.it) under the terms of the law.

Right to attend and participate by proxy

Those who are eligible to attend the Shareholders' Meeting are those who are entitled to vote at the end of the accounting day of 18 April 2012 and those from whom the Company has received the relevant notification from an authorised intermediary. Those who are only shareholders following this date will not have the right to take part in and vote at the meeting.

Each person entitled to take part can nominate a representative to attend the Shareholders' Meeting, pursuant to the law, with the right to use the proxy form available on the Company website for this purpose. The details of how the company can be notified electronically about proxies are also available.

The Company has appointed Servizio Titoli S.p.A. as a representative whom shareholders with voting rights can, by 25 April 2012, nominate as a proxy with instructions for voting on all or some of the proposals on the agenda. The proxy for the above-mentioned representative should be conferred in the appropriate manner using the dedicated proxy form available on the Company website www.gruppohera.it

The proxy for the appointed representative is not effective with regard to proposals for which voting instructions have not been given.

Other shareholders' rights

Shareholders can ask questions about items on the agenda before the actual meeting.

Shareholders who, even jointly, represent a fortieth of the share capital, can ask, within 10 days of the publication of this notice, for the inclusion of subjects to be discussed indicating the further topics proposed in the question. Questions should be presented in writing.

A detailed study of these rights and the methods for their exercise can be consulted on the Company website www.gruppohera.it.

Bologna, 26 March 2012

The Chairman of the Board of Directors
(Tomaso Tommasi di Vignano)



1 directors' report

1.01 Introduction

The tenth financial statements published since the establishment of Hera Group show growth and performance in 2011 that are unusual set against the background of the difficult economic context and compared with other operators in the industry.

The financial crisis which began in 2008 culminated in 2011 in a sovereign debt crisis in several nearby European countries, which experienced times of political instability and, in the case of Greece, “controlled default”. These systemic crises had serious repercussions on the economic situation through the banking system’s tightening of lending to businesses and consumers. In Italy this slowing down of the economy had profound effects leading up to the first signs of recession which appeared at the end of 2011. The 2011 seasonally adjusted GDP figures for Italy stood at +0.5% compared with +1.2% for 2010 (with negative figures in the last two quarters of the year) with forecasts of negative growth rates for the current year. Industrial production levels in Italy have decreased to 5.0% in 2011 (compared with +5.5% in 2010), exports have slowed down (+11.4% compared with +15.7% in 2010), with a similar situation for imports (+8.9% compared with +22.6% in 2010). This situation has affected demand for energy services, which recorded a decrease in demand for gas of -6.3% (compared with +4.8% in 2010), which was also influenced by the warmer weather during the year, and a slowing down in the demand for electricity (+0.6% compared with +1.8% in 2010).

In spite of this difficult context, Hera continued to consistently pursue its strategies which led to sustained improvements in results in almost all business areas without interruption since 2002.

In 2011, **the liberalised markets strategy** allowed considerable growth in sales in the **Electricity** sector, with volumes increasing by almost 30% (going from 7.7 TWh in the previous year to 10.0 TWh) for the third consecutive year, with volumes doubling over three years. This increase was supported by an expansion of the customer base, which went from 383 thousand to almost 500 thousand, reaching a figure ten times higher than the one at the outset in 2002. Hera Group was able to leverage efficient sales and after-sales services, which resulted in a high degree of loyalty from existing customers and promoted effective cross-selling actions. At year end 2010, the Group was awarded the contract for supplying electricity in 2011-2013 to service protection customers in the regions of Lombardy, Tuscany, Lazio, Molise, Abruzzo and Puglia, gaining new shares of the market in the process. The expansion of the Group’s electricity-related activities produced growth in sector EBITDA in 2011 that was approximately 7 times the result in 2002.

In the **Gas market** too, the Group’s sales volumes increased in 2011 by 14% (3.3 compared with 2.9 billion cubic metres in 2010), offsetting the effects of the warmer weather conditions through an increase in trading activity (1.3 compared with 0.7 billion cubic metres in 2010) and a slight growth in the customer base which went above 1.1 million households (+4%). Profitability in the Gas sector increased thanks to procurement strategies, which allowed greater margins benefiting from market conditions.

Volumes in the **urban and industrial waste treatment market** decreased in the second part of the year as a result of the production system and consumption crisis. Thanks to its strong market position, the Group managed to partly mitigate the effects of the negative performance of the market by gaining new customers which meant that the year ended with a fall in volumes of 2.6%. Measures aimed at improving the efficiency of the waste management system continued throughout the year: separated waste collection accounted for a share of more than 50% of urban waste (previously 47.8% in 2010) and the increase in waste-to-energy treatment grew by 15.3% (going from 800 to 923 thousand tonnes); the contribution of the new Faenza biomass thermal power plant (a joint venture with Caviro and consolidated pro-rata in the accounts at 50%) is also of note. The measures taken led to an essentially stable result compared with 2010 in EBITDA, confirming the unbroken growth trend recorded in all the financial statements since 2002.

The plant development strategy, aimed at consolidating free market activities, continued with electricity production initiated at the new Rimini waste-to-energy plant and the above-mentioned Faenza plant. Expertise gained over the years, both in the construction of plants and the management of WTE, has led to the Group being awarded the contract, at the end of the year, for the construction and management of a WTE plant in the province of Florence, in partnership with local operator Quadrifoglio.

Energy distribution, urban waste collection and water services activities managed under licence, which represent 52% of the Group's EBITDA, contributed to the improved results in 2011, which were also helped by investments made and by adjustments to the tariffs paid by the Authorities. Specifically for gas distribution, the domestic Authority defined an income level based on a more consistent value of capital invested, while for water services and urban waste collection services the tariffs set were in line with existing agreements with local Authorities. The efficiency measures undertaken in 2011 continued to make a contribution to the improvement in annual results, reaffirming the growth path that the Group has been on since its establishment.

The 2011 results also benefited from the **development strategy for external lines** which, at the end of the year, led to the consolidation by incorporation of Sadori Gas (a sales company). This transaction made it possible to strengthen the Group's market position in Le Marche.

Operations for the year produced a positive free cash flow after hedging of investments and M&A operations, which led to a net financial debt which was lower than the third quarter of 2011, almost entirely hedged by shareholder equity (debt-to-equity ratio of 1:1) and with a ratio of approximately 3:1 compared with EBITDA. The soundness of the financial structure is even more impressive, taking into consideration the extended average debt maturity (around 9 years) and the amount of available and committed credit lines (approximately €280 million).

The financial statements for the year show growth in operating results, even allowing for the conservative policy of reserves and increased depreciation and amortisation of investments incurred as part of the plant development. Net profit after minority interests, recorded growth in a homogenous comparison with the figures for 2010 (both years being freed by the positive non-recurring effects of higher redemption transactions not fiscally recognised).

The 2011 accounts are a sound confirmation of the expectations set out in the five-year plan announced to the financial markets in November and confirm the validity of the strategic choices taken in recent years. In the light of the soundness of the Groups' economic and financial indicators, the Board of Directors has decided to propose a dividend of €0.09 per share to the Shareholders' Meeting, in line with the previous year and continuing the policy that the Group has pursued since its establishment.

1.02 Corporate events

Corporate events

The Group continued to streamline its corporate structure in 2011. This involved liquidating two companies, removing five companies from the Companies Register, withdrawing from two companies, increasing equity investments in two companies and carrying out three merger/transformation operations.

The main M&A transactions were as follows:

Enomondo S.r.l.

On 16 February 2011, Herambiente S.p.A. acquired from Caviro Società Cooperativa Agricola an additional 10% of the share capital of waste-to-energy company Enomondo S.r.l., taking its stake to 50%.

Acantho S.p.A.

On 7 March 2011, the share transfer from Infracom Italia S.p.A. to Hera S.p.A. of 17.50% of the share capital of telecoms company Acantho S.p.A. was formalised.

Herasocrem S.r.l.

On 12 April 2011, the Extraordinary Shareholders' Meeting of cremation and funeral-services company Herasocrem S.p.A. voted to transform the company from a company limited by shares (S.p.A.) to a limited-liability company (S.r.l.), and to reduce the share capital to €100,000, with effect from 13 July 2011.

It is also proposed to dispose of the equity investment.

Hera Comm Marche S.r.l./Sadori Gas S.r.l.

On 27 April 2011, Hera Comm S.r.l. acquired from Walter Sadori S.r.l. 50% of the share capital of Sadori Gas S.r.l., a company that sells gas in the Marche region.

The merger by incorporation of Sadori Gas S.r.l. into Hera Comm Marche S.r.l., in which Hera Comm has a 60% stake and Marche Multiservizi S.p.A. controls the remaining 40%, was completed with effect from 1 July 2011.

As a result of this transaction, the share capital of Hera Comm Marche S.r.l. increased from €1,458,332 to €1,977,332. Hera Comm S.r.l. now holds 57.38% of the share capital of Hera Comm Marche S.r.l., with Marche Multiservizi S.p.A. controlling 29.50% and Walter Sadori S.r.l. the remaining 13.12%.

Hera Comm Mediterranea S.r.l./Hera Comm S.r.l.

With effect from 1 December 2011 and from 1 January 2011 for tax purposes, Hera Comm Mediterranea S.r.l., a wholly-owned subsidiary of Hera Comm S.r.l., was merged by incorporation into Hera Comm S.r.l.

Significant events after the end of the financial year and outlook

Feronia S.r.l.

On 31 January 2012, Herambiente S.p.A. acquired from Sorgea S.r.l. an additional 30% of the share capital of Feronia S.r.l., a company operating in the waste management sector, taking its stake to 70%.

Sviluppo Ambiente Toscana S.r.l.

On 7 February 2012, following the awarding of the contract put out to tender by Quadrifoglio S.p.A. for the construction of the Florence WTE plant, Hera S.p.A. and Herambiente S.p.A. constituted the company named Sviluppo Ambiente Toscana S.r.l., with the corporate objects of development, design and implementation of interventions and investments pertaining to waste management services, in which they respectively hold 95% and 5% of the share capital.

Amon S.r.l.

On 8 February 2012, Hera Energie Rinnovabili S.p.A. acquired the entire share capital of Amon S.r.l., a company owning a photovoltaic plant situated in the Municipality of Copparo (FE).

Esole S.r.l.

On 8 February 2012, Hera Energie Rinnovabili S.p.A. acquired the entire share capital of Esole S.r.l., a company owning a photovoltaic plant situated in the Municipality of Alfianello (BS).

Juwi Sviluppo Italia

On 1 March 2012 Hera Energie Rinnovabili S.p.A. purchased Juwi Sviluppo Italia 02 S.r.l., owner of a photovoltaic plant in Petriolo (Macerata).

CTG RA S.r.l.

On 8 March 2012 Hera Energie Rinnovabili S.p.A. purchased CTG RA S.r.l., owner of a photovoltaic plant in Faenza (Ravenna).

1.03 Group performance as at 31 December 2011:

Consolidated summary results of the Hera Group:

(€ million)	31-Dec-10	% inc.	31-Dec-11	% inc.	% Change
Revenues	3,666.9		4,105.7		+12.0%
EBITDA	607.3	16.6%	644.8	15.7%	+6.2%
Operating margin (EBIT)	315.4	8.6%	334.5	8.1%	+6.1%
Net profit	142.1	3.9%	126.8	3.1%	-10.8%

1.03.01 Financial and economic results and investments

The results for 2011, in spite of the continuing particularly unfavourable economic situation, show growth as far as all the main economic and quantitative indicators are concerned. The main business areas continue to grow constantly compared with the previous financial year, with the exception of the waste management segment, where the impact of the slowdown in production activities is more obvious.

Economic and operating results have all increased. Net profit also increased compared with the previous year, taking into account the positive non-recurring effects of higher redemption transactions not fiscally recognised (€25.1 million in 2010 and €7.6 million in 2011).

Quantitative indicators have, in the main, increased: greater volumes of electricity were sold, also thanks to the management of service protection customers in the regions of Lombardy, Tuscany, Lazio, Abruzzo, Molise and Puglia, for the three-year period 2011-2013, and greater volumes of water managed. On the other hand, note lower volumes of gas and heat sold as a result of higher average temperatures compared with the previous year. They were, however, offset by greater volumes traded and lower volumes of commercialised waste.

Also note the following events which took place during 2011:

- Since February 2011, Herambiente has consolidated its stake in Enomondo to 50%, a company that manages a 13 MWe biomass power plant, in a joint venture with Caviro Distillerie S.r.l.
- In July 2011, Hera Comm Marche incorporated Sadori Gas, which has a customer portfolio of more than 34,000 contracts and is capable of producing and selling more than 47 million cubic metres of gas per year, distributed throughout 42 municipalities in the provinces of Pesaro-Urbino, Ancona and L'Aquila.
- Hera S.p.A. expanded its gas distribution service activities by winning the public tender for the municipality of Formignana (FE) from 1 July 2011 and by acquiring the networks of the municipalities of Pievepelago, Riolunato and Fiumalbo (Mo) from 1 June 2011; annual volumes distributed will rise to approximately 4 million cubic metres.

As seen from the financial statements as at 31 December 2010, the Consolidated Income Statement considers the interpretation of the IFRIC 12 accounting principle "Service Concession Arrangements". At an accounting level, the impact of this interpretation, whilst not changing the results, has meant that investments in assets under concession (network services) are reported in the income statement. Therefore, the income statement shows an increase in other operating income of €143.6 million for 2011 and €135.2 million for 2010, lower capitalised costs of €35.5 million in 2011 and €35.4 million in 2010, and increased operating costs for services, materials and other operating costs of €108.1 million in 2011 and €99.8 million in 2010.

The table below contains the economic results for the years 2010 and 2011:

Income statement (€ million)	31-Dec-10	% inc.	31-Dec-11	% inc.	Abs. Change	% Change
Revenues	3,666.9	0.0%	4,105.7	0.0%	+438.8	+12.0%
Other operating income	210.4	5.7%	210.2	5.1%	-0.2	-0.1%
Raw materials	(2,140.5)	-58.4%	(2,440.1)	-59.4%	+299.6	+14.0%
Service costs	(810.7)	-22.1%	(870.5)	-21.2%	+59.8	+7.4%
Other operating costs	(38.8)	-1.1%	(39.8)	-1.0%	+1.0	+2.6%
Personnel costs	(361.9)	-9.9%	(370.0)	-9.0%	+8.1	+2.2%
Capitalised costs	81.9	2.2%	49.3	1.2%	-32.6	-39.8%
EBITDA	607.3	16.6%	644.8	15.7%	+37.5	+6.2%
Depreciation, amortisation and provisi	(291.9)	-8.0%	(310.3)	-7.6%	+18.4	+6.3%
Operating profit (EBIT)	315.4	8.6%	334.5	8.1%	+19.1	+6.1%
Financial operations	(109.8)	-3.0%	(113.2)	-2.8%	+3.4	+3.1%
Pre-tax profit	205.6	5.6%	221.2	5.4%	+15.6	+7.6%
Taxes	(63.6)	-1.7%	(94.5)	-2.3%	+30.9	+48.6%
Net profit for the period	142.1	3.9%	126.8	3.1%	-15.3	-10.8%

EBITDA rose from €607.3 million in 2010 to €644.8 million in 2011 (+6.2%), EBIT rose from €315.4 million to €334.5 million (+6.1%), pre-tax profit increased by 7.6% from €205.6 million to €221.2 million, and net profit went from €142.1 million in 2010 to €126.8 million in 2011 (-10.8%).

Revenue increased by €438.8 million, up 12.0% going from €3,666.9 million in 2010 to €4,105.7 million in 2011. The main reasons are: (i) greater volumes of electricity sold (+29.1%) and distributed; (ii) greater revenues from the distribution and sale of gas, also through the effect of the increase in the price of the raw material; (iii) greater revenues from the waste management segment, specifically greater revenues from the production of electricity; and (iv) greater revenues from the management of the water cycle.

The increase in the cost of raw materials and other materials, equal to €299.6 million compared with the previous year, is attributable to the higher volumes of electricity sold and the increase in the price of gas.

Other operating costs (Costs for services increased by €59.8 million and Other operating costs increased by €1.0 million), increased overall by €60.8 million (+7.2%); more than 75% of the increase is attributable to greater electricity and gas delivery costs and the remainder is due to the increased costs of the application of IFRIC 12, the extension of the scope of activities and inflation dynamics.

The increase in Personnel costs, which went from €361.9 million in 2010 to €370.0 million in 2011 (+2.2%), is mainly related to the development of contract dynamics.

The decrease in Capitalised costs, which went from €81.9 million to €49.3 million, is mainly connected to the decrease in work on plants and works by Group companies, particularly the completion of the new waste-to-energy plants.

Group consolidated EBITDA for 2011 grew, going from €607.3 million to €644.8 million (+6.2%) thanks to the good performance in the electricity segment, which went from 9.8% to 11.4% of the total results for the gas and water cycle segments.

Amortisation, depreciation and provisions increased by 6.3%, going from €291.9 million in 2010, to €310.3 million in 2011. This increase was mainly due to: (i) increased sums set aside for doubtful receivables, (ii) the entry into operation of the new disposal facilities whose depreciation and amortisation offset the effect of the reduction in lower quantities sent to landfills.

Operating Income for 2011 stood at €334.5 million, an increase of 6.1% compared with the same period in 2010.

The net financial income at 31 December 2011 stood at €113.2 million compared with €109.8 million in 2010. The greater expenses are due to both the increase in average debt and the increase in spreads recorded throughout 2011. The overall cost of financial management also reflects the benefits gained from the management of cash which, in part, moderated the increase in interest rates as well as the increased earnings from associated companies by around €0.4 million.

In the light of the above, Pre-Tax Profit rose from €205.6 million for 2010 to €221.2 million for 2011, an increase of 7.6%, or €15.6 million.

Taxes went from €63.6 million to €94.5 million; 2010 included the one-off positive effects of €25.1 million, while 2011 benefited by €7.6 million. Specifically, assets purchased by the Parent Company Hera S.p.A., as a result of the merger by incorporation of Agea Reti, were recorded at a higher statutory value equal to €6.4 million; this "higher value", not recognised for tax purposes, was released in 2011 through the application of the substitute tax, pursuant to Article 176, paragraph 2-ter of the TUIR (Consolidated Income Tax Act), equal to €0.8 million, with the consequent transfer to the income statement of the deferred tax liabilities originally recorded. The operation therefore allowed the recording of a positive one-off figure of €1.2 million in the income statement.

The Group also conducted the realignment of fiscal and statutory amounts relating to goodwill, resulting from the consolidated financial statements at 31 December 2010, of controlling interests, pursuant to Article 23, paragraphs 12-15, of Decree-Law 98/2011, through the application of the substitute tax, equal to €5.8 million, and the consequent disclosure of deferred tax assets, equal to €12.2 million, corresponding to the future IRES and IRAP tax benefit on the amount released. The operation therefore allowed the recording of a positive one-off figure of €6.4 million in the income statement.

In addition to the above, note the increased taxes accounted for following the increase in the additional Robin Hood IRES (corporate) Tax of 4 percentage points, as well as the increase in IRAP of 0.3% for licensed businesses, established through the provisions of 2011, for a total of €4.9 million. The final tax rate was 42.7%.

The Net profit at 31 December 2011 stood at €126.8 million, a decrease of 10.8% compared with the €142.1 million for 2010. Net of the extraordinary effects of taxes in 2011 and 2010, the Net profit increased by €2.2 million, up 1.9% compared with the previous year, as shown in the table below.

(€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Pre-tax profit	205.6	221.2	+15.6	+7.6%
Ordinary taxes	(88.6)	(102.0)	+13.4	+15.1%
Adjusted net profit	117.0	119.2	+2.2	+1.9%
One-off minor taxes	25.1	7.6	-17.5	-69.8%
Net profit for the period	142.1	126.8	-15.3	-10.8%

Analysis of the Group's capital and financial structure

The performance of the Group's net invested capital and the sources of financing for the year ended as at 31 December 2011, with respect to the situation at the end of the previous year, is shown below.

Net invested capital and sources of financing (€ million)	31-Dec-10	% inc	31-Dec-11	% inc	Abs. Change	% Change
Net fixed assets	4,142.3	111.0%	4,292.7	111.0%	150.4	+3.6%
Net working capital	(29.1)	-0.8%	(31.5)	-0.8%	(2.4)	+8.2%
(Provisions)	(382.8)	-10.3%	(394.7)	-10.2%	(11.9)	+3.1%
Net invested capital	3,730.4	100.0%	3,866.5	100.0%	136.1	+3.6%
Shareholders' equity	1,870.2	50.1%	1,879.4	48.6%	9.2	+0.5%
Long-term financial liabilities	2,292.1	61.4%	2,323.1	60.1%	31.0	+1.4%
Net short-term financial position	(431.9)	-11.6%	(336.0)	-8.7%	95.9	-22.2%
Net financial position	1,860.2	49.9%	1,987.1	51.4%	126.9	+6.8%
Total sources of financing	3,730.4	100.0%	3,866.5	100.0%	136.1	+3.6%

Net invested capital increased by 3.6% in 2011, from €3,730.4 million to €3,866.5 million. The rise was due to the investment plan, details of which can be found in the relevant section.

Net fixed assets at 31 December 2011 amounted to €4,292.7 million, an increase of 3.6% on the end of December 2010 (€4,142.3 million).

Provisions at the end of 2011 stood at €394.7 million, an increase of 3.1% compared with the December 2010 figure of €382.8 million.

Net working capital remains virtually unchanged registering an improvement of approximately €2.4 million compared with December 2010.

Shareholders' equity went from €1,870.2 million to €1,879.4 million as a result of the dividends of €121.4 million, of which €117.2 million has already been paid out.

The table below illustrates the Parent Company's statutory position and the consolidated financial statements at 31 December 2011.

Reconciliation between Parent Company separated and consolidated financial statements		
	Net profit	Shareholders' equity
Balances from Parent Company annual accounts	87,817	1,677,159
Dividends for the year	(71,385)	
Shareholders' equity evaluation of businesses recorded in the annual accounts at cost	6,126	17,687
Book value of consolidated investments		(487,364)
Shareholders' equity and operating result of consolidated businesses	81,886	499,585
Allocation of differences to assets of consolidated businesses and related depreciation:		
- Goodwill on consolidation		55,018
- Intangible assets	(549)	4,944
Other adjustments to eliminate effects of inter-group transactions	695	(30,114)
Total	104,590	1,736,915
Allocation of minority interests	22,165	142,431
Balances from consolidated financial statements	126,755	1,879,346

Analysis of the Group's net financial position:

The breakdown and changes in net financial debt are analysed in the following table:

€ million		31-Dec-11	% inc.	31-Dec-10	% inc.	Abs. Change	% Change
a	Cash and cash equivalents	415.2		538.2			
b	Other current financial receivables	39.1		44.3			
	Current bank loans	-48.3		-58.4			
	Current portion of bank loans	-57.7		-71.1			
	Other current financial loans	-8.6		-16.6			
	Financial leasing payables maturing within the next year	-3.7		-4.6			
c	Current financial debt	-118.3		-150.7			
d=a+b+c	Net current financial debt	336.0	-0.2	431.8	- 0.2	-95.8	-0.2
e	Non-current financial receivables	10.9		10.3			
	Non-current bank loans	-277.1		-345.8			
	Bonds issued	-1,829.7		-1,787.3			
	Other non-current financial loans	-221.9		-160.4			
	Financial leasing payables maturing beyond the next year	-5.3		-8.8			
f	Non-current financial debt	-2,334.0		-2302.3			
g=e+f	Non-current net financial debt	-2,323.1	1.2	-2292	1.2	-31.1	0.0
h=d+g	Net financial debt	-1,987.1	1.0	-1860.2	1.0	-126.9	0.1

Net financial position at 31 December 2011 stood at €1,987.1 million compared with €1,860.2 million in 2010. The increase in net debt is due to investments made and dividends paid during 2011.

Debt is mainly made up of medium/long-term debts which cover more than 95% of total debt, balancing the Group's capital structure which features a high level of fixed assets.

Hera S.p.A. enjoys a long-term rating of Baa1 issued by Moody's with a negative outlook and BBB+ by Standard & Poor's, with a stable outlook.

Hera Group Investments

The Group's tangible and intangible investments totalled €324.9 million, compared to €345.8 million in the same period of the previous year.

The table below lists the investments before disposals, for the reference period, by business segment:

Total investments (€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Gas segment	48.8	52.2	+3.4	+7.0%
Electricity segment	39.0	33.8	-5.2	-13.3%
Integrated water cycle segment	94.2	100.6	+6.4	+6.8%
Waste management segment	98.7	70.1	-28.6	-29.0%
Other services segment	13.3	14.0	+0.7	+5.3%
Central Business Unit	51.8	54.2	+2.4	+4.6%
Total operating investments	345.8	324.9	-20.9	-6.0%
Total financial investments	8.1	0.0	-8.1	-100.0%
Total	353.9	324.9	-29.0	-8.2%

Investments in the **Gas** service were higher than in the same period of the previous year. Gas service operations in the reference area refer to extending the network, improvements to and upgrading of the networks and distribution facilities and include the launch of the project for the wholesale replacement of gas meters (€4.4 million). District heating includes the works of extending the network in the areas of Bologna (€4.4 million), Imola (€4.8 million), Forlì Cesena (€5.3 million including the completion of the Forlì plant), Ferrara (€1.8 million) and Modena (€1.0 million). Investments in Heat Management relate to structural interventions in heating systems run by Group companies.

Gas (€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Gas Networks	29.2	34.1	+4.9	+16.8%
District heating/heat management	19.6	18.0	-1.6	-8.2%
Other	0.1	0.1	+0.0	+0.0%
Total Gas	48.8	52.2	+3.4	+7.0%

Investments in the **Electricity** service were mainly aimed at the extension of the service, extraordinary maintenance on distribution networks and plants around Modena and Imola, and network support services. Regional investment was down compared with the same period of the previous year due to the completion of the new photovoltaic plant at the Bologna freight terminal and the final phase of the commitment for the wholesale replacement of existing meters with smart meters, in order to comply with the substitution plans authorised by the AEEG (€2.8 million in 2011 compared with €5.0 million for the previous year). Investments in electricity and heat production plants (CCGT) refer to the completion of the Imola CHP plant, while industrial cogeneration activities relate to creating new plants for companies in the area.

Electricity (€ million)	31-dic-10	31-dic-11	Abs. Change	% Change
Regional	27.0	25.1	-1.9	-7.0%
Imola CCGT	7.3	4.3	-3.0	-41.1%
Cogeneration	4.7	4.4	-0.3	-6.4%
Total electricity	39.0	33.8	-5.2	-13.3%

As far as the **Integrated Water Cycle** is concerned, there is a considerable increase in operations at purification plants compared with the same period in the previous year. Investments mainly regard the extension, improvement and upgrading of networks and plants, in addition to regulatory compliance, particularly for purification and sewerage systems.

Integrated Water Cycle (€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Mains supply	50.0	50.1	+0.1	+0.2%
Treatment	19.2	27.2	+8.0	+41.7%
Sewerage	24.9	23.3	-1.6	-6.4%
Total Integrated Water Cycle	94.2	100.6	+6.4	+6.8%

The **Waste Management** segment recorded growth compared with the previous year in maintenance and expansion activities for existing plants in the area. As far as investments in WTE are concerned, these mainly involve the construction of the Rimini plant.

Waste Management (€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Existing plants	49.6	55.1	+5.5	+11.1%
<i>New plants:</i>				
WTE Modena	17.8	1.8	-16.0	-89.9%
WTE Forlì	0.7	0.0	-0.7	-100.0%
WTE Rimini	30.6	13.3	-17.3	-56.5%
Total Waste Management	98.7	70.1	-28.6	-29.0%

In **Other Services**, in telecommunications, IRU linked to the exit of Infracom (€1.3 million) was acquired, with a corresponding disposal of assets purchased in previous years (€2.8 million). Investments in the Public Lighting service decreased compared with the same period in 2010; the item Other includes investments in cemetery services including the construction of the new crematorium (€2.0 million).

Other Services (€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Telecommunications	10.4	10.0	-0.4	-3.8%
Public Lighting and Traffic Lights	2.1	1.5	-0.6	-28.6%
Other	0.9	2.6	+1.7	+188.9%
Total Other Services	13.3	14.0	+0.7	+5.3%

Investments in the Central Business Unit have increased on the whole, compared with the previous year, through the effect of maintenance operations for fleet and development of IT systems. Other investments include work on the completion of laboratories and remote-monitoring units.

Central Business Unit (€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Property investment	24.1	23.3	-0.8	-3.3%
Information systems	14.7	17.0	+2.3	+15.6%
Fleet	9.4	10.3	+0.9	+9.6%
Other investments	3.5	3.6	+0.1	+2.9%
Total Central Business Unit	51.8	54.2	+2.4	+4.6%

1.03.02 Regulatory framework and regulated revenues

Reference regulations

In 2011, new legislation was introduced with a significant impact in terms of the reorganisation of the national and local governance of **public services of economic importance**, such as the integrated water service and the waste management sector. With regard to the **integrated water service**, Law no. 106 of 12 July 2011, converted from Decree-Law no. 70 of 13 May 2011, had provided for the creation of an independent national regulatory agency but, before it could be established, it was replaced by Law no. 214 of 22 December 2011, converted from Decree-Law no. 201 of 6 December 2011, which abolished the National Supervisory Commission for Water Resources (CONVIRI) and transferred the economic and non-economic regulatory functions, as well as control of the water sector, to the AEEG (Electricity and Gas Authority), tasks which will be defined by ministerial decree to be issued by March 2012. As regards the **waste management service**, Law no. 214 of 22 December 2011 introduces, in particular, the municipal tax to cover the costs of urban and related waste management as well as the jointly owned Municipal services ("TRES"). Every other levy of this kind will be abolished from 1 January 2013. With reference to the practical implementation of TRES, the governmental regulations are expected to be enacted by 31 October 2012 (and meanwhile the regulations under Presidential Decree no. 158 of 27 April 1999 shall continue to apply).

In regional terms, the organisation of the integrated water service and the waste management sector will be governed by the new Regional Agency of Emilia-Romagna, established by Law no. 23 of 23 December 2011, following the reorganisation of services required after the abolition of the Regional Area Authorities, which was delayed several times and finally scheduled for 31 December 2011, as determined by Prime Ministerial Decree of 25 March 2011. The key principle of the new structure of local public services for Water and Waste is to create one area which is the same as the territorial region. The new Agency, headed by a director with two technical and operational areas (at a regional and, structurally, at a provincial level), will have a governance which is also articulated over two levels, namely a Regional Council and nine Local Councils covering the territory of the province. The regulation also introduces special provisions for intermediate plant engineering for the treatment or final disposal of waste, providing for the exclusion of companies owned by private individuals from tendering for the award of the waste management services.

With regard to economically important local public services in general, Presidential Decrees nos. 113 and 116 of 18 July 2011 implemented the result of the 12-13 June 2011 referendum, which established the abandonment of the principle of "adequate return on investment" (Article 154, paragraph 1, of Legislative Decree no. 152 of 3 April 2006 and subsequent amendments). This applies to integrated water service tariffs and repeals Article 23-*bis* of Law no. 133 of 6 August 2008, converted from Decree-Law of 25 June 2008, as recently confirmed by Law no. 166 of 20 November 2009 converting Decree-Law no. 135 of 25 September 2009 (the "Ronchi" Decree). Concerning the repeal of the first regulation, it is expected that the new provisions will be implemented after the transfer to the AEEG of functions concerning the national tariff regulation of water services, while for the second repeal, several legislative actions followed in the second half of the year. Article 4 of Law no. 148 of 14 September 2011, converted from Decree-Law no. 138 of 13 August 2011, reintroduces the principle expressed in Article 23-*bis* of encouraging competition in economically important Local Public Services, i.e. introducing public tendering as the normal procedure for awarding contracts and the early termination of directly awarded contracts according to a procedure dependent on the type of the award itself (provided, however, that integrated water services are excluded from this rule, to which, in the absence of new measures at the national level, the principles of municipal legislation still apply).

This law was subsequently amended by Law no. 183 of 12 November 2011 and the following provisions of this later text are of particular interest to the Hera Group: awards granted to “mixed” companies which were publicly listed at 10 October 2003 will expire as provided for in their service contracts, on condition that the shareholding held by the public on 13 August 2011 is reduced (or syndicated down) to a holding of less than 40% by 30 June 2013 and of less than 30% by 31 December 2015; it also introduces the requirement for contracting local authorities to test the market before awarding a service according to criteria to be established by ministerial decree. These regulations continue to be amended in 2012, in particular by Decree-Law no. 1 of 24 January 2012 on deregulation.

As regards **energy services**, Legislative Decree no. 93 of 1 June 2011 has introduced the “Third Energy Package” and, in particular, European Directives 2009/72/EC and 2009/73/EC concerning common regulations of the internal markets for gas and electricity. These include, in particular: the provisions for security in domestic energy supply; the definition of “vulnerable” customers in the gas market and “protected” customers in the electricity market; regulations which encourage energy efficiency; the regulations on competition which concern the complete functional separation of gas transmission companies; and the rules confirming the principles of public tendering for awards of gas distribution services, in accordance with the decrees passed during the year by the Ministry of Economic Development. The decree confirms, in particular, that distribution concessions can only be awarded by tendering (according to the provisions of Decree no. 177 issued by the Ministry of Economic Development-Regional Affairs, in force since 1 April 2011), thus putting an end to doubts about the interpretation on the ability of Municipalities to proceed using individual tendering, while they wait for the effective scheduling of tenders; it also confirms the criteria for determining the value of compensation of the facilities to the outgoing operator for gas service tenders. With specific reference to **gas distribution** services and in addition to the aspects incorporated within Legislative Decree no. 93/2011, four decrees were issued by the Ministry of Economic Development during 2011 which now provide a clear perspective on the ways of implementing tenders, expected in the coming years.

With regard to **incentives for renewable energy sources**, Legislative Decree no. 28 of 3 March 2011, implementing EU Directive 2009/28/EC, aims to encourage the development of renewable energy sources in order to reach the target set in the National Renewable Energy Action Plan (NREAP) by 2020, by completely redefining and reorganising previous incentive schemes which suffered from too many successive layers of legislation, because of the need for continual adjustment to find a balance between development, demanding requirements, competition and the market. Particularly for support mechanisms, the decree defines the criteria and conditions (the gradual abandonment of the incentive system based on Green Certificates is of note), leaving a large part of the economic aspect to the issuance of specific implementing decrees, expected by the end of 2011 (the deadline was later extended to the first quarter of 2012). The decree provides for a transitional period of harmonisation with the current regulations for plants that will come on stream by 31 December 2012. After this, all plants will be subject to the new regulations. With specific regard to photovoltaic energy, note that the Fourth Energy Account has been issued, an interministerial decree approved on 5 May 2011 which clarified the incentive model in force since 1 June 2011.

In the field of **cogeneration**, Ministerial Decree of 4 August 2011 supplements Legislative Decree no. 20 of 8 February 2007, which redefines cogeneration technology, the calculation of cogeneration production and of the efficiency of the cogeneration process for the purpose of qualifying as High Efficiency Cogeneration (HEC). The Ministry of Economic Development's subsequent decree of 5 September 2011 defines the new support scheme for high efficiency cogeneration. The incentive is part of the White Certificates market and is recognised by the Energy Services Operator, after recognition of the qualifications for HEC, on the basis of the real saving of primary energy.

Regulation of Electricity and Gas

Following the inauguration of the new Board on 16 February 2011, activity by the Electricity and Gas Authority accelerated significantly during the final quarter of the year.

The "new-born" Authority took its first steps to discontinue with the past - and in this sense, with reference to the **gas sector** - Resolution ARG/gas 36/11 is to be noted, which launched the process aimed at revising the provisions of Resolution ARG/gas 155/08, which in turn contained guidelines for the commissioning of electronic metering equipment with remote reading and management functions (the "smart gas meter"). Two consultation documents frame this process: DCO 17/11 which submitted a series of proposals for discussion with the aim of reforming tariff regulation of the metering service, in order to improve the adherence to costs and to differentiate the level of permitted revenues depending on the extent of fulfilment of the installation requirements required by Resolution ARG/gas 155/08; and DCO 40/11 in which, with a view to a cost/benefit analysis of the new electronic meters compared with new technological developments, the Authority proposed restructuring the originally set deadlines, maintaining the distinction between three categories of metering equipment: for metering equipment of a class greater than G40, it proposed completing the replacement of all installed meters by 31 January 2012; for metering equipment of a class between G6 and G40 the proposed target for complete replacement of installed meters is 2014; finally, for metering equipment dedicated to the mass market (classes G4 and G6), the replacement of 80% of installed meters is expected by 2018. Among the other innovations contained in the document, the proposed adoption of a standard cost system for recognising the rate of the investments made in electronic metering equipment is also noted. The consultation process also resulted in Resolution 28/12/R/gas, issued in February 2012, implementing the proposals made by DCO 40/11 in terms of replacement deadlines (only differing from the resolution of 29 February 2012 concerning the deadline for meters of a class higher than G40) but at the same time lowering the commitment to replace mass market meters to 60% by 2018, in an attempt to minimise installation costs. Resolution 28/12 also confirms the standard cost system for the recognition of investments in electronic metering equipment, even if tied to the costs in fact incurred, using a profit-loss sharing mechanism; finally, it introduces specific mechanisms for recognition of tariff costs for remote management and reading systems and the costs resulting from the obligations to test calibration.

More troubling, however, are the developments concerning the path of reform of the gas system, a path which will have, as its natural conclusion, the creation and commissioning of a Trading Exchange for Gas. The proceedings aimed at reform of Gas Balancing Services should be seen in this perspective, whereby the Authority has, by Resolution ARG/gas 45/11, established and defined the operating regulations for the Market in Balancing Services, the launch of which, initially expected by July 2011, took place with effect from 1 December 2011. Over the launch of that market hangs the shadow of litigation initiated by some dealers because of the huge financial guarantees required from dealers who trade on it. This litigation resulted in a Regional Administrative Court judgement which suspended application of the part regarding financial guarantees, for prudential reasons, pending the pronouncement of its judgement on the merits. A corollary of the reform of the market for Gas Balancing Services is expected to be the measure which will result from DCO 22/11, which makes a number of proposals regarding reform of the part concerning the determination of the physical and economic entries for the purposes of Gas Balancing.

Still on the subject of the gas sector, the Authority, by Resolution ARG/gas 99/11, set out, controversially, to fill the regulatory gap concerning the continuity of supply to be guaranteed to end users if, for reasons beyond their control, they find themselves without a supplier. In this regard, the Authority has selected, starting from 1 January 2012, the distributor qualified territorially as the person deputed to guarantee the continuity of supply (the Default Service).

Other than the broad interpretation by the Authority of its regulatory mandate issued by Legislative Decree no. 93/11, the most controversial aspects concern the ability for sales companies to “unload” to the Default Service end users who are in arrears and whom they cannot (either in fact or law) disconnect, the equivocal definition of such customers and the failure to guarantee the recovery of the costs incurred by the distributors in delivering the Default Service itself. For this reason and in response to the appeal submitted by certain Distributors, the Regional Administrative Court in Lombardy suspended implementation of the resolution until June 2012, pending the pronouncement of its judgement on the merits of the appeal. In response, the Authority, by Resolution ARG/gas 207/11, has postponed the coming into force of the order to 1 May 2012, date by which it must also prepare final proposals related to aspects of the organisation and the means of operating the Default Service, as suggested in DCO 44/11.

By DCO 47/11, the Authority has referred to consultation the proposals to reform the mechanism for determining the element covering the cost of supply of the raw material (CCI) for the supply of gas to protected gas customers. In this document, the Authority proposes the gradual replacement of the current updating mechanism in favour of a more market-oriented mechanism, taking as reference the market prices for Balancing Services, pending establishment of the trading exchange for gas. Because of the issuance of the Government's Decree-Law no. 1/12 and in anticipation of the same being converted into law, the Authority, by Resolution 16/2012/R/gas, has merged the consultation process, with the objective of defining, as soon as March 2012, the first tranche of that decree's provisions and also of implementing those provisions of the decree in line with what is proposed by the DCO 47/11, so that they come into force from October 2012.

To complete the latest news about regulations for the gas sector, we recall that, by Resolution ARG/gas 200/11, the Authority has, for the two years 2012 and 2013, updated the element covering the marketing costs of retail sales (QVD) to end users for whom protective conditions apply. The main new development in this respect, in addition to an increase in the amount due to take account of the costs connected with delinquency as a function of a standard percentage on turnover and to the expected development of regulatory obligations, concerns the differentiation of the component between the PDR [a numerical code showing where the meter is located] in the ownership of a domestic customer and all the other PDRs (condominiums for domestic use, public utilities and other uses).

As regards the **electricity sector**, among the new regulations with the greatest impact for the Hera Group, the measures relating to tariffs and to the quality of electricity distribution for the Fourth Regulatory Period (2012-2015) are particularly of note.

By Resolution ARG/elt 199/11 the Authority approved the new supplementary texts for, respectively, the services of Transport and Distribution (TIT), Electrical Measurement (TIME) and Connections (TIC) which will be in place for the next regulatory period. As regards the distribution service, the main development is the introduction of a restriction on regulated revenue set for each company (following the same logic as for gas distribution), calculated for invested capital on a mixed basis (implicit in the definition of "asset" until 2007 and the actual historical cost of investment for the company from 2008) and for operating costs on national average values taken by the Authority from the Annual Separated Accounts for 2010. Drawing up a restriction for each company is more detailed than the previous tariff system and at the same time responds to the principles of "cost reflection" of recognised revenues. From the point of view of the recognition of capital costs, one new development, in addition to the adjustment of the rate of return on invested capital under the changed conditions of the economic and financial system, is the recognition of so-called "regulatory lag", namely an increase in the rate of return on capital to cover the financial burden resulting from the delay of two years before the investments made are starting to be recognised in the tariff; this increase will amount to 1% and will apply to investments made in 2012 and, therefore, will have an influence on the tariff in 2014. Finally, the recognition of the full amortisation amount in the tariff, which will no longer discount the drag effect of the "price cap" applied in previous regulatory periods, is of note.

Again, with reference to the new regulatory period 2012-2015, the Authority has, by Resolution ARG/elt 198/11, also approved the new supplementary text on the Quality of Distribution Services and the Metering of Electricity (TIQE). Of particular importance are the new features which have been introduced: to the system of incentives and penalties for the recovery of continuity, by which incentives are reduced for the better served areas, while they are increased for the worst served areas; to the individual adjustment of continuity, the prerogative of medium voltage end users, which will be extended even to short interruptions (in the past only long interruptions were counted); and to activation of supply voltage monitoring.

As an intervention which crosses over between the two sectors regulated by the Authority, DCO 46/11 is of note, which proposes that retail sales operators implement high impact preventive and restorative measures in cases of "unsolicited" contracts and activation of electricity and natural gas supplies.

As regards the measures which directly involve the Hera Group, Resolution ARG/elt 163/11 is of note, by which the Authority has, as a result of Resolution VIS 82/11, recognised the charges incurred by Hera Comm for its role in operating Electricity Safeguarding with regard to the credits accrued and not collected for supplies to the chemical plant at Terni; and Resolution ARG/elt 96/11 by which the Authority, with regard to the launch of the trial of public service charging of electric vehicles, has included the project by Hera S.p.A. in collaboration with Enel Distribuzione among the projects worthy of being incentivised.

Finally, for the electricity sector, some of the consultations held during 2011 are of note, which will have a significant impact during 2012, such as those relating to DCO 24/11, containing proposals for the mechanism for repayment of unrecoverable costs by operators of Electricity Safeguarding and to DCO 33/11, which includes proposals for the regulation of private networks.

Finally, we recall that in 2011 the Authority permanently closed two preliminary inquiries launched against Hera S.p.A. in 2009:

- concerning the obligation to replace cast iron pipes containing joints made of leaded hemp, the Authority, by Resolution VIS 39/11, imposed on Hera S.p.A. a fine of €55,000;
- concerning the obligation to make electricity metering data available to the sales companies, the order imposing a fine of €84,900 was closed by Resolution VIS 86/11.

Also in 2011, the Authority has, however, three additional investigations which involve companies of the Group:

- by Resolution VIS 5/11, the Authority launched a preliminary fact-finding inquiry into the provision of dispatching, transmission, distribution and metering services and of energy Safeguarding services to the chemical plant in Terni. The preliminary investigation directly involved Hera Comm as the territorially qualified Safeguarding operator, which has been summonsed for a hearing at the Authority's offices, at which information was requested. The preliminary investigation was closed with Resolution VIS 82/11, which led to the issuance of Resolution ARG/elt 163/11 mentioned previously;
- by Resolution VIS 42/11, a preliminary fact-finding inquiry was launched concerning the provision of a connection service for the network of facilities for the production of electricity by grid operators. The preliminary investigation concluded with Resolution VIS 99/11, in which the Authority published a report on the information it had gathered. Arrangements were also made for the collection of data concerning compliance with the regulation of active connections;
- by Resolution VIS 76/11, fact-finding activity was initiated into unsolicited contracts for the supply of electricity and/or gas. As part of this investigation, Hera Comm has been summonsed for a hearing at the Authority's offices.

Finally, it is noted that during 2011 the Group was not subject to inspections by the Authority.

Gas distribution: tariff framework

2011 is the third year of the third regulatory period (2009-2012) of tariffs for gas distribution and metering. The reference framework for the four years was introduced by AEEG Resolution ARG/gas 159/08 of November 2008 and was in many respects highly innovative compared with the methods previously in force.

The introduction of the tariffs outlined in 159/08 ensures that each operator obtains the “permitted revenue” determined by the Authority on the basis of the recognised costs reflected in the “reference tariffs” and the number of delivery points served, thereby making company revenue independent of the volumes distributed. This can be done by using tariff equalisation mechanisms which allow operators to use the Electricity Equalisation Fund to settle differences between their own permitted revenues and the revenue generated by invoicing the sales companies. These latter revenues arise from the “compulsory tariffs” determined by the AEEG on the basis of macro-regional size.

Although in 2009 and 2010 the AEEG approved both the compulsory tariffs and the reference tariffs, only the compulsory tariffs have currently been approved for 2011, whereas the reference tariffs, based on each operator’s permitted revenues, have not been defined, even provisionally. Following rulings by the Regional Administrative Court of Lombardy in October 2010 which partially cancelled the RTDG, the AEEG has, by Resolution ARG/gas 235/10 of December 2010, formally begun a process aimed at evaluating the possible consequential changes to tariff regulations, which could lead to regulatory powers being exercised again and to the consequential, if only partial, review of the RTDG. Until this review, the Authority has effectively suspended the approval of reference tariffs for the year 2011 and has declared as provisional the previous approvals from 2009 and 2010. It must however be stressed that the partial cancellation of RTDG, in addition to referring to judgements at first instance on which the Authority has appealed to the Council of State, is specifically concerned with the regulatory system, whereby any changes to the AEEG study would, in all probability, produce an essentially neutral effect, if not an improvement, for Hera, compared with the previously approved tariff levels. In any event, it now seems clear that any revisions to the RTDG will be made by the Authority only after publication of the final judgement of the Council of State.

For these reasons, Hera S.p.A.’s gas metering and distribution revenues for 2011 are the result of appropriate estimates of the reference tariffs, on the assumption of regulatory continuity in the tariff formula compared with the approvals in previous years. In particular, the tariffs for 2011 were estimated taking into account the principle of “graduality” when recognising capital costs, which was introduced by the AEEG with a view to spreading over the four-year regulatory period the convergence of the values in force under the previous methodology towards those defined by the RTDG. As a secondary factor in terms of economic impact, the tariff adjustment in 2011 also takes into account changes in net invested capital which took place in 2009 and updates to operating costs recognised according to the standard price cap rule, by applying an annual productivity recovery rate of 3.2% for Hera. The definition of the tariff is normally also affected by an adjustment for inflation but the specific update between 2010 and 2011 is a result of a particularly mild impact, compared with the variation parameters published by the Authority, of -0.1% for the cost of capital and +0.8% for operating costs.

Finally, during 2011, a process was implemented for the Equalisation Fund which involved recording the data used in the calculation of the equalisation of tariffs pertaining to 2010 and the 2009 revisions. At this time the Equalisation Fund has not yet determined these amounts, from which, however, the appropriate estimates in the financial statements at 31 December 2010 have been made.

In this context, Hera S.p.A.'s operating revenue from the activities of distributing and metering gas totalled €153.3 million, compared with distributed volumes of 2,230 million cubic meters and a corresponding average per unit revenue of €6.87 cents/cubic metre. These results include new areas under management acquired during 2011 and, in particular, the management of the CIMAF consortium of three municipalities, following the acquisition of the related business line and the management of the municipality of Formignana (FE), the contract for which was awarded to Hera following an openly public process.

Gas metering and distribution – Regulated revenues	2010	2011	% change
Hera S.p.A.			
Revenues (€ million)	149.20	153.30	2.7%
Volume (m3 million)	2330	2230	-4.3%
Average per unit revenue (€ cent/m3)	6.40	6.87	7.4%

There are different reasons for the €4.1 million growth in revenue compared with 2010. First of all, between 2010 and 2011 there was an increase of €5.1 million in recognised capital costs, related largely to the release of the third “graduality” instalment and secondly, the recognition of the return on the investments made in 2009. This increase was however offset by a reduction of €1.5 million in the level of recognised operating costs, due mainly to the recovery of productivity put in place by the tariff system. The residual increase of + €0.5 million ultimately comes from different items, also as offsetting entries, specifically tied to the dynamics of the delivery points, to adjustments pertaining to earlier periods recorded in the 31 December 2010 financial statements, and, finally, to the new areas under management mentioned above.

The extent of consolidation for the year 2011 also includes Marche Multiservizi S.p.A. The Hera Group's consolidated revenues from gas distribution and metering, its distributed volumes and its average revenue per unit are shown below.

Gas metering and distribution – Regulated revenues	2010	2011	% change
Consolidated Hera Group			
Revenues (€ million)	163.20	166.90	2.3%
Volume (m3 million)	2504	2389	-4.6%
Average per unit revenue (€ cent/m3)	6.52	6.99	7.2%

Finally, the value, for regulatory purposes, of the Net Invested Capital for gas distribution and metering which is the basis for the operating revenue shown for the Hera Group in 2011, is estimated at €903 million.

Electricity Distribution: tariff framework

2011 is the final year of the third period of tariff regulation (2008-2011) for the business of electricity transmission, distribution and metering. The tariff system is based on the definition of tariffs, set by the Authority on a national scale, differentiated by type of user and by the presence of the necessary equalisation mechanisms introduced in order to correct the sales revenue, depending on the configuration of operating costs and the cost of capital specific to each operator.

All the tariff reference rules are set out in the Supplementary Text of the provisions for the supply of electricity transmission, distribution and metering services (TIT), approved by the AEEG by Resolution 348/07 of December 2007, while the levels of specific reference tariffs for 2011 were defined by Resolution ARG/elt 228/10 of December 2010.

During 2011, moreover, the Authority took steps, by Resolutions ARG/elt 74/11 and 97/11, to approve the amount of equalisation of revenues from low voltage metering in the year 2009 and to correct the value previously approved for 2008. For the equalisation entry, those pertaining to 2010 and 2011 have not yet been approved. However, as regards equalisation of the cost of sales of the distribution service, approvals by AEEG have been decided up to 2008. For all other equalisation entries provided for companies distributing TIT or other provisions, including the equalisation of the value of the difference between actual and standard line losses (TIV Resolution 156/07), in 2011 the Equalisation Fund for the Electricity Industry approved the related amount up to 2010.

In the overall framework outlined above, the tariff revenue from the transmission, distribution and metering of electricity in 2011 was €52.9 million, compared with distributed volumes of 2,304 million kWh and a corresponding average per unit revenue of €2.29 cents/kWh.

With respect to 2010 and bearing in mind an increase of 3% in distributed volumes (from 2,238 to 2,304 million kWh), an increase in revenue of €0.9 million (+1.7%) was therefore recorded, taking this from €52.0 to €52.9 million.

Electricity transmission, metering and distribution – Regulated revenues	2010	2011	% change
Hera S.p.A.			
Revenues (€ million)	52.00	52.90	1.7%
Volume (kWh million)	2238	2304	3.0%
Average per unit revenue (€ cent/kWh)	2.32	2.29	-1.3%

To find more detailed reasons for the €0.9 million increase in revenue, it is necessary firstly to analyse the development of the permitted revenues generated by reference tariffs when strictly comparing the amounts in 2010 and 2011, which shows an increase of approximately €0.2 million, from the twin effects of the higher distributed volumes mentioned above and the tariff adjustment approved by the Authority by Resolution ARG/elt 228/10 which had an almost negligible impact, with respect to 2010.

The further growth of €0.7 million in revenues recorded at 31 December 2011 is related to various influences, resulting mainly from the revision of previous years, in respect of both the revenues invoiced to the sales companies and the amounts estimated for various price equalisation entries.

Water services: tariff framework

2011 was the fourth year of the 2008-2012 regulatory period, agreed with all the ATOs (Area Territoriale Ottimale [Optimal Territorial Areas]), except for ATO Modena and ATO Bologna, for which the tariff agreement was renewed for the periods 2010-2014 and 2011-2015, respectively.

Comparison with the 2010 data shows a 3.4% increase in unitary revenue for 2011 compared with the previous year. This increase derives in particular from the application of the tariff agreements decided by the ATOs, which provide for a convergence of tariffs until costs are covered in full.

Consolidated Hera Group Water Services - tariff revenues	2010	2011	% change
Tariff revenues (€ millions)	419.15	438.43	4.6%
Volumes (millions of cm)	250.80	253.73	1.2%
Average Unitary Revenue (€ cents/m ³)	167.13	172.79	3.4%

Urban hygiene: tariff framework

In December 2011, urban waste management services were delivered in 181 municipalities, of which 51% (92 municipalities) adopted the tariff regime pursuant to Presidential Decree No. 158/99, serving a population accounting for 66% of the served territory; 49% of the municipalities are still operating under the TARSU (Tassa Rifiuti Solidi Urbani [Solid Urban Waste Tax]) regime.

A comparison of like-for-like data of the consolidated Hera Group reveals some salient points.

Consolidated Hera Group Urban Hygiene - tariff revenues (TIA + TARSU)	2010	2011	% change
Tariff revenues (€ millions)	398.5	414.4	4.0%
Residents served* (thousands)	2,760	2,779	0.7%
Average Unitary Revenue (€/resident)	144.4	149.1	3.3%

* number of residents served at 01/01

The overall increase in regulated revenues for Urban Hygiene services to municipalities under concession, at 4.0%, is mainly attributable to the average tariff increase of approximately 3.2%, which also recovers the inflationary increase in costs.

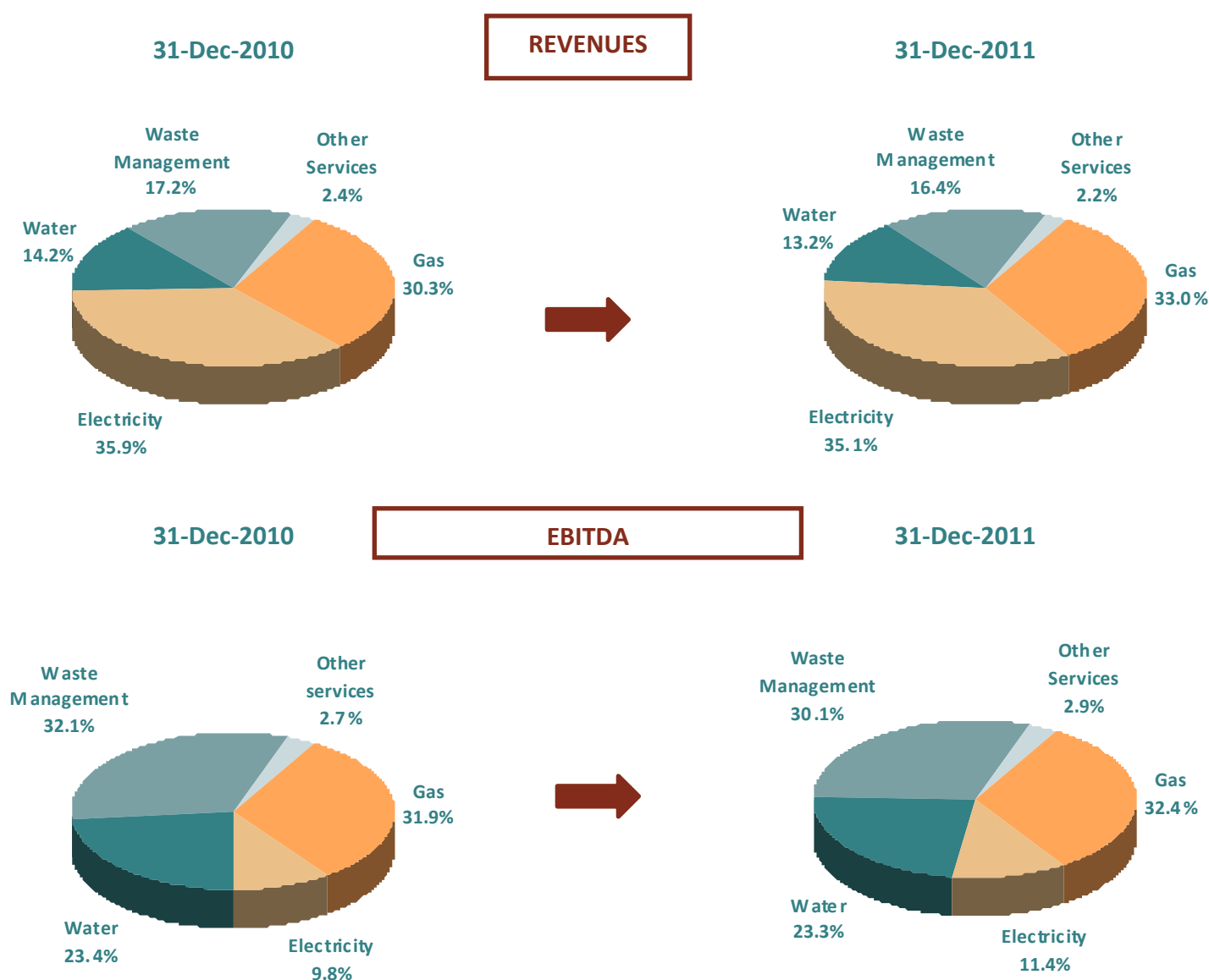
The remainder of the increase is attributable to the entry of new municipalities into the scope of the Marche Multiservizi Group in mid-2010, and to new services requested by the municipalities.

1.03.03 Analysis by business segment

An analysis of the operating results achieved in the business segments in which the Group operates is given below: (i) the Gas segment, which includes methane gas and LPG distribution and sales services, district heating and heat management, (ii) the Electricity segment, which includes electricity production, distribution and sales services, (iii) the Integrated Water Cycle segment, which includes Mains Water, Purification and Sewerage services, (iv) the Waste Management segment, which includes Waste Collection, Treatment and Disposal services, (v) the Other Services segment, which includes Public Lighting, Telecommunications and other minor services.

In the light of the above, the composition and development of Revenues and EBITDA over the years is shown in the graphs below:

Breakdown of the business portfolio



The following sections give an analysis of the operating results by business segment. The income statements by business segment include structural costs, including inter-divisional transactions valued at current market prices.

The analysis by business segment takes into consideration the value of the increased revenues and increased costs, without an impact on EBITDA, relating to the application of IFRIC 12, as explained in the Group's Consolidated Income Statement. The business segments affected by the application of the above principle are: Methane distribution services, Electricity distribution services, all Integrated Water Cycle services and public lighting services.

Analysis of operations in the Gas Segment

At 31 December 2011, there was a growth in the Gas segment compared with the previous year, both in absolute terms and in percentage terms in relation to the Group's EBITDA.

(€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Segment EBITDA	193.9	208.7	+14.8	+7.6%
Group EBITDA	607.3	644.8	+37.5	+6.2%
Percentage weighting	31.9%	32.4%	+0.5 p.p.	

The following table contains the main quantitative indicators for the segment:

Quantitative data	31-Dec-10	31-Dec-11	Abs. Change	% Change
Number of customers (thousands of units)	1,072.5	1,114.5	+42.0	+3.9%
Gas volumes distributed (millions of m ³)	2,504.1	2,389.2	-114.9	-4.6%
Gas volumes sold (millions of m ³)	2,914.0	3,321.0	+407.0	+14.0%
- of which trading volumes	721.8	1,252.6	+530.8	+73.5%
Heat volumes supplied (GWht)	534.5	499.3	-35.2	-6.6%

Volumes distributed went from 2,504.1 cubic metres in 2010 to 2,389.2 in 2011, a decrease of 4.6%. This fall was also confirmed by the 5.0% decrease in domestic demand for natural gas with the reason mainly being due to the weather with higher average temperatures than the previous year.

Gas sales volumes went from 2,914.0 million cubic metres in 2010 to 3,321.0 cubic metres in 2011, an increase of 14.0% over the same period in 2010 as a result of the increase in traded volumes thanks to the extension of the wholesale portfolio and increased supplies at large consumption points, such as thermal power stations. Mention should be made of the incorporation of Sadori Gas into Hera Comm Marche which contributed to 1.5% to the growth in total sales volumes.

Volumes of heat supplied went from 534.5 GWht in 2010 to 499.3 GWht in 2011, with a 6.6% decrease also connected to the higher average temperatures in 2011, which resulted in lower heat consumption.

The number of customers increased by 3.9%, going from 1,072.5 thousand to 1,114.5 thousand customers, thanks to the incorporation of Sadori with 34.5 thousand customers and the remaining share involving important free market sales activities.

The summary of the economic results for the segment is given below:

Income statement (€ million)	31-Dec-10	% inc.	31-Dec-11	% inc.	Abs. Change	Change %
Revenues	1,237.1		1,490.2		+253.1	+20.5%
Operating costs	(1,003.3)	-81.1%	(1,224.7)	-82.2%	+221.4	+22.1%
Personnel costs	(66.9)	-5.4%	(70.1)	-4.7%	+3.2	+4.8%
Capitalised costs	27.0	2.2%	13.3	0.9%	-13.7	-50.7%
EBITDA	193.9	15.7%	208.7	14.0%	+14.8	+7.6%

Revenues increased by 20.5%, from €1,237.1 million in 2010 to €1,490.2 million in 2011, as a result of increased sales revenue, linked to the increase in the cost of raw materials, greater intermediate volumes and higher revenues from distribution.

Operating costs increased by 22.1 % due to the increase in the cost of natural gas and increased traded volumes.

EBITDA in the Gas segment increased by €14.8 million, going from €193.9 million to €208.7 million, in spite of a decrease in the percentage margin from 15.7% in 2010 to 14.0% in 2011.

The good results in this segment are attributable to the increased sales margins, thanks to good purchasing contracts for raw materials and greater income from distribution; for more details, refer to the paragraph on regulatory aspects of the business.

Analysis of operations in the Electricity Segment

At the end of 2011, the Electricity segment continues to record considerable growth compared with 2010, both in absolute terms and in terms of the contribution to the Group's overall EBITDA, which rose from 9.8% to 11.4%, as seen in the table below:

(€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Segment EBITDA	59.8	73.2	+13.4	+22.5%
Group EBITDA	607.3	644.8	+37.5	+6.2%
Percentage weighting	9.8%	11.4%	+1.6 p.p.	

EBITDA went from €59.8 million in 2010 to €73.2 million as at 31 December 2011, a percentage increase of 22.5%.

The quantitative figures for the segment, which do not include trading activities, are given in the table below:

Quantitative data	31-Dec-10	31-Dec-11	Abs. Change	% Change
Number of customers (thousands of units)	382.5	482.1	+99.6	+26.0%
Volumes sold (Gw/h)	7,744.0	9,996.1	+2,252.1	+29.1%
Volumes distributed (Gw/h)	2,237.8	2,303.9	+66.1	+3.0%

The increase in volumes distributed, equal to +3.0%, shows a recovery in consumption, which in the area served by Imola and Modena was higher than both the average for Emilia-Romagna and Tuscany (+1.7%) and the national average (+0.6%), mainly due to flows in the Modena area.

The +29.1% increase in sales volumes was also caused both by the solid performance of sales activities and the acquisition of new service protection customers, with a total of more than 99,000 new supply points net of the churn-rate. The sales company was assigned the task of managing electricity-supply service protection customers in Lombardy, Tuscany, Lazio, Abruzzo, Molise and Puglia for the three-year period 2011-2013, which resulted in over 21,000 new customers.

An analysis of the main segment results is given below:

Income statement (€ million)	31-dic-10	% inc.	31-dic-11	% inc.	Abs. Change	% Change
Revenues	1.468,3		1.585,2		+116,9	+8,0%
Operating costs	(1.399,2)	-95,3%	(1.497,0)	-94,4%	+97,8	+7,0%
Personnel costs	(23,8)	-1,6%	(26,4)	-1,7%	+2,6	+10,9%
Capitalised costs	14,5	1,0%	11,4	0,7%	-3,1	-21,4%
EBITDA	59,8	4,1%	73,2	4,6%	+13,4	+22,5%

Revenues climbed from €1,468.3 million for 2010 to €1,585.2 million in 2011, an increase of 8.0% due mainly to the higher sales volumes.

The increase in sales volumes was also reflected in the increase in operating costs for the purchase of raw materials and greater electricity delivery costs.

It should be stressed that activities launched in previous years involving renewable sources and industrial cogeneration contributed to the increase in margins for the segment to the tune of 5%.

The EBITDA margin therefore increased from 4.1% in 2010 to 4.6% in 2011 as a result of the aforementioned mix.

At the end of 2011, as stated previously, EBITDA went from €59.8 million in 2010 to €73.2 million, an increase of 22.5%.

Analysis of operations in the Integrated Water Cycle segment

At the end of 2011, the Integrated Water Cycle segment was growing in economic and quantitative terms:

(€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Segment EBITDA	142.0	150.2	+8.2	+5.8%
Group EBITDA	607.3	644.8	+37.5	+6.2%
Percentage weighting	23.4%	23.3%	-0.1 p.p.	

An analysis of the operating results in the segment is given below:

Income Statement (€ million)	31-Dec-10	% inc.	31-Dec-11	% inc.	Abs. Change	% Change
Revenues	579.2		596.7		+17.5	+3.0%
Operating costs	(344.7)	-59.5%	(347.3)	-58.2%	+2.6	+0.8%
Personnel costs	(105.2)	-18.2%	(106.1)	-17.8%	+0.9	+0.9%
Capitalised costs	12.8	2.2%	6.9	1.2%	-5.9	-46.2%
EBITDA	142.0	24.5%	150.2	25.2%	+8.2	+5.8%

Revenues, equal to €596.7 million, increased by 3.0% compared with 31 December 2010, through the effect of increased revenues and volumes covered by these services.

Operating costs increased by 0.8% compared with the same period in the previous year, which, as demonstrated in previous quarters, is showing constant attention to operating efficiency.

The following table reproduces the main quantitative indicators in the segment.

Quantitative data	31-Dec-10	31-Dec-11	Abs. Change	% Change
Number of customers (thousands of units)	1,173.3	1,184.2	+10.9	+0.9%
Volumes sold (millions of m ³)				
Mains supply	250.8	253.7	+2.9	+1.2%
Sewerage	220.0	222.6	+2.6	+1.2%
Treatment	220.0	221.4	+1.4	+0.6%

Volumes of water supplied and sewerage are higher than in 2010 by 1.2%, while purification volumes, although on the increase, were affected, in the Pesaro-Urbino area, with effect from 1 January 2011, by AATO resolution no. 14 of 13 September 2010, which does not include customers whose sewage systems are not connected to a central purification system under purification volumes.

The number of contracts compared with the previous year increased through the effect of inertial growth.

EBITDA stood at €150.2 million at 31 December 2011, against €142.0 million the previous year, a percentage increase of 5.8% due to greater sales volumes and revenues covering the services supplied.

Analysis of operations in the Waste Management Segment

The Waste Management segment shows a 5% decrease in EBITDA compared with 31 December 2010, as seen in the table below:

(€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Segment EBITDA	195.1	194.2	-0.9	-0.5%
Group EBITDA	607.3	644.8	+37.5	+6.2%
Percentage weighting	32.1%	30.1%	-2.0 p.p.	

The Hera Group operates in an integrated manner throughout the entire waste cycle, with facilities that include 79 urban and special waste treatment and disposal plants.

Compared with the previous year, the stake in Enomondo S.r.l. was consolidated to 50%, which involved a new 120 thousand tonne biomass power plant and a composting plant, while the results of the leasing of the business unit of CAM, which operated in environmental hygiene services, are no longer considered within the scope of the Marche Multiservizi Group.

An analysis of the operating results achieved in the Waste Management segment is shown below:

Income statement (€ million)	31-Dec-10	% inc.	31-Dec-11	% inc.	Abs. Change	% Change
Revenues	703.1		740.1		+37.0	+5.3%
Operating costs	(386.0)	-54.9%	(412.7)	-55.8%	+26.7	+6.9%
Personnel costs	(147.2)	-20.9%	(148.4)	-20.1%	+1.2	+0.8%
Capitalised costs	25.3	3.6%	15.2	2.1%	-10.1	-39.9%
EBITDA	195.1	27.8%	194.2	26.2%	-0.9	-0.5%

Revenues as at 31 December 2011 show an increase of 5.3% compared with the same period in the previous year, going from €703.1 million to €740.1 million thanks to greater revenues from electricity production and increased revenues from urban hygiene through rate adjustments to cover the increase in services requested, in spite of lower volumes of waste disposed of.

Increased operating costs are linked to the entry of Enomondo, the different accounting methods for the sale of green certificates in Herambiente, and increased operating costs both for the disposal business and the urban hygiene business through the increase in sorted collection activities.

The decrease in Capitalised costs, which went from €25.3 million to €15.2 million, is mainly connected to the decrease in work on plants and works by Group companies, particularly linked to the completion of the new waste-to-energy plants built.

Separated waste collection, in terms of percentages of total volumes collected, reached 50.2% at the end of 2011, compared with 47.8% for the same period in 2010, an increase of 2.4 percentage points. The percentage represented by separated waste collection for the whole of 2010 was not yet affected by the modification to Regional Government Decree 1620-01 which excludes the non-reusable fractions of multi-material collections from the calculation of separated waste collection. Comparing like-for-like data, the percentage of separated collection increased in 2011 by a further 0.3 percentage points.

Below is a breakdown of the volumes sold and treated by the Group in 2011 compared with the same period in 2010:

Quantitative Data (thousands of tonnes)	31-Dec-10	% inc.	31-Dec-11	% inc.	Abs. Change	% Change
Urban waste	1,864.1	32.7%	1,808.7	35.4%	-55.4	-3.0%
Market waste	1,608.5	28.2%	1,573.3	30.8%	-35.2	-2.2%
Commercialised waste	3,472.6	60.9%	3,382.0	66.2%	-90.6	-2.6%
Plant by-products	2,230.5	39.1%	1,725.1	33.8%	-505.4	-22.7%
Waste treated by type	5,703.1	100.0%	5,107.1	100.0%	-596.0	-10.5%
Landfills	1,429.7	25.1%	1,268.3	24.8%	-161.4	-11.3%
Waste-to-energy plants	800.6	14.0%	923.0	18.1%	+122.4	+15.3%
Selection plants and other	322.2	5.7%	299.2	5.9%	-23.0	-7.1%
Composting and stabilisation plants	463.8	8.1%	574.7	11.3%	+110.9	+23.9%
Stabilisation and physical-chemical treatment plant	1,218.6	21.4%	815.0	16.0%	-403.6	-33.1%
Other plants	1,468.2	25.7%	1,226.9	24.0%	-241.3	-16.4%
Waste treated by plant	5,703.1	100.0%	5,107.1	100.0%	-596.0	-10.5%

The analysis of quantitative data shows a 2.6% decrease in commercialised waste, due to both the fall in urban waste (-3.0%) and in market waste (-2.2%) following the difficult economic climate. The decrease in by-products from plants, on the other hand, needs to be put in the context of the weather conditions: specifically, the lower rainfall in 2011 resulted in the creation of less leachate.

The development of disposal flows recorded should also be stressed, since, as a result of the availability of new WTE plants and the further development of separated recovery and collection activities, it saw significant growth in both volumes destined for WTE plants and composting plants, allowing a decrease in the use of landfills.

EBITDA for the Waste Management segment decreased by €0.9 million compared with the previous year, going from €195.1 million in 2010 to €194.2 million in 2011. This result is attributable to the lower volumes disposed of, in spite of the increased revenues from electricity production and the improved results in the urban hygiene business.

Analysis of operations in the Other Services segment

At the end of 2011, the results for the Other Services segment showed an increase compared with the same period in the previous year, with a +12.8% rise in EBITDA from €16.4 million to €18.5 million, as shown in the table below:

(€ million)	31-Dec-10	31-Dec-11	Abs. Change	% Change
Segment EBITDA	16.4	18.5	+2.1	+12.8%
Group EBITDA	607.3	644.8	+37.5	+6.2%
Percentage weighting	2.7%	2.9%	+0.2 p.p.	

The table below summarises the main economic indicators for the segment:

Income statement (€ million)	31-Dec-10	% inc.	31-Dec-11	% inc.	Abs. Change	% Change
Revenues	99.4		98.7		-0.7	-0.7%
Operating costs	(66.5)	-66.9%	(63.7)	-64.5%	-2.8	-4.2%
Personnel costs	(18.7)	-18.9%	(19.0)	-19.3%	+0.3	+1.6%
Capitalised costs	2.3	2.3%	2.5	2.6%	+0.2	+8.7%
EBITDA	16.4	16.5%	18.5	18.8%	+2.1	+12.8%

The growth in margins in the area is due 50% to the Telecommunications business and the remaining part to Cemetery Services. The Public Lighting service remains in line with the previous year.

The main operational indicators, given in the table below, highlight a fall in lighting points, due to the end of service concessions in several municipalities, including the main one of Bologna, partly offset by the acquisition of services in the town of San Donato Milanese and other minor municipalities.

Quantitative data	31-Dec-10	31-Dec-11	Abs. Change	% Change
Public lighting				
Lighting points (thousands)	338.0	296.2	-41.8	-12.4%
Municipalities served	61.0	59.0	-2.0	-3.3%

1.04 Commercial policy and customer care

In line with the objectives of the business plan, 2011 confirms the commercial strategy pursued in previous years, which is based on two main lines:

- Commercial Development
- Optimisation of Customer Management

Commercial Development

The energy business continued to grow strongly and satisfactorily in 2011, thanks both to commercial activities and to the effects of acquisitions. The awarding of the Service Protection contract for the regions of Tuscany, Lazio, Abruzzo, Molise, Puglia and Lombardy brought in an additional 21,000 electricity supply points. This, together with the success of the sales activities, produced a 26% increase in electricity supply points, compared with the 14% increase seen at the end of 2010. Given the highly competitive context of the liberalised energy market, this result is doubly significant and highly satisfying. The Gas service, too, grew by almost 4%, compared with growth of 0.18% in 2010. The objective was achieved thanks to the incorporation of Sadori Gas into Hera Comm and substantial sales activities on the free market. The regulated Water and Environmental Health markets grew as a result of inertial growth, despite the period of crisis, and due to the switch from TARSU to TIA by a number of municipalities in Hera's traditional territory and in the Marchesian territory of Marche Multiservizi. Growth therefore continues in all services, as shown by the table below (figures expressed in thousands):

Contracts	31-Dec-11	31-Dec-10	Share of turnover Delta no.	Share of turnover Delta %
Gas	1,114.5	1,072.5	42.0	3.92%
Electricity	482.1	382.5	99.6	26.04%
Water	1,184.2	1,173.3	10.9	0.93%
TIA	994.1	970.7	20.5	2.11%

This increase for the free market services was obtained by continuing to pursue the policy of commercial development, which is based on the following major pillars for Hera:

- multi-service offer: simplifying customer management by offering a single contact and a single bill for energy services (Gas and Electricity), and also for those licensed (Water and TIA) in the districts Hera manages.
- proximity to the customer: being "physically" close to the customers through the network of some 100 branches and the widespread sales structure; being quickly accessible through call centres and the web; being socially responsible and contributing to the growth of the territory and local communities through Hera's activities.
- simplification of management: autonomous management through the *HER@ ON-LINE* portal, and the ability to request electronic billing and domiciliation of utility bills.
- economic advantage and openness: proposing offers that are always competitive and clear, suited to the needs of all customers (over thirty offers are available, many of which can be further personalised).

The commercial strategy varies according to the different types of customers:

- families,
- small- and medium-sized companies,
- large companies,
- apartment blocks,
- public authorities.

In 2011, for the Families segment and for Companies, Hera Comm launched the new “MomentoGiustoCasa” and “MomentoGiustoLavoro” light and gas offer, with discounted rates on the energy component provided for by the Electricity and Gas Authority. This innovative and original offer is adapted to the customers’ lifestyles and leisure/working times, thus taking account of their domestic and/or business arrangements. Each of the profiles developed, both for gas and for electricity, provides the greatest discount (and thus the most favourable for the customer), applied during the hours of the day with the highest consumption.

With regard to the sale of electricity to companies, the Green Energy option is reconfirmed with the Verde Energia brand, as offered on an ad hoc basis to larger customers.

Optimisation of Customer Management

From the day it was established, the Hera Group decided to maximise integration between services and group systems by setting up a single platform consisting of two main structures:

- Group Invoicing and Collection System
- Management channels

Group Invoicing and Collection System

Through its unified systems, Hera issued more than 17.5 million bills in 2011, pursuing the multi-service strategy that allows our customers to simplify their administration and reduce payment costs. Electronic billing, activated in the second half of 2008, saw a 65% increase in the number of customers requesting activation of the service in 2011, rising from around 24,000 at the end of 2010 to some 39,000 in December 2011. This increase corresponds to over 53,000 bills sent by email on the billing date, allowing a reduced environmental impact and a saving of 9.5 tonnes in atmospheric emissions of CO₂, equivalent to the CO₂ absorption capacity of 1,353 trees, i.e. 600 more trees per year.

The wide choice of payment methods available to Hera customers for paying their bills (direct debit, banks, post offices, Sisal and Lottomatica lottery outlets, online via credit card, Coop Adriatica, Reno and Estense points of sale) continues to be greatly appreciated by customers, who in 2011 again expressed high levels of satisfaction in the Customer Satisfaction survey.

The self-reading service, available via web, SMS and telephone, which allows billing for actual consumption at each billing date, including for gas and water, continues to see growing use and appreciation by customers. The greatest growth is seen in the use of the SMS channel, which is up by 55% compared with 2010.

Management Channels

The Hera Group, convinced of the strategic importance of the availability of a “portfolio” of contact channels, continued with its project to strengthen and streamline its structures in order to offer contact that is not only increasingly simple and rapid, but above all increasingly more in keeping with the requirements expressed by all customer segments. The Group has five separate contact channels:

1. family call centres
2. company call centres
3. branches
4. web
5. correspondence

Several quality parameters that highlight the accessibility of these channels are shown below.

Average waiting time - call centre (secs.)	2005	2006	2007	2008	2009	2010	2011
residential customers	70.2	34.5	46.2	66.1	33.2	33.8	33.4
business customers		43.9	26.8	42.4	25.2	22.1	27.5

Number of contacts - call centre (no.)	2005	2006	2007	2008	2009	2010	2011
residential customers	1,394,458	1,991,264	2,375,823	2,489,180	2,428,392	2,495,000	2,488,000
business customers		59,686	105,447	115,997	152,046	282,000	430,000

Percentage of successful call centre calls (%)	2005	2006	2007	2008	2009	2010	2011
residential customers	87.10%	94.10%	94.20%	93.20%	94.20%	93.80%	93.50%
business customers		89.00%	97.60%	95.50%	92.60%	94.90%	93.90%

Average waiting time - branch (secs.)	2005	2006	2007	2008	2009	2010	2011
Average	26.89	23.85	21.88	18.5	14.7	14.5	10.3

2011 shows a further 10% increase in contacts, with substantial growth in the web channel, and particularly in electronic billing. The percentage distribution again reveals the call centres to be the most frequently used channel, followed by the branches, which in absolute terms show an increase of around 32,000 contacts. The consistently high number of requests made through the branches testifies, on the one hand, to the requirements of an important segment of the Hera Group's customers and, on the other, to the success of the Group's investments in this channel.

The Hera Group confirms its decision to maintain strong contact with its territory (84 branches in Hera's territory plus 16 in that of HeraComm Marche) by investing in and developing its Branch Network. In particular, 2011 saw the inauguration of a new branch in the Municipality of Cesenatico, as well as the refurbishment of three existing branches (Casalecchio di Reno, San Giovanni in Persiceto and Vignola). A new point of presence was also opened in the town of San Pietro in Vincoli, in the Municipality of Ravenna.

The trend in the coming years will be for substantial maintenance of the wide coverage of presence, accompanied by an increase in the total number of opening hours. This marks the evolution of the camper service towards a Mobile Branch formula. For the whole of 2012, the camper will, in fact, be present every week on the market days of a number of large towns in the territory.

The quality targets set for the branches were well exceeded: the average waiting time fell to 10.3 minutes, and the percentage of customers waiting more than 40 minutes fell to 4.6%. This was achieved by:

- substantial reorganisation of a number of branches (Modena and Ferrara) with “lean” methodology;
- deployment of the SPRINT system at top branches and a number of other high-priority branches, with preparation of inflow forecasts, optimisation of resources according to short- and medium-term targets, and day-by-day analysis of key results deviating from forecasts.

Work was also continued on standardising structures and strengthening systems for the training/refreshment of operators. Finally, it is also worth noting the implementation of a computerised system (Ge.Co.S. – Gestione Comunicazioni a Sportello [*Branch Communications Management*]) for the management of branch communications (posters/mailings).

Perceived customer satisfaction in 2011 with regard to service at branches and call centres, as expressed in the Customer Satisfaction survey, is also in line with the technical indicators. In particular, both satisfaction indicators are in the range of “very good” or “excellent”, representing an improvement on the previous year.

The total number of calls answered by the Hera Comm Call Centre in 2011 was 1,653,000 (53,000 more than in 2010), of which 85% related to the families market structure, for which the 2012 opening hours were extended to 20:00 on Monday to Friday. In addition, 64,000 calls relating to the Protection Service were also handled.

Even with this inflow slightly higher than 2010, the technical indicators were essentially in line with the declared targets, while perceived customer satisfaction increased. With regard to the declared targets, the percentage of calls answered was in line with forecasts, while the average answering times were 37.4 seconds for families, compared with a target of 40, and 27.5 seconds for companies, compared with a target of 25. These results are therefore close to the targets, and are certainly positive when we consider that the weighted average result (families + companies) was 35.4 seconds, below the target of 37.4.

With regard to the quality perceived by customers, both the internal satisfaction survey (monthly frequency) and that conducted by the AEEG (half-yearly frequency) confirmed the improvement of all indicators (waiting times, ease of access to the service and handling of calls), and particularly those relating to the solving of problems and enquiries and the consistency of the responses given in the case of multiple calls.

The call centre satisfaction survey conducted by the AEEG in the first half of 2011, on a sample of 30 electricity and gas sales companies with more than 50,000 customers, showed an increase in the customer satisfaction score for Hera Comm, rising from 89.1 in H2 2010 to 90.8 in H1 2011.

2011 saw the completion of the phase of migration of VAT numbers on the Companies Call Centre, as well as the launch of the billing “smoothing” project which aims to reduce the fluctuations in the number of bills issued each week. This project, as already seen in the closing months of 2011, should make an important contribution to reducing (including for families) the percentage of waiting times exceeding two minutes. 2011 also saw the start of the Mash Up project, the purpose of which is to implement new functionalities relating to the information systems in order to facilitate the understanding of customers’ requests and improve conversation times between customer and operator. In particular, the Companies Call Centre was involved in far-reaching process innovations which contributed to the development of problem-solving abilities. Operator training focused on assertiveness techniques in the management of critical situations, with good results both in terms of relationships and problem-solving times.

1.04.01 Customer satisfaction

A strategic overview of the past seven years

Since its establishment in 2002, the Group has benefited from a sound customer base, attentive to the quality of the top rated services and loyal thanks to many years of services management by municipally focused companies which then came together to form Hera. The strategic and commercial challenge has therefore been to preserve the intangible asset of the customer base following company mergers under the new 'Hera' brand in all local areas of the reference market.

The quality of its multi-utility offering and after-sales service has always been an area to which the Group has paid special attention. Over the years the Group has constantly monitored the sentiments of its customers through a process of listening and continuous interaction.

Hera has invested heavily in improving the **quality of its service** by reducing service interruption times, by offering a rapid and efficient emergency service, through improved consumption measurement and meter reading systems and by more frequent analyses of water resource quality and environmental impact assessment.

The quality of its **services and customer care** has always been of particular strategic importance to the Group and has driven it to make significant improvements to the service it offers. This can be seen clearly in its annual reports over the past seven years, in terms, for example, of reduced waiting times at counters, improved service from customer help desks, resolving an increasing number of customer requests in shorter periods of time and, lastly, by the functionality of its website.

The results of these activities are monitored annually by **market research into both retail and business customers**. This research reveals a steady increase in the degree of satisfaction with the service and with after-sales support, until a high approval rating has been achieved (an average score of 7/10), with a reduction in cases of "poor" satisfaction and a greater concentration of customers at positive levels which increase year by year.

After leaving behind the period of physical disruption caused by installation of the new "single bill" invoicing systems, recorded trends in customer satisfaction have once again become positive. Single billing, together with improvement and reorganisation of after-sales service performance, has led to a rapid recovery in good levels of customer satisfaction. Added to this is the improvement in Hera's image, often perceived as a reliable, transparent, innovative and sustainable company, attentive to its customers. The degree of customer satisfaction has therefore often equalled or exceeded the level recorded prior to the mergers.

Market research also shows that a higher degree of satisfaction is associated with a greater awareness of “convenience”, more inclination to “cross-selling” and more positive “word of mouth” recommendations to other potential customers. **This evidence supports Hera’s multi-utility strategy, especially in the choices it has pursued in upstream energy activities, which are the conditions for a truly competitive offering.** These factors are at the root of the commercial success which the Group has achieved over the past seven years. Expansion in the different markets has produced a significant, constant growth in customer numbers. In this respect it is an iconic figure for the electricity sector and continues to show double-digit growth rates despite increasingly high competitive pressure. Reducing the level of dissatisfaction of existing gas service customers has also allowed Hera to consolidate its dominant position in the reference area markets.

Keeping the client base and continued development in liberalised markets are major confirmation of the quality of the choices made when Hera was established in 2002 and highlights the effectiveness of the strategic vision which has customer satisfaction as its top priority. This “formula” has, so far, demonstrated its ability to withstand direct competition from other large and sometimes international players and to act as a reliable basis for continuing on the path of growth despite an increasingly difficult and turbulent environment.

1.05.0 Trading and procurement policy

Business analysis

Macroeconomic context

2011 was a year marked by severe tensions concerning sovereign debt in the eurozone and by a sharp worsening of the economic outlook, not attributable solely to temporary factors. Continuing low levels of employment, less expansive budget policies in the countries of Europe and widespread uncertainties regarding the solution of financial imbalances are causes of considerable concern.

In Italy, there was a sharp slowdown in the economy from the end of the summer onwards, with gross domestic product (GDP) rising by just 0.4% on an annualised basis. This represents a decrease of 0.7% in the fourth quarter of 2011 compared with the previous quarter, and of 0.5% compared with the fourth quarter of 2010 (preliminary ISAT estimates published on 15 February 2012).

Inflationary pressures were held in check, against a background of moderation of costs and weakness of demand. In the closing months of the year, increases in indirect taxes caused a rise in consumer prices, and a further increase will be produced by the hikes in fuel duties coming into effect from the beginning of 2012 in some regions.

The employment recovery begun at the end of 2010 was progressively halted, and in the final months of 2011 there was probably a rise in the unemployment rate, which for young people now stands at 30%.

With regard to raw materials, 2011 saw a net rise in prices for all fuels, concentrated mainly in the first four months, consolidating an upward trend already evident in 2010.

Brent crude ended the year a little above \$111/bbl (representing a rise of 40%), far exceeding the upward expectations expressed by the markets during the course of the previous year. The rise reached its peak in April, when it hit more than \$120/bbl, close to the monthly highs seen in the summer of 2008, before gradually falling to around \$110/bbl at the end of the year. With regard to the outlook, the futures markets are expecting substantial price stability in 2012, with a slight decline in the second half.

For coal too, albeit to a lesser degree, 2011 represented a year of further recovery from the collapse of 2009, with prices rising to \$121.5/MT (+20.2% year-on-year).

In line with the trends seen for oil and coal, the gas market was also marked by rising prices in 2011.

On the foreign exchange markets, the first few months of 2011 saw the euro appreciating against the dollar until the end of August. From September, growing fears regarding “country risk” (Greece and Italy) triggered a sharp rise in the dollar.

The average value of the US dollar in 2011 against the euro was €1.3917, representing an increase of 5% compared with 2010.

With regard to interest rates in the eurozone, tensions on the government securities markets in 2011 and the consequent uncertainty that spread through the financial markets hit the revenues of the banks, particularly with regard to wholesale products. These difficulties had a serious impact on the availability of credit. Despite the intervention of the European Central Bank, which reduced the official rate on two occasions, bringing it down to 1%, the credit squeeze is severely affecting the possibility of any expansion or recovery of the economy.

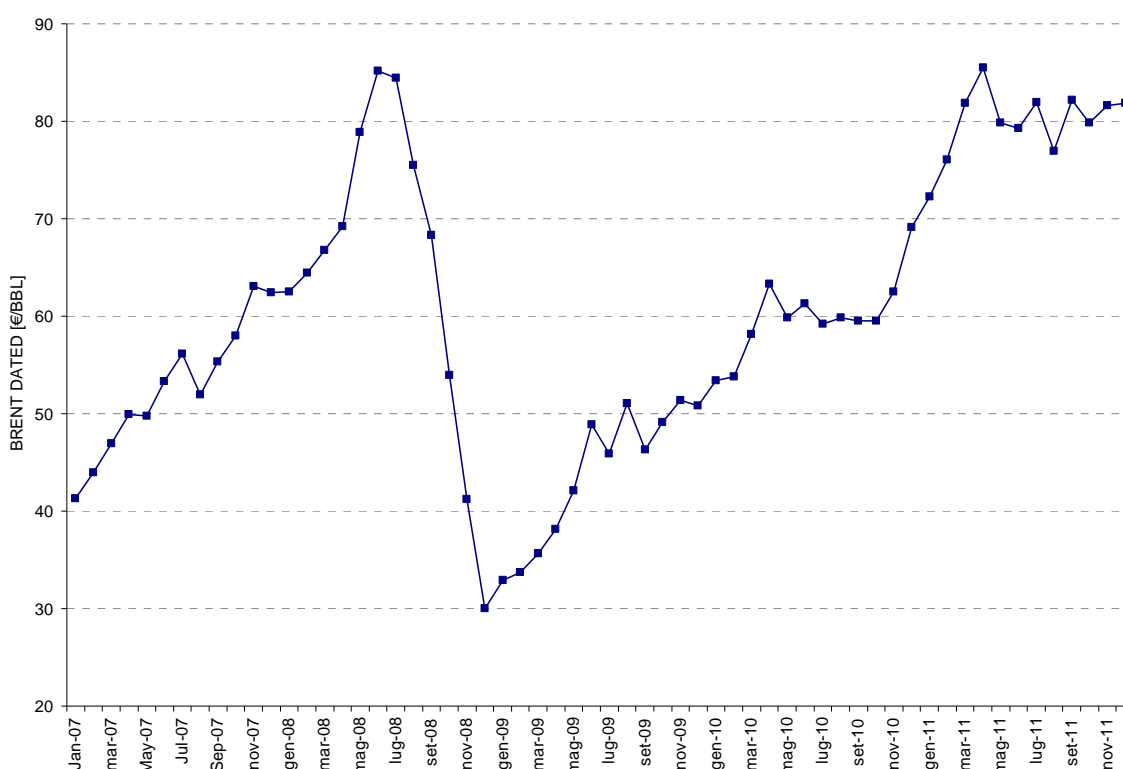
Reference scenario

	2011	2010	% change
Dated Brent price - \$/bbl	111.27	79.47	40%
\$/euro exchange rate	1.39	1.33	5%
Dated Brent price - €/bbl	80.06	59.75	34%

For energy commodities, the price of Brent crude oil (ARA Spot Average), which has a significant influence on the unit cost of liquid and gas fuels on the domestic market, showed average values higher than those of 2010, rising from \$79.47/barrel to \$111.27/barrel, with a peak of \$123.49/barrel in April 2011.

The causes of this increase can be found mainly in the global economic recovery following the grave financial crisis of 2009. This embryonic recovery was interrupted by the worsening of the European economic situation from April onwards, which caused a decline in consumption and a consequent fall in prices, which reached their lowest points in December.

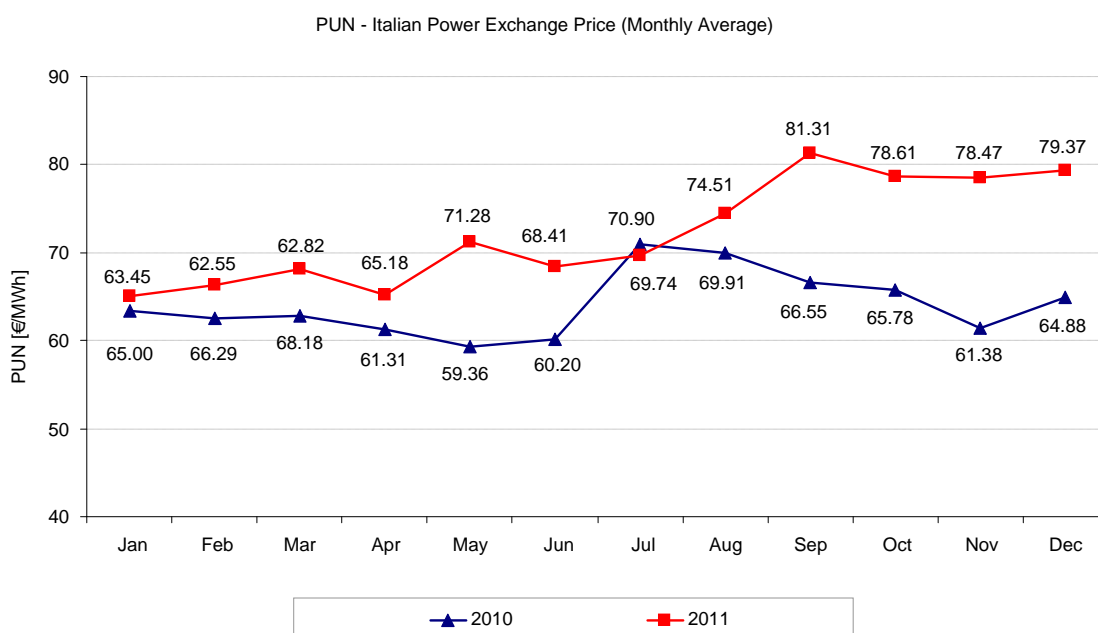
Crude Oil Price - Monthly Average



The average price of energy on the stock markets was €72.2/MWh, up by 12.6% on the value of €64.1/MWh for the same period of 2010. The greatest difference is seen in the last four months of the year, in relation to the steep increase seen in the cost of gas in particular, due to the delayed incorporation of the rises in the price of Brent into the price formulas during the first part of 2011. In May, partly thanks to the simultaneous occurrence of network constraints and maintenance work on production plants, the average price rose sharply to €71.3/MWh.

The extremely weak recovery in electricity demand in 2011 (+0.6% overall compared with the previous year), the introduction of further conventional production capacity into a situation already considered to be in overcapacity and the increase of more than 50% in production from renewable sources such as wind and photovoltaic, resulted in a further reduction of the spark spread.

The very low spark spread is making it increasingly difficult to operate in economic equilibrium, even with the most modern and efficient plants.

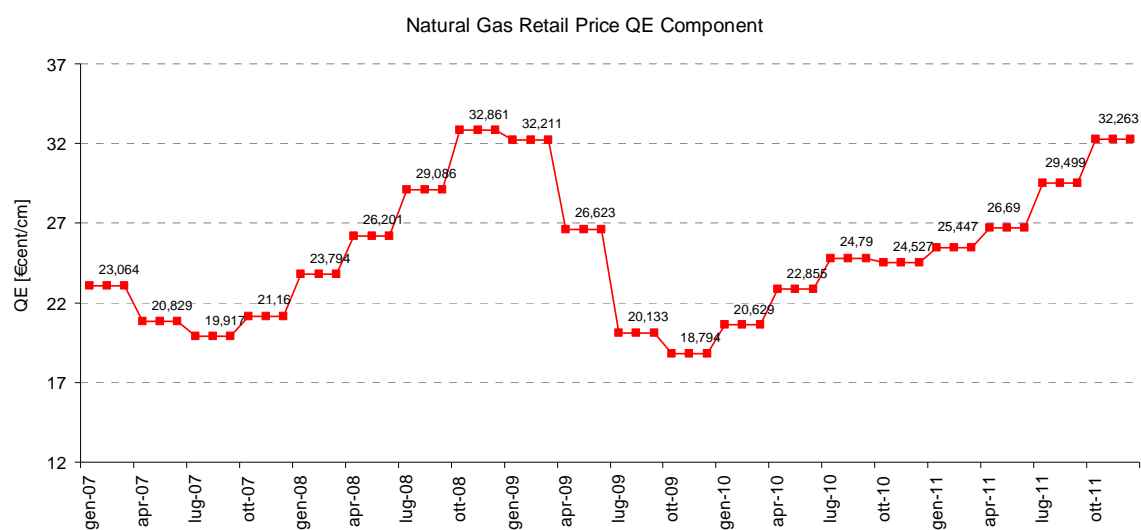


With regard to gas, after the modest recovery of 2010, 2011 ended with a demand of 77,415 bcm, a fall of 6% compared with the previous year and in line with the 2009 value, and thus well below the “pre-crisis” levels of 2008. The fall is largely attributable to climatic factors, as witnessed by domestic consumption (-8%), and to the strong expansion of renewable sources, which resulted in a substantial reduction in thermoelectric consumption (-7%), despite a context of stable electricity demand.

Notwithstanding the decline in consumption, driven by rising Brent prices, the VTP price continued to climb to a peak of €28.27/MWh (+21%), almost matching the levels of 2008 (€29.11/MWh). The Italian price reference continues to be confirmed as the most expensive with respect to the prices of the main European hubs, maintaining a differential of slightly over €5/MWh. The upward trend accelerated further in December, reaching €33.10/MWh, a new high for the last two years.

The major national and European operators, bound by long-term contracts with the producers directly, suffered once again from Take or Pay penalties in 2011, partly mitigated by the interruption of supplies from Libya due to the civil war, and are still renegotiating the contractual conditions in terms of both flexibility and price.

Against this background, the average value of the “Quota energia” (Energy Quota, QE) contribution in 2011, calculated by reference to Resolutions 134/06, 192/08, 64/09, 89/10 and 77/11 of the Electricity and Gas Authority (AEEG), was €28.47 cents/m³ compared with an average of €23.72 cents/m³ in 2010 and an estimated value of around €35.95 cents/m³ for 2012, the latter being determined with reference to forwards for mid-February 2012, but without taking account of the virtually certain interventions of the AEEG.



Gas area

Legislative changes in the wholesale market

Reform of the gas market

Within the context of the reform of the gas market, Article 30 of Law no. 99/09 made the Energy Market Authority (GME) responsible for the economic management of that market, as well as for the management of services involving the purchase and sale of natural gas according to criteria of economic benefit.

The process of opening up the market saw the establishment of a trading platform (P-gas) managed by the GME for offering imported gas quotas subject to obligations of sale or additional quotas offered by parties other than those obliged to do so. The platform has been operational since 10 May 2011 and is managed by the GME solely in the capacity of broker, and not as centralised counterparty.

In the following December, P-gas, which had been intended to serve as an embryonic gas stock market but whose functions never evolved in practice, was superseded by the launch of the spot market (M-gas), in which the GME's role is that of central counterparty in the transactions concluded by the operators.

Finally, the completion of the M-gas rules provides for the establishment of a forward market, which is still in the process of being defined.

Virtual storage mechanism

As part of the reform of the gas sector, in application of the powers delegated by Law no. 99/09, the Ministry of Economic Development issued a decree concerning the revision of the "anti-trust ceilings" and measures aimed at promoting access to storage services for industrial customers as well, through the creation of new capacity. Firstly, the ministerial decree replaces the anti-trust ceilings with a threshold system whereby each party declaring a market share above a predefined level is obliged either to follow a procedure of managed sale or to implement storage capacity creation projects.

With particular reference to projects for increasing storage capacity, the Ministry publishes a list of the actions that can be carried out/implemented by the obliged parties, from which the party concerned chooses and presents a project that must be approved by the Ministry under the guidance of the Authority and the Antitrust Authority.

These new provisions also provide the option for third-party industrial companies who are large consumers of natural gas to participate as investors in the implementation of projects. The investors, selected by means of a competitive procedure, are awarded the right to use the created future capacity in proportion to the commitment made through their investment.

In order to anticipate the benefits of the availability of new capacity for the investors, the decree provides for the Authority to introduce measures that make it possible, through a purely financial mechanism, to procure and "virtually" store significant volumes of gas during periods of high availability or low prices, for subsequent use in winter periods.

With regard to the development of new storage sites, the auctions for the awarding of the capacity were held in April, with the thermoelectric sector excluded due to the priority given to industrial operators and SMEs.

Implementation of market balancing

The gas market reform defined by the Legislator provided for a review of the balancing mechanisms which, under the provisions of Law no. 130/2010, were to be implemented from 1 April 2011 on the basis of economic criteria.

In fact, the review of the balancing mechanisms had already been begun by the Authority in the previous year with Resolution ARG/gas 165/09. This measure introduced a new weekly market session to promote the ex post balancing of users, who can adjust their positions relative to the previous week.

With a view to complying with the legislative requirement that provides for the initiation of an economic balancing, the Authority, following the consultation procedure begun with the publication of DCO 45/10, adopted Resolution ARG/gas 45/11, which introduced a simplified balancing system into the market to replace the physical storage system, launched on 1 December 2011.

The Authority maintained the role of Snam Rete Gas as counterparty in transactions to cover the unbalanced positions of users, limiting GME's involvement to the creation and management of the trading platform aimed at increasing the liquidity of the system.

Under the new mechanism, the current procedures for physical dispatching from the system based on the use of storage are kept largely unchanged, and a daily reserve market session is introduced, in which the operators offer storage availability. In this market session, the users of the balancing mechanism are obliged to offer the Transmission System Operator an availability of gas for input or withdrawal corresponding to the daily capacity due to them, net of the quantities used for that gas day.

The Authority, with the subsequent Resolutions ARG/gas 15, 165 and 192, then introduced a complex system of guarantees to be delivered in order to operate on the balancing platform. These measures also formed the subject of the application for interim relief submitted to the Regional Administrative Court of Lombardy.

New transport tariff components

With Resolution ARG/gas 177/10, the Authority defined the conditions for application of the new natural gas transport tariff components already established by the previous Resolution ARG/com 93/10. These components, which are necessary for covering the gas bonus (GST) and for financing measures aimed at saving energy and developing renewable sources (RET), have been applied since 1 July 2010 to withdrawals by end customers directly connected to the transport network. However, since these were not defined and activated until January 2011, the tariff withdrawal over the full year recovered the entire amount necessary to cover the lack of withdrawal in the last six months of 2010.

Resolution ARG/gas 77/11 modifies QE

With Resolution 173/09, on 28 December 2009, the AEEG had begun an investigation into the procedures and conditions of procurement of natural gas for supply within the context of the protected tariff service, partly in order to promptly assess any structural changes that might occur in those conditions.

The aim was essentially to assess to what extent SPOT supplies, available on the market consistently since 2009, might have on the long-term contracts used as the reference for the procurement conditions in question.

On completion of this investigation, with effect from the update for Q4 2010, with Resolution 89/10 the Authority modified the formula used for calculating the QE by inserting a reduction coefficient of 0.925, which, by virtue of the subsequent Resolution 77/11, was updated to 0.935 with effect from Q4 2011.

Significant events

Procurement contracts for modulated gas on REMIs [Regulation and Measurement Plants] were finalised in March and April for a projected volume of approximately 1,700 bcm in relation to the thermal year 2011-12, entirely absorbed by sales on the same REMIs to Hera Comm (brokered sales).

During the same period and in the following months, numerous contracts were concluded for non-modulated SPOT gas, with supplies abroad, at national borders and at the Virtual Trading Point.

With regard to non-brokered sales, starting in April and for a duration of 12 months, supply contracts for Hera Comm REMIs were finalised for a projected volume of around 145 bcm.

Subsequently, for the 2011-2012 thermal year, non-brokered supplies to the Hera Comm REMIs at Forli, Cesena, Lugo and Ferrara were finalised for a projected volume of around 450 bcm, as well as supplies relating to the non-network sales of Hera Comm (Marketing plan) for a further 100 bcm.

During the second half of the year, Hera Trading participated successfully in the auctions organised by Tirreno Power for gas relating to the 2011-2012 thermal year, winning a contract for the supply of around 200 bcm (distributed between the Vado, Torvaldaliga and Naples plants).

To all of this must be added the day-to-day contract optimisation activities, which resulted in the movement of a further quantity of around 1,100 bcm in purchases and sales to third-party operators.

Impact of the interruption of Greenstream operation

In February, following the outbreak of civil war in Libya, there was an interruption to the flow of gas in the Greenstream pipeline. Operation of the pipeline, albeit at a reduced rate, was resumed only in the second half of October. Despite being mainly concentrated over the summer months, the interruption did not, however, have a significant impact on the market due to its situation of overcapacity; indeed, in certain respects it mitigated the Take or Pay problems of the larger operators involved.

Impact of the Japanese earthquake

Experts had predicted that the Japanese nuclear crisis and the consequent increase in the country's demand for gas due to the loss of nuclear capacity, together with the energy needs associated with reconstruction in the wake of the disastrous earthquake of March 2011, might give a bump to the international gas market in both the short and the medium term, helping to support LNG prices, which had been particularly badly hit by the economic crisis, the development of shale gas in the USA and the abundant availability of liquefaction capacity, mainly in Qatar.

In practice, the diversion of many LNG shipments from the European market to Japan produced, in the short term, a narrowing of the spread between spot prices and the prices recorded for long-term ToP contracts. Moreover, at the end of the summer, the spread widened sharply in response to a European situation still marked by a surplus of supply and the fact that long-term contracts have progressively incorporated the increased oil costs into the pricing formulae.

Renegotiation of Eongas contract

During the course of the summer, as provided for by the contractual terms, there was a renegotiation of the five-year Take or Pay contract in existence with the Austrian company, Eongas. The result obtained, applicable to the final two years of the contract starting in October 2011, is broadly in line with the renegotiations conducted by other operators on similar contracts.

Obtaining of qualification to operate on the TTF

The closing months of 2011 saw the preparation and presentation of the documentation necessary for the qualification of Hera Trading on the Title Transfer Facility (TTF) in order to be able to operate directly on the most important trading hub in northern Europe.

Reorganisation of operating procedures for commencement of market balancing

During the course of the summer, particular attention was paid to the reorganisation of forecasting, market and logistics operating procedures in order to make them ready for the commencement of market balancing, which was effected from December onwards.

Management during the winter of 2011-12

The winter of 2011-12 was initially exceptionally mild until the end of January. In the first two weeks of February, the entire country experienced an extraordinarily harsh spell which demanded particular care in the management of resources and also required activation of the emergency procedure by the Ministry of Economic Development. The infrastructures were subjected to unprecedented stresses, without any special problems being encountered.

Electricity area

Regulatory changes on the wholesale market

Interventions on the electricity market

In conformity with the provisions of Decree-Law no. 185 of 29 November 2008 (on "Urgent measures to support families, work, employment and business, and to restructure the National Strategic Framework to combat the crisis") and in Law no. 2/2009, a number of interventions were made with regard to the electricity market in order to take account of the provisions of the Decree-Law and the international trend. These included:

- greater functional integration between the Intra-Day Markets and the Dispatching Services Market: two new MI sessions were introduced (MI3 and MI4), which take place during the flow day and therefore come close, for the most part, to the European definition of "intra-day market". As a consequence, two new scheduling phases were also introduced for the DSM, following on from the MI sessions;
- launch of the project for market coupling between the Italian and Slovenian electricity markets, aimed at efficient and rational use of the connection infrastructures between the two countries and consistent with the coupling trials already conducted by other nations (some of the most recent examples have been between France-Germany and France-Belgium-Netherlands).

The measures still outstanding for completion of the reform outlined by the Legislator in the interventions cited above include, in particular, a possible revision of the criteria for determining the stock market price, switching from the current marginal price mechanism to a "pay-as-bid" mechanism.

Auctions for the management of cross-border congestion

In 2011 the European transmission system operators (TSOs) of Central West Europe and Central South Europe agreed to delegate import and export capacity allocation activities to a single entity, CASC EU, for greater transparency of these auctions and to make it easier to find information. This change made it necessary to adopt market access rules shared by all the system operators, and for 2012 these have been harmonised still further.

The regulators and the system operators involved have taken steps to harmonise the respective rules for management of the auctions held for the allocation of rights to use cross-border capacity, also involving the northern borders of Switzerland, in order to maximise the benefits arising from centralised management of the auction procedure.

The main innovations, introduced by the 2012 Access Rules (document published as Annex A to the Resolution in question), as well as extending the geographical scope of application, provide for an open-ended period of validity and require the entity taking part in the auctions to be recognised as a user of dispatching services in at least one of the countries in which the said rules are applicable.

The market operators have therefore had to review their procedures for taking part in auctions for the allocation of physical transmission rights (PTRs), carry out operating management of any allocated capacities and comply, in particular, with the new rules on collateral.

Reform of the capacity payment mechanism

With Resolution ARG/ELT 98/11, the AEEG revised the mechanism used to pay for the availability of productive electricity generating capacity (Capacity Payment). The purpose of the reform is to satisfy the expected demand for electricity with reference to the times and zones with greatest scarcity of supply, and to define an adequate new regulatory framework to support investments, including on a multi-year basis, in the development of new production plants. Thus, a capacity market is created that can offer the operators price signals capable of allowing control and appropriate evaluation of the risks associated with multi-year investments in new production capacity.

Revision of the incentive system for renewable sources

Legislative Decree no. 28/2011 confirmed the principal measures already circulated at the end of 2010 with regard to incentivising renewable sources, including the gradual switch from the Green Certificates system to a feed-in tariff mechanism with allocation auctions for plants excluded from the application of all-inclusive tariffs. There is still great uncertainty regarding plants that will begin operating after 2012, since the details of the conduct of these auctions have not yet been made known, with the risk of discouraging investments in the medium term.

With regard to the management of the period of transition from the old incentivisation system to the new, the scheme of the Decree provides for the Green Certificates system to endure until 2015 for plants brought into service by 31 December 2012 and supported by means of that instrument. Within the context of the Green Certificates mechanism, until 2012 the mandatory quota for thermoelectric production is that fixed by the 2008 Finance Act, which established a system whereby the quota increases by 0.75 percentage points per year (the mandatory quota thus rises to 6.8% in 2011 and to 7.55% in 2012), before being absorbed on a straight-line basis from 2013 onwards and cancelled in 2015.

Finally, the functioning of the switchover mechanism provides for an annual withdrawal of the unsold certificates, issued for renewable production from 2011 to 2015, by the GSE. The withdrawal price is set at 78% of the price applied by the GSE for the transfer of its own green certificates.

New incentives for cogeneration

In transposition of the provisions of Directive 2004/8/EC, The Ministry of Economic Development issued Legislative Decree no. 20/07 concerning the incentivisation of energy produced by high-efficiency cogeneration (HEC) plants.

One of the incentivisation tools identified by the decree consists of the awarding of white certificates: in particular, the Ministerial Decree of 5 September 2011, implementing Decree no. 20/07, provides for HEC plants to be issued each year with white certificates in proportion to the energy saving made in the year concerned. Unlike the practice in the market for conventional white certificates, those issued to an HEC plant can also be transferred to the Energy Services Operator at a price determined by the Authority. The incentive thus defined is valid for 10 years for an HEC plant and 15 years for an HEC plant linked to a district heating system.

With regard to energy produced by non-HEC plants, on the other hand, the Decree of 5 September 2011 provides for these plants to be granted an incentive equivalent to 30% of that defined for HEC plants, for a period of five years.

The competent Ministerial offices are currently processing requests from the larger operators for clarification concerning the correct application of Decree no. 20/07 to pre-existing plants, both with respect to the commencement of application of the Decree and in relation to the transcendence or non-transcendence of AEEG 42/02.

Significant events

Electricity trading activities

These activities were further consolidated in 2011, both through refinement of the support tools developed internally and through the selection of counterparties by the finalisation of EFET contracts. Great attention was then paid to the application of procedures for controlling exposure to risk (commodity and counterparty). The results of these activities, although in line with those of the previous year and with the Budget targets, were negatively impacted by a particularly depressed situation on the markets for electricity and Environmental Certificates.

Asset optimisation and participation in the Dispatching Services Market

In 2011, the optimisation of the Teverola and Sparanise plants, and particularly their use on the Dispatching Services Market, was also a source of particular satisfaction. The ability to carry out forward allocation of the expected production for 2011 made it possible, against a market background of increasingly low spark spreads, to achieve a positive result in terms of optimisation (plant switch-offs and purchases of forward-allocated electricity on the stock market). But the best results came, once again, from the use of the plants on the Dispatching Services Market (DSM).

Operation of the COGEN Imola plant

2011 was the second year of operation of the COGEN Imola plant, which is operated under a tolling regime by Hera Trading.

In this case too, the decision to sell the projected 2011 production on the forward market made it possible to achieve an improvement over the budgeted result in 2011, despite the fact that the cogenerative nature of the plant, coupled to a district heating system, is prejudicial to its commercial flexibility and the ability to participate in the Dispatching Services Market.

Construction of the sources portfolio for Hera Comm sales in 2012

During the final quarter, Hera Comm was supported in constructing the Sources Portfolio for the 2012 commercial activities.

Unlike in previous years, it was expedient for Hera Comm not to exercise the option of withdrawal from the Teverola and Sparanise plants, relying mainly on product purchases on the OTC platform, which were naturally made at the most favourable market moments, and on stock-market purchases.

At the end of the year, the conditions were created for consensual termination of the long-term contract in existence between Hera Comm and ALPIQ, since it had not been possible to identify conditions of mutual interest during the price renegotiations.

Acquisition of import/export transmission rights from neighbouring countries

In December, Hera Trading took part in the auctions organised by CASC (the entity delegated by the European transmission system operators) for the allocation of physical cross-border electricity transmission rights at the borders with France and Austria, winning import and export rights across both these borders.

Virtual import service

At the end of the year, on completion of its participation in the auction organised by TERNA for the assignment of the virtual import service, Hera Trading won an allocation of 35 MW across the French border.

Qualification on the German market

The closing months of 2011 saw the preparation and presentation of the documentation necessary for the qualification of Hera Trading as a user of dispatching services in Germany (AMPRION network), with the aim of increasing the efficiency and scale of existing operations on the German market.

Renegotiation of the Sparanise PPA

In the early months of 2011, renegotiation began on the Addendum to the Sparanise PPA in relation to its scheduled expiry at the end of May. In the event, both parties considered it expedient and appropriate to widen the renegotiation to the PPA itself, with the aim of making the entire agreement more coherent with the current market situation. Agreement has now been reached on the most important points, and the negotiation process is expected to be definitively completed by next April.

Eurowatt arbitration

The arbitration procedure in progress with Eurowatt continued in 2011. In January, the last meeting was held between the parties' legal advisers and the arbitration panel for the final discussion.

The arbitral award is now pending, and there is reason to believe that the finding may be in Hera Trading's favour.

Development of the Tamarete project

There was a continuation of support to the Business Development department of Hera S.p.A., for the definition of the final aspects relating to the technical and commercial operation (O&M contract) of the Tamarete thermoelectric plant. The necessary final operating authorisations are now awaited.

Risk management

Once again in 2011, the operational management of commodity and foreign exchange risk was carried out on a "hedging" basis, aimed at establishing the Budget margins for the commercial operations conducted in the Gas and Electricity areas by both Hera Trading and Hera Comm.

From an organisational point of view, the activities are centralised within Hera Trading, respectively in the Gas Area Risk Management function for hedging on the fuels and foreign exchange front, and in the Electricity Market function for hedging relating to electricity contracts not index-linked to fuels.

This approach, based on the creation of a Fuels Concentration Portfolio and an Electricity Concentration/Trading Portfolio, without producing any duplication of responsibilities, allowed unified management of the homogeneous risks of both Hera Trading and Hera Comm, and, in relation to the first portfolio, on the basis of macro-hedging rather than by formulas, made it possible to obtain clear benefits such as:

- Achievement of very high hedging levels;
- Removal of the constraint on the minimum volumes which can be hedged;
- Optimisation of costs for the reduced recourse to the market through netting of the positions of the individual contracts and of the positions generated by the Gas and Electricity areas;
- Greater flexibility in the evaluation of procurement contracts with non-standard indexing formulas;
- Greater flexibility in the structuring of the offer, with the ability to propose/quote indexing formulas other than those present in the acquisitions portfolios;
- Greater visibility of OTC commodity prices.

The activity carried out within the context of the Concentration Portfolio, on the basis of derivative financial instruments, although carried out exclusively for hedging purposes, does not satisfy the requirements of IAS 39 for the application of Hedge Accounting. It follows from this that the returns obtained and the projected value of the derivatives in the portfolio (Fair Value Delta) are included in the operating income of the Gas Area.

Credit risk represents the exposure of Hera Trading to potential losses caused by non-fulfilment of the obligations assumed by counterparties, particularly in relation to the growing commercial activity of gas and electricity sales.

The Credit Control and Management Policy relating to the commercial counterparties of the Electricity Area became fully operational in January 2010, while that relating to the counterparties of the Gas Area came into operation during the course of 2011.

These measures are aimed at controlling this type of risk, which has become increasingly important with the current worsening of the economic crisis.

These Policies, defined by the Energy Risks Analysis and Control Department of Hera S.p.A. in collaboration with Hera Trading, were approved by the Energy Risks Committee on 1 December 2009 and 25 November 2011, respectively.

Relations with investee companies

Flame Energy Trading GmbH

The joint shareholding of Hera Trading S.r.l. and VNG- Erdgascommerz GmbH in the trading company Flame Energy Trading GmbH, based in Vienna, continues.

The company has decided not to use its own personnel, and relies on services provided by the shareholders for operations. It has been active in wholesale gas trading since September 2006, and became fully operational on the Italian market as well from October 2007, limited to the Virtual Trading Point (VTP). Since October 2008 it has also been fully operational for modulated supplies to the REMIs. As of October 2011, in relation to the activation of the market balancing mechanism, in order not to hamper its activity, the shareholders decided to confine the company's operations to the VTP and the Baumgarten hub.

Dyna Green S.r.l.

Hera Trading S.r.l. continues to hold shares in Dyna Green S.r.l., a company whose purpose is to research and develop, on behalf of its shareholders, opportunities for purchasing and importing gas from Libya. The company has share capital of €30,000, and its registered office is in Milan. During the Shareholders' Meeting held on 30 December 2010, the duration of the company was extended until 31 December 2013.

In response to the changes seen on the gas market since 2009 and the events occurring in Libya during the course of 2011, the shareholders initially decided to wind up the company. However, in view of the subsequent interest expressed by the shareholder Dyna Network in taking up all the shares not already in its possession, the winding-up decision was revoked, and the shares are currently in the process of being sold by Hera Trading and Acea.

For the moment, the shareholding structure remains as follows:

- Acea 33.33%
- Dyna Network 33.33%
- Hera Trading 33.33%

Galsi S.p.A.

Hera Trading S.r.l. continues to hold shares in Galsi S.p.A. The company is still working on preparing the executive project of the gas pipeline and the associated compression and measurement stations, as well as on obtaining the necessary authorisations.

Activity continued in 2011 for the purchase of authorisations, as well as the procurement process for the timely definition of CAPEX.

In April the Shareholders' Meeting, in view of the impossibility of completing the Target Activities by 30 April 2011, approved the proposal to extend the deadline for taking the Final Investment Decision until 30 November 2011. At a subsequent meeting held in November, the shareholders, in noting the positive progress of the authorisation which allowed for its conclusion, approved a further extension until 31 March 2012.

The project was eventually classified by the EU as being of strategic importance, and became eligible to receive a grant of €120,000 thousand under the European Recovery Plan.

The shareholding structure remained unchanged in 2010:

- - Sonatrach 41.6%
- - Edison Gas 20.8%
- - Enel Power 5.6%
- - Hera Trading 10.4%
- - SFIRS 11.6%

1.06 Financing policy and Rating

The aim of the Group's financial operations is to maintain an adequate balance, now and in the future, between the investment and employment of capital on one hand and sources of funding on the other, in terms of both the repayment schedule and the types of rate.

The policies and principles for management and control of the risks inherent in the Group's financial operations, such as liquidity risk, interest rate risk and exchange rate risk, are described below.

Liquidity risk – Credit rating

Liquidity risk is defined as the risk whereby, due to its inability to raise new funds or liquidate assets in the market, a company fails to meet its payment obligations.

The following table represents the “worst case scenario” where assets (cash, receivables, etc.) are not considered, while financial liabilities are reflected in principal and interest, trade payables and interest rate derivative contracts. Revocable lines of credit expire at sight, while other funding expires at the first payment date on which repayment may be requested (put bonds are considered repaid on first exercise date of the put).

Worst case (€ millions)	31 December 2011			31 December 2010		
	From 1 to 3 months	from 3 months to 1 year	From 1 to 2 years	From 1 to 3 months	from 3 months to 1 year	From 1 to 2 years
Bonds	30.4	501.7	221.2	27.9	244.8	415.0
Loans and other financial liabilities	153.2	180.0	46.4	69.8	61.2	45.3
Due to suppliers	1,229.2	0.0	0.0	1,061.0	0.0	0.0
Total	1,413	682	268	1,159	306	460

The Group's aim is to ensure a level of liquidity which allows it to meet its contractual commitments both under normal business conditions and during a crisis, by maintaining available lines of credit and liquidity and proceeding with the timely negotiation of loans approaching maturity, optimising the cost of funding according to current and future market conditions.

Compared with its short-term financial debt at 31 December 2011, the Group has €415 million in cash, €280 million in unutilised committed lines of credit and ample space in its uncommitted lines of credit (more than €1,100 million), giving it sufficient liquidity to cover any financial commitments for the next two years at least.

The lines of credit and related financial assets are not concentrated with any one lender but are distributed equally among leading Italian and international banks, with utilisation much lower than the total amount available.

As regards the medium- to long-term debt profile, €50 million due in 2031 was drawn down under the Put Bonds facility on 10 October 2011.

At 31 December 2011, the Group had put in place a debt profile where long-term debt accounted for 98% of its total financial liabilities. The average maturity is around nine years and 59% of the debt has a repayment date longer than five years.

The projected nominal flow based on the annual repayment dates over the next five years and the portion longer than five years is shown below.

Nominal negative cash flow (€ millions)	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016	Beyond 5 years	Total
Bonds	0	0	0	0	500	750	1,250
Convertible bonds	0	140	0	0	0	0	140
Put Bond / Loan	0	0	0	0	0	590	590
Due to banks / to others	131	34	29	203	21	54	473
Gross financial debt	131	174	29	203	521	1,394	2,452

There are no financial covenants on the debt, except – in the case of certain financings – for a restriction against the rating of even one Rating Agency falling below “Investment Grade” level (BBB-).

Interest rate risk

The Group uses external funding sources in the form of medium- to long-term financial debt, banking credit lines of different types and invests its available cash primarily in immediately realisable highly liquid money market instruments. Changes in market levels of interest rates affect both the financial costs associated with different types of financing technique and the revenue from different types of liquidity investment, causing an impact on the Group's cash flows and net interest costs.

At 31 December 2011, the exposure to the risk of adverse interest rates changes, with a resulting negative impact on cash flows, was 31% of total gross financial debt.

Gross financial indebtedness (*) (€ millions)	31 December 2011			31 December 2010		
	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
fixed rate	1,889.4	1,620.4	69%	1,819.8	1,665.5	69%
floating rate	562.9	831.9	31%	588.5	742.8	31%
Total	2,452	2,452	100%	2,408	2,408	100%

* Gross financial debt does not include cash, and other current and non-current receivables

The derivatives are perfectly matched to the underlying debt and are in accordance with IAS standards.

The Group's hedging policy does not allow the use of instruments for speculative purposes and is aimed at optimising the choice between fixed and floating rates as part of a prudential approach towards the risk of fluctuations in interest rates. Interest rate risk is managed essentially with a view to stabilising financial flows in order to protect margins and guarantee the cash flows arising from normal operations.

During 2011 and despite its strong weighting in long-term debt (about 98%), the Group managed to maintain the cost of debt at an overall average of around 4.4%.

Exchange rate risk not related to commodity risk

The Group adopts a conservative approach to currency risk exposure, in which all currency positions are netted or hedged using derivative instruments (cross-currency swaps).

The Group currently has a foreign currency bond of JPY 20 billion, fully hedged with a cross-currency swap.

Rating

Hera S.p.A. has long-term ratings of “Baa1 Negative Outlook” from Moody’s and “BBB+ Stable Outlook” from Standard & Poor’s.

In 2011, Standard & Poor’s confirmed its rating of “BBB+ Stable Outlook”.

On 25 January 2012, however, Moody's revised its rating on Hera Group’s long-term debt from “A3 Stable Outlook” to “Baa1 Negative Outlook”. The main reason for the negative outlook was the deterioration in Italy’s macroeconomic position and uncertainty on the outlook for Italy.

Given the current environment, the measures and strategies of the Plan aimed at ensuring the maintenance/improvement of satisfactory rating levels have been strengthened further.

1.07 Research and development

The Group's research activities in 2011 chiefly consisted of the technological development of renewable sources, the development of environmental monitoring and control technologies, energy efficiency, and optimisation of network management and waste management services. Particular emphasis was given to applied research into systems for the production of energy from renewable sources, with the start of works on the construction of Hlab, the Hera Group's energy laboratory.

The main research projects were:

Energy Laboratory. This is an experimental centre for applied research into technologies for the production and utilisation of energy from renewable and alternative sources. Construction was begun in 2011 at Forlì. The Energy Laboratory will make it possible to assess various technologies, from those already available on the market to those still in the prototype phase, thanks to an advanced data measurement and acquisition network. The focus will be on the measurement of actual yields and their evolution over time, in order to make an optimal and comparative evaluation of market solutions and state-of-the-art solutions. The other important aspect will concern identification and prevention of operating problems and evaluation of the real running costs. Initially, the Laboratory will have a photovoltaic section and a unit devoted to the production, storage and use of hydrogen. The construction works are scheduled for completion at the end of 2012, and experimental activities will be managed in collaboration with the University of Bologna.

Emerging Pollutants Project. The term "Emerging Pollutants" (EP) means various biologically active substances of anthropic origin such as personal-care products, medicines, psychoactive substances associated with drug addiction, and the associated metabolites. Of these, endocrine interference agents form a special crossover category. The presence of these substances in water is considered to be one of the most important environmental problems of the last decade. In 2007, Hera launched a research project aimed at identifying the major EPs in water systems (with particular reference to natural water destined for purification), developing analytical methods for determining their quantities, conducting surveys on the presence of these substances in the water systems involved, and evaluating the removal effectiveness of current treatment systems (purification and depuration). Partnerships have been formed with the Istituto Superiore di Sanità, the Istituto Mario Negri and the study group on "Interferenti endocrini e acque destinate al consumo umano" ("Endocrine interference agents and water intended for human consumption", or "EDinwater") sponsored by Fondazione Amga. In 2010, the set of parameters to be monitored was defined, and a control plan put into effect. In 2011, a joint initiative was begun with the Politecnico di Milano to identify the best water treatment technologies.

Automatic leak detection. This project consists of looking at innovative systems for automatic leak detection, to be used in conjunction with the remote-metering system. A test site was set up in 2007, and tests in different environmental conditions were carried out. The initial test results were extremely interesting. In 2008, the investigation techniques were refined with the creation of an automatic field acquisition system, the development of a statistical analysis tool and the creation of a leak simulation tool. The tool was completed in 2009, when it was rolled out to customers together with the acquisition tools created in the previous year. The large mass of data collected has enabled the Group to better characterise the phenomenon. In 2010, a tool was designed and produced to facilitate data acquisition at different connection points and in various operating conditions. In 2011, acquisitions were made in various territories which allowed further refinement of the signal analysis algorithm. Experimentation will continue in 2012 with a comparison between the current sensor (accelerometer) and an innovative device for this type of application (hydrophone).

Bio-Hydro. The project proposes to develop an organic agro-zootechnical waste-disposal cycle consisting of hydrogen fermentation of at least one type of agro-zootechnical waste and methane co-digestion of the residue from this process with other agro-zootechnical waste or with the organic portion of solid urban waste. The project is being conducted in association with Herambiente and the Faculty of Engineering at the University of Bologna, and is jointly funded by the Ministry of Agricultural, Food and Forestry Policies. In 2010, work began on the characterisation of agro-zootechnical waste, and various waste matrices were acquired, suitable for the hydrogen bio-conversion process and anaerobic co-digestion of the effluent from the hydrogen fermentation. In 2011, work was begun on evaluating the viability of using biologically produced hydrogen to power fuel cells, as well as on assessing the practicality of using solid residues from combined hydrogen/methane bio-production as compost.

Automatic plant management. This project, developed in association with ENEA, involves the development of a system for automatic management of the main operating parameters of water-treatment plants. The system must maintain the process conditions of a given plant at maximum efficiency, depending on the composition of the waste water (deuration plants) or untreated water (potability treatment plants). In 2008, work began at the Calderara di Reno - Bologna deuration plant, chosen as a test site. In 2009, analysis and control instruments were installed at the site and data acquisition in the field was begun. The data acquired in 2010 confirms what we knew about continuous-flow sludge treatment, and reveals new characteristics in the signals relating to the quantities monitored, helping to differentiate between standard operation or malfunctions at the plant. In general, the applicability of automatic control to real-scale plants has been demonstrated. In 2011, the second phase of the project was begun, with the aim of developing a prototype system within three years.

Modelling water-treatment plants. The purpose of this project, conducted in collaboration with ENEA, is to develop mathematical models for the simulation of deuration plant hydraulics and processes. The aim is to acquire the instruments and know-how necessary to begin coordinating the mathematical modelling of water-treatment plants for the Group. In 2009, the preliminary work was carried out to develop a model of the sample site and to select calculation software from among the commercially available packages. In 2010, at the end of the evaluation phase, software licences were acquired. 2011 saw the start of modelling activities within the Group, although the project is still in the pilot phase.

Energy recovery from water-treatment plants. In 2010, investigations were made into the possibility of energy recovery from water-treatment plants, with a study of the technologies involved. An initial feasibility study was developed to recover energy from the Bologna depuration plant using high-performance hydraulic screws. In 2011, two further studies were begun: the first concerns energy recovery from the mains water supply using in-pipe-turbine (IPT) or pump-as-turbine (PAT) systems, while the second relates to heat recovery from mains water using low-enthalpy heat-pump systems.

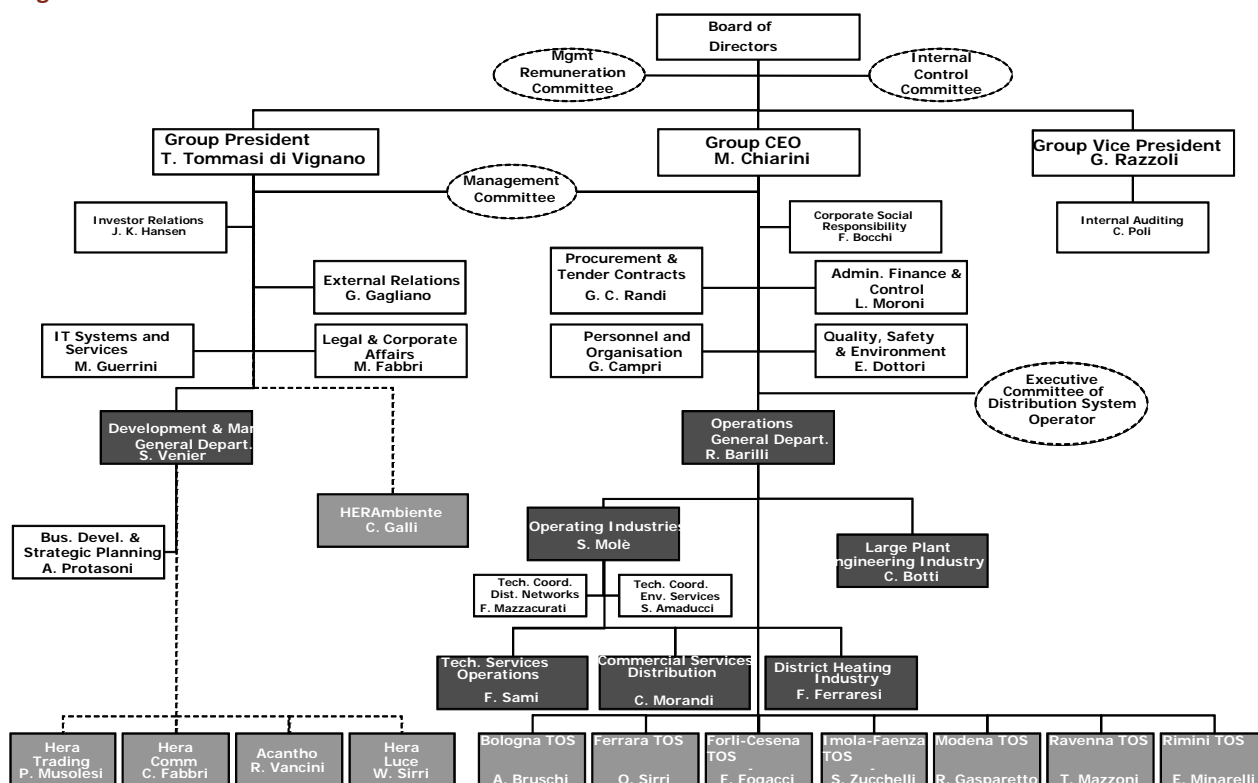
Characterisation and analysis of polyethylene pipes. Polyethylene pipes used for the mains water supply have a higher burst rate than pipes made from other materials. To examine the causes of this situation in greater detail, a project is underway to perform a critical analysis of burst pipes, with the aim of increasing know-how about PE pipes, providing simple criteria for classifying the various types of bursts, identifying the principal causes and designing improvement plans. The project is being conducted in collaboration with LyondellBasell, one of the world's leading manufacturers of polyolefins, and with the Plastics Testing Laboratory at the Department of Chemistry, Materials and Chemical Engineering at the Politecnico di Milano. In 2010, samples were taken from stretches of pipe that had suffered bursts, and a visual analysis was made of these test pieces. A statistical analysis of the bursts was conducted, and laboratory analyses were carried out. In 2011, laboratory tests were carried out for the precise characterisation of fractures, and the results of these tests will serve as the basis for defining action and improvement plans. It is planned to present the results of this study at WaterLossEurope 2012, the largest international event of its kind, organised by the IWA on the theme of water leakage.

Study of water meters and "antifreeze" technologies. In 2011, Hera's Research & Development unit designed and conducted a series of tests with a view to identifying meters and other devices which might reduce the incidence of water meter breakdowns under adverse weather conditions. These breakdowns cause inconvenience for the user, operating difficulties for the system manager, and water losses.

The study, which will be completed in 2012, has already made it possible to identify a type of meter, freely available on the market, which is less vulnerable to frost than the type generally used.

1.08 Human resources and organisation

Organisational chart



Human resources

At 31 December 2011, the Hera Group had 6,484 employees (consolidated companies), with the following breakdown by role: managers (125), middle managers (353), clerical workers (3,353) and manual workers (2,653). This workforce was the result of the following changes: new recruits (+148), departures (-158) and changes in scope (+3*). The new recruitments in question were made essentially with a view to changing the employee mix by adding more qualified staff. There was an overall increase in the number of graduates compared with 2010, from 1,033 at 31 December 2010 (16% of all permanent employees) to 1,082 at 31 December 2011 (17% of all permanent employees).

(* includes +1 at Enomondo, +8 at Sadori (Hera Comm Marche) and -6 at Hera Luce (+11 consolidations and -17 departures, associated with the contract in the Bologna territory)

Organisation

The Hera model stands out from the multi-utility landscape for having created an industrial and operational integration based on a Holding which, through central departments of planning, support and control, ensures an integrated Group vision and favours the exploitation of synergies, and which, through general and sector-specific departments and central technical coordination structures, provides a function of direction and coordination with regard to the managed businesses.

The Hera operational model combines the business sector perspective with the company/operating unit perspective to allow:

- a sharper focus on development and streamlining objectives;
- an optimisation/concentration of assets, skills and specialist roles that can provide a unified perspective;
- a “balanced” structure with regard to regulatory constraints on certain activities (e.g. energy unbundling);
- the retention of operational control in the territory concerned.

The Group's organisational chart therefore displays the following features:

- The following central departments report to the Group Chairman: Legal and Corporate Affairs; IT System and Services; External Relations and Investor Relations. The Development and Market General Department and Herambiente S.p.A. also report to the Chairman.
- The following central departments report to the CEO: Procurement and Tender Contracts; Administration, Finance and Control; Personnel and Organisation; Quality, Safety and Environment and Corporate Social Responsibility. The CEO also oversees the Operations General Department, within which, in 2011, there was a modification of the organisational details of the Operating Industries Department, which in turn heads the District Heating Sector, the Technical Services Operations Sector, the Commercial Services Distribution Sector, Technical Coordination Environmental Services, Technical Coordination Distribution Networks, and Compliance Measures Planning, Control and Scheduling. The Operations General Department also oversees the seven Territorial Operating Structures and Large Plant Engineering Industry.
- The Vice Chairman oversees the Internal Auditing Department.

Several organisational changes (operationally effective from 1 January 2012) were made within the Development and Market General Department, particularly at Hera Comm, relating to a review of marketing and indirect sales processes. These are aimed at ensuring a sharper focus on activities of analysis with a view to commercial development, on the identification of market opportunities, and on supporting the business units in achieving their assigned commercial targets.

With regard to Herambiente S.p.A., the second half of 2011 saw a reallocation of the special waste homologation activities of the Market General Department, which were transferred to the Homologation structure of the Operating Services Department in order to ensure a sharper focus for the activities. There was also a continuation of process analysis and optimisation activities, including through the application of “Lean Organisation” methodology; in particular, the detailed analysis of the homologation process was completed, with the aim of reducing crossover times for the new practices and improving the efficiency of the entire process. Finally, the second half of 2011 saw the organisational change (operationally effective from 1 January 2012) relating to the switching of the Industrial Waste Plants division from the Market Department to the Production Department and the setting-up of the Small Business Sales and Business Sales functions within the Market Department, in order to ensure a greater focus on the operational management processes of the plants and on the commercial processes.

Within the Operations General Department, changes were made to the organisational details of the Operating Industries Department, which heads the District Heating Sector, the Technical Services Operations Sector, the Commercial Services Distribution Sector, Technical Coordination Environmental Services, Technical Coordination Distribution Networks, and Compliance Measures Planning, Control and Scheduling. These changes (operationally effective from 1 December 2011) are aimed at ensuring a greater focus on business processes, more effective separation between management and operating activities, and the identification of unambiguous references for each sphere of activity.

Within the individual TOS Business Units, there was a consolidation of the processes involved in territorial back office activities, including in support of the central coordination structures in operational and specialised management.

Lastly, the centralisation of fluid remote control was completed on schedule.

With reference to the Central Departments and their respective governance and support processes, efforts continue in an attempt to find the best balance between process governance and internal client orientation, accompanied by actions aimed at making process integration more efficient. The new organisational configuration of the Legal and Corporate Affairs Department also forms part of this project.

The project to update the information systems following the transformation of the Territorial Operating Structures into Business Units (the DESOT Project) was definitively completed.

In Administration, Finance and Control, there was a continuation of process analysis and optimisation activities, including through the extensive application of Lean Organisation methodology, with particular reference to certain administrative and accounting processes. The following measures were also implemented:

- early in 2011, the new organisational configurations of the Credit Management and Finance functions, aimed at further reinforcing the organisational handling of the Group's credit and finance management;
- at the end of 2011, the initiation, within Credit Management, of the project aimed at optimising the credit operating model at Group level.

Work was also begun on analysing and optimising processes through the application of the Lean Organisation methodology in two further areas of the central departments, namely Payroll and Procurement.

Finally, the first half of 2011 was marked, within the Quality, Safety and Environment Department, by the new organisational configuration of Prevention and Protection Service Coordination, with a strengthening of the management of the territory and subsidiaries, aimed at definitively consolidating the organisational changes and the centralisation process carried out at the end of 2009.

Three committees oversee the management of the business:

- Management Committee: is responsible for examining and disseminating policies, strategies and operational planning at Group level, and for encouraging integration between the various structures;
- Steering Committee: examines, every three months, management performance and the progress of projects covered by the balanced scorecard;
- TOS Managers Coordination Committee: is responsible for verifying the performance of the services managed in the territory and for ensuring the consistency of the activities carried out by the various territorial structures.

Industrial relations

Throughout 2011, the Group continued its actions to honour the commitments made when the Supplementary Collective Labour Agreement was signed on 24 March 2010.

The Technical Committee provided for by the Supplementary Collective Labour Agreement drew up and debated systems for harmonising the statutory pay and indemnities of the Hera Group, with a particular focus on transfers, canteen and geographical mobility.

In February, the Safety Observatory (LaborHera) was put into action in order to monitor the relevant initiatives.

In April, the negotiations at Group and territorial level with union representatives resulted in an agreement on current tax benefit rules (detaxation) within the Hera Group in relation to 2011.

Within the framework of the Group objectives following the widening of the canteen service in the Ferrara territory, there was a successful overcoming of the voucher-based use of the system, as in Rimini and Sassuolo.

An agreement was reached with the union bodies in the Bologna territory – under different terms and with significantly lower costs than those provided for by the Group agreement on geographical mobility – on the payments to be made to transferred personnel following the relocation to the Granarolo site of some of the company's structures currently based in the municipality of Bologna.

In the same month, meetings were held with the Group's trade union bodies to present and discuss the company's corporate responsibility and sustainability report.

In May, the Parties agreed on a final calculation of the Group's performance bonuses for 2010 and identified the Group's performance bonus targets for 2011.

In addition, at the same time as the withdrawal of the service, in June an agreement was reached with the union bodies of the Bologna territory with regard to redundancies (Law no. 223/91) for the employees of Hera Luce S.r.l. This agreement guaranteed employment for all the personnel involved.

Meetings were also held with the Group's union bodies in the first half of the year to provide information about waste management services contracts in the Romagna area and about the prospects for public services tenders.

The second half of the year saw the implementation of the planned monitoring of the Group's performance bonus targets for 2011, as provided for by the Supplementary Collective Labour Agreement, through the observatory entitled LaborHera, set up with the union bodies.

Pursuant to the Supplementary Collective Labour Agreement, the Group's training programme for 2011 was presented and an agreement was reached on funded training for Hera S.p.A., Herambiente S.p.A., Hera Comm S.r.l., Uniflotte S.p.A. and Famula On-Line S.p.A.

Hera also collaborated with the employers' organisations in the renewal of the national collective labour agreements for the gas, water and waste management services sector. With regard to the latter, Hera's intervention led to a specific clause on the protection of outsourcing to social cooperation initiatives being inserted into the Federambiente agreement. The clause provides for 5% (this can be increased to as much as 15% within a particular company) of the economic volume (total revenues generated through internal resources) of street-sweeping, waste collection and transportation (excluding transfer activities), cesspit emptying and skip cleaning activities to be exempt from the environmental services national collective labour agreement through the definition of social inclusion projects.

Collaboration continued with the employers' organisations on the overhaul of the grading and organisation system in the Electricity sector and on the regulation, for the entire sector, of the exercising of the right to strike, as well as on the drafting of the constitution and regulations of the medical assistance fund provided for by the Federambiente national collective labour agreement, and with participation in the commissions for comparison of the renewed contracts for the waste management and gas/water sectors.

In October, an important agreement was reached with the Group's union bodies on the subject of work/life balance. Thanks to the "welcome back" policies contained in the agreement and the collaboration of the Diversity Manager, this breaks new ground by giving a new positive charge – including with respect to the provisions of the collective labour agreements applied – to company practices in this area. The agreement, which contains projects aimed at fostering a good family/work balance (long absence management kit, crèches on company premises, training, communication and shared networking), allowed Hera to take part in an invitation to tender (issued by the Ministry for Family Policies) for the financing of the projects.

Further meetings were held with the Group's union bodies to discuss the procedures for identifying dedicated gas services personnel in anticipation of the invitations to tender that will be issued in that sector, on the basis of criteria defined by the Company.

In December, the Group's 2011-2015 business plan was presented to the Confederal and Group trade union bodies.

Finally, in implementation of the provisions of the national agreement of 2 February 2009 on union-related leave time in the gas and water sector, an agreement was reached with the Group union bodies which governs such leave within the Hera Group for the gas, water and electricity divisions.

Twelve strike actions were declared in 2011. Seven one-day strikes were held against government policies. Of these, two were called by CGIL, one by CGIL, CISL and UIL, and four by independent unions. A whole-day strike declared by Filctem CGIL in isolation concerned the renewal of the Federgasacqua collective labour agreement, while three actions taken by FP CGIL, FIT CISL, UILTRASPORTI and FIADEL, in the Environment division, involved 50-minute strikes in response to three fatal occupational accidents in the national territory. A one-hour strike was declared against Hera S.p.A. in the Rimini territory by CGIL and UIL for the gas and water division, on strictly local issues.

Training and development

In relation to the new leadership Model, defined at the end of 2010 with the objective of identifying forward-looking and distinctive manners of conduct for the management of the Hera Group, internally-run training workshops were held for all managers and middle managers. Seminars were held on the first three key elements of the Model, and training was completed for managers and middle managers in how to manage the members of a team. In addition, individual coaching courses and team-building and communication training exercises were conducted as part of the institutional and managerial training programmes.

As part of the Work Force Management project, all of the planned training activities were completed, both for Phase I (pilot for Bologna and Imola-Faenza TOSs) and for Phase II (extension to all other TOSs).

Trainers were provided with both methodological training aimed at supplying teaching methods and learning management – with particular attention to motivational issues and aspects of cultural change related to the technological innovation model introduced by the WFM system – and classroom technical training aimed at acquiring a working knowledge of the system. This technical training comprises a basic module aimed at ensuring uniform knowledge of the system and its operating processes, and specialist modules aimed at acquiring the individual functions required to manage event intervention, and works management and maintenance.

The WFM Project Forum was set up at the end of 2010 to provide effective support for change management, to share and make transparent useful information for users involved in the change process, to facilitate the initiation and maintenance of relations between expert users, to encourage remote teamwork, and to enable any problems in the management of the training process to be overcome.

Initially, only the key users and trainers of the Bologna and Imola-Faenza pilot TOS Business Units were trained up; the key users and trainers from the other TOS Business Units were trained up at a later stage.

At 31 December 2011, the WFM forum had 271 key users, 3,708 views, 292 messages and 98 discussions.

Training activities that are mandatory by law (fire-fighting, first aid, etc.) continued throughout 2011. One of the most successful initiatives was the emergencies training. A total of 110 employees took part, including prevention and protection service managers and employees, site managers, emergency team managers and coordinators of multi-site emergencies.

In the area of waste management services, operational training on the new waste-traceability system – SISTRI – continued and was completed in May. This was provided in the form of sequential internal training: internal facilitators were identified within each area and trained to impart to their local colleagues practical and operational knowledge regarding the entry into force of the new system. Around 250 people took part in this training.

Again in the waste management field, a seminar was held in Rimini on 19 and 20 May on “The new features of Part IV of the Environment Code”, organised jointly by Hera S.p.A. and Herambiente. Over the two days, more than 200 people took part in the event, including managers and specialists from the Environment and Networks sectors.

In 2011, the intense training activity and professional refresher courses continued for both technical and operating staff, as did specific activities aimed at maintaining and enhancing the operating skills required for activities that are deemed to be critical from the point of view of service quality, safety and potential environmental impacts.

A survey of satisfaction with internal services was conducted on a significant sample of the Company population, with the aim of investigating the degree of perceived satisfaction with facility management, internal catering, Help Desk and information systems Application Maintenance services. The survey made it possible to identify some areas for improvement and to prepare improvement actions, which were quickly put into practice in the months following the survey.

There were around 35,938 participants in training activities, and 96% of Group employees were involved in at least one training activity.

The total financial investment incurred in 2011, excluding costs associated with trainee staff and internal trainers, was €757,269, slightly higher than the figure of €753,235 seen in the previous year.

These figures highlight the Hera Group's significant commitment, in terms of both money and other resources, to continually developing and maximising the potential of its employees.

Type of Training	Person-hours
Professional and specialist training	60,046
Quality, safety and environment	48,798
Institutional and managerial training	38,303
IT	27,945
Total	175,092

The Graduate Programme, which began in 2004, continued in 2011. It aims to recruit young graduates with excellent professional potential. Since the first year of the project, 138 graduates have been recruited into the Group. 60 young graduates took part in the selection assessment in 2011; of these, 15 were recruited and took part in the institutional training programme, which provides for a specific induction course and a basic management course.

A Potential Development Programme has been running since 2008, with the aim of maximising the potential of the Group's existing young employees.

The Programme includes all members of the 2004, 2005 and 2006 Graduate Programmes, as well as other young employees with similar qualities and qualifications.

2011 saw the second edition of the Programme, which involved 94 members of the 2007 and 2008 Graduate Programmes, as well as other young employees with similar qualities and qualifications.

Starting in July, the employees first underwent a motivational and orientation interview before taking part in an Assessment Development Centre, during which an evaluation was made of the professional growth potential of each employee.

On the basis of the results obtained, individual development courses will be designed, and these will be subject to periodic monitoring.

1.09 Information systems

During 2011, the Hera Group's information systems followed the path mapped out by the business plan, operating in accordance with the following guidelines: satisfying business requirements effectively, consolidating the operating efficiency of the Hera Group's companies and business units, and adapting promptly to sector norms.

The contribution made by the information systems to the Hera Group's business in 2011 is shown by the following key indicators:

- more than 17 million bills issued, of which over 250,000 were sent electronically – a 50% increase on 2010
- more than 4,000 online tenders managed
- approximately 120,000 emergency calls
- more than 4.8 million active contracts for five services (electricity, gas, district heating, water, waste management)
- approximately 65,000 km of distribution network handled on the system (electricity, gas, district heating, water)
- 3.8 million service requests, managed through four channels
 - call centres
 - branches
 - mail
 - internet

Some important results were achieved in 2011, such as:

- Obtaining of ISO 9001 certification, which attests to the quality of the processes and activities carried out by Famula On-Line
- Start-up of the Document Management System for the Hera Group
- Completion of important improvement actions scheduled in 2011 in relation to the internal Help Desk and Application Maintenance services on the basis of the results of the Internal Climate and Internal Services surveys
- Compliance with the SLAs relating to the management of infrastructural tickets, which are monitored each month and presented to Hera's senior managers
- Issuing of a large number of Application Maintenance tickets (approximately 11,500, representing 96% of the total), complying with the SLAs relating to the blocking tickets
- Widening and consolidation of the systems architecture and the application map
- Continuation of the integration of subsidiaries and affiliates, with the integration of Akron into the Group systems
- Completion of more than 90 projects, around 30 of which were to cover new requirements emerging during the course of the year, demonstrating the ability of the Information Systems to adapt flexibly to the needs of internal clients.

The following were the most significant projects of 2011, due to their ability to support the business processes and compliance with emerging legislation, with highly innovative and integrated IT solutions:

- Important work continues on updating the information systems to comply with regulatory obligations regarding the separation of distribution and sales processes (software unbundling) and of administrative and accounting processes (accounting unbundling) for companies operating in the electricity and gas sectors (Resolution 11/07 *et seq.*)
- The deployment, in all territories, of the new computerised system for managing the mobile workforce in support of Network maintenance and management activities (Work Force Management) and the design of the Mobile component in support of Emergency activities, to allow direct communication and dialogue with personnel in the field (approximately 450,000 appointments made in the new Diary and 400 Mobile devices in the territory)
- Overhaul of the application area in support of Metering management processes (halving of acquisition times for 230,000 electricity readings, made at the end of each month; 1,000 gas meters with a gauge of > G65 read remotely with a yield of 99.6%)
- Completion of the project for standardisation and extension to all TOSs of the new Group territorial mapping system (65,000 km of managed network)
- Design of the review of the application area in support of the Herambiente processes (“Environmental Systems Upgrade” and “Industrial Accounting” project)
- Update to Resolution 219-10 on the functioning of the Simplified Indemnification System
- Extension of the processes supported by the Distributors Dialogue System (SDD), with particular reference to processes relating to overdue payments
- Assessment aimed at choosing the best software platform for supporting the business processes in the CRM field. This is required to overcome the technological constraints associated with the current solution
- Putting into production of the new bill printing model
- Completion of the project to update the systems to the reorganisation of the Territorial Operating Structures (the TOS reverse spin-off project), having achieved the objective of minimising the impact on normal system activity
- Putting into production of the new system for managing the Group’s investments, from the loading of the draft budget to authorisation to finalisation (around 5,000 investment classification nodes managed)
- Putting into production of the project for implementing a solution in support of Filing processes (involving almost 2,000 users and around 75,000 documents filed in the first month of activation of the new solution)
- Design of the new system in support of Group Health and Safety processes (EHS)

In addition to the projects cited above, the main 2011 projects are noted below, classified according to the following types:

Improving the efficiency of operating processes and support for the Hera Group's new business requirements:

- Steps to optimise existing systems aimed at improving sales processes
- Migration and management of contracts acquired in the default-provider market
- Commercial campaigns
- Switch of seven new municipalities to the TIA waste-management tariff
- Implementation of a tool for automating customer service processes (Mashup)
- Commencement of management, in the Hera Group's information systems, of the water contracts pertaining to the municipalities of Pievepelago (around 2,700 users), S. Agata Feltria, Pennabilli, Talamello and Casteldelci (around 4,800 users)
- Management of Quality and Non-Conformity processes
- Optimisation of Credit management processes
-

Update to sector regulatory requirements (the major ones are listed here):

- Update to Resolution 67-10 on tariff regulation for temporary connections to medium- and low-voltage electricity distribution networks
- Update to Resolution 125-10 on active connections
- Update to Resolution 155-08 on remote reading of gas meters
- Update to EC Regulation 254/09 IFRIC 12
- Update to Resolution 104-10 on managing customer compensation for non-communication
- Integration of SISTRI (waste traceability control system)
- Update to the regulation on the traceability of financial flows relating to contracts for works, supplies and services
- Creation of the report on the Spesometro (Tax Authority measure no. 184182 of 22 December 2010 in relation to goods and services delivered or received)
- Update to tariffs relating to all services managed
- Update to the new VAT rate
- Update to HR regulations

Reduction of technological risk and improvement of security levels:

- Completion of technological upgrade project for non-SAP components
- Update to changes required by security and privacy managers
- Completion of Oracle Upgrade 11 for the SAP components

1.10 Quality, safety and environment

In 2011, the objectives set for the Quality, Safety and Environment Department were achieved with highly satisfactory results, demonstrating the effectiveness of the organisational decision, implemented in 2010, to unify within that department all of the QSE and Prevention & Protection functions present in the territorial structures of the TOS Business Units. This decision strengthened the Group's coordinating role, as reflected mainly in the following results:

- achievement of the important target represented by the first renewal of the certifications of the Hera S.p.A. "integrated" quality, safety and environment management system, with excellent results in terms of improved optimisation of processes;
- obtaining of Emas registration for the Casalegno cogeneration plant in Imola, a result achieved partly thanks to the recognition gained both at national level from the Ecolabel-Ecoaudit Committee and at European level with the nomination for the 2011 European Emas Award;
- obtaining of ISO 14001 certification for the sampling and analysis activities carried out by the Group's Laboratories;
- extension of 9001 certification to energy services by the companies of the Hera Comm Group, already 9001 certified for sales services;
- obtaining of OHSAS 18001 certification for the Herambiente companies, which had already been awarded ISO 9001 and ISO 14001, in addition to numerous EMAS Registrations;
- obtaining of OHSAS 18001 certification for the company Frullo Energia Ambiente;
- obtaining by Famula On-Line of ISO 9001 certification in relation to the design, development, support and delivery of IT services. The process was concluded with the particularly dazzling result of no non-conformities and no observations;
- obtaining by Uniflotte of OHSAS 18001 certification, in recognition of a project to standardise and unify office procedures at the Group's sites. The certification of these activities completes the process begun with Uniflotte's ISO 9001 and ISO 14001 certification.

In 2011, in collaboration with Procurement and Tender Contracts, increased attention was paid to controls on Supplier services, with particular reference to health and safety issues, through a specific training programme for company contact persons, with 1,250 hours of training delivered by the end of the year.

At the same time, internal audits were carried out, with a total of 269 inspections resulting in a reinforcement of the specialisations of the internal resources, encouraging synergies and the dissemination of common operational management procedures across the different sectoral and territorial technical spheres.

All of these measures were in addition to the routine activities planned and carried out by the Quality, Safety and Environment Department for maintenance of the Group's Integrated Management System, such as checks on consistency and QSE conformity of procedures and instructions drawn up by the different company structures, updating of system documentation, QSE Manual, system procedures, and risk assessment and environmental analysis documents.

In 2011, Hera committed itself to the project "A Year for Safety in the Hera Group", an important initiative which will involve all of the Group's 6,654 employees. The aim of the project is to spread a true culture of safety and risk prevention and to improve practices in the workplace and in everyday life. The entire project is managed by a Steering Committee made up of senior managers, and the development of the project will be constantly monitored by a Coordination Group, which will report to the Steering Committee on the progress achieved. Also reporting to this Group is a Scientific Committee consisting of three external occupational health and safety specialists in various disciplines (legal, economic and psychosocial). The Scientific Committee supports the development of the project, establishing and evaluating the consistency criteria and the results achieved on the basis of three main principles:

- 1) organisational/managerial, meaning safety as a responsibility shared throughout the company and to which everyone is required to contribute: from the commitment of strategic senior managers to the behaviour of each individual employee;
- 2) economic/competitive, which means demonstrating, including through concrete examples, the costs and benefits of a correct safety management system;
- 3) communication/cultural, which is the natural complement of the first two principles: it allows information and training channels to be developed which ensure that a culture of safety penetrates the organisation, permeating the areas in which "making safety" creates value for the company and properly highlighting everyone's contribution, so as to increase the tangible and intangible benefits of the commitment made.

"A Year for Safety in the Hera Group" comprises 15 projects, some of which are Group-wide in scope and are therefore centrally managed, while others are assigned to individual territorial structures and may, if the expected results are achieved, also be extended to the territories in a second phase of development of the project.

To date, five projects have been successfully completed. The others, which are still in progress, are expected to conclude by 2012.

Among the impressive results of this initiative, it is worth giving special prominence to the 24% reduction in occupational accidents for Hera S.p.A. compared with the previous year. This is an encouraging result for the multi-utility, confirmed by the same downward trend for both the frequency index (how often an accident happens) and the severity index (how serious the accidents are). The result was achieved thanks to the consolidation of precise quality and safety standards.

The total number of accidents for Hera S.p.A. fell from 254 at the end of 2009 to 215 in 2010, and then further still to 164 in the year just ended. Thus, in the last two years there has been a 35% reduction, while 2010 showed a fall of 24%. The frequency index follows the same downward course, falling from 30.3 in 2010 to 23.4 in 2011, representing a 23% reduction. Finally, the severity index was down by 45%, falling from 1 in 2010 to the current level of 0.55. The overall reduction in the number of days of accident-related absences also follows the same trend, with a 45% fall from 7,097 days in 2010 to 3,930 in this last year. The reduction in accident numbers was even more pronounced in Hera's Bologna Territorial Operating Structure (-31.6%), falling from 57 in 2010 to 39 in 2011. The frequency index fell by 28.3% (from 35.4 to 24.71), while the severity index was down by 57.5% (from 1.2 to 0.51).

The reorganisation of the Quality, Safety and Environment Department was completed with the creation of a single QSE Directorate, consistent with the aim of centralising a delicate role of acquisition, dissemination and interpretation of legal prescriptions with a high impact on the regulatory conformity of management processes.

This had the twofold result of releasing the operating, territorial and central structures from the duty of consulting and investigating the “thematic” rules while also offering them a homogeneous interpretative analysis, widening and qualifying the support given to the technical structures, sectors, central departments and subsidiaries of the Group in defining the impacts of those rules within the various management systems.

During this initial start-up phase, the actions took the form of 80 bulletins aimed at the process managers, the Privacy Directorate, QSE and Prevention & Protection Services, and 15 legal explanations and responses to requests for opinions.

As part of the update of the documentation system, an analysis of conformity with legislation was carried out on 13 procedures and instructions in the integrated QSE management system; in collaboration with Procurement and Tender Contracts, modifications were made to the main types of contracts – for supplies, works and services – to bring them in line with the legislative changes on QSE matters, and in collaboration with Environmental Services, similar modifications were made to active contracts for the sale of waste from collection centres.

A further contribution was made – within the specific context of prevention of environmental crimes, which since August 2011 fall within the scope of application of Legislative Decree no. 231/2001 – by the collaboration in the preparation of a special company Protocol and modification of the disciplinary system.

With regard to Privacy, the Directorate completed the organisational restructuring at Group level by defining and attributing specific management roles for ensuring compliance with the legal prescriptions. There were significant regulatory changes in 2011; these included the elimination of details concerning legal entities from the Privacy Code, and the elimination of the obligation to draft the Security Planning Document (SPD), still contained in a law decree which, when converted, could lead to the significant revision of all material in 2012.

“Personal data protection security measures.”

“In accordance with the provisions of Articles 33 and 34 of Legislative Decree no. 196/03 (known as the Privacy Code) on the subject of security measures aimed at ensuring a minimum protection level for personal data and in compliance with the recommendations in points 19 and 26 of the Technical Specifications in Annex B of the Code, Hera S.p.A., as Proprietor, has drafted and updated the Security Planning Document containing the legally-required information for the reference period.

This document, approved and signed off within the deadline of 31 March this year, is filed at the Company Protocol Office and can also be consulted at DCQSA (Quality, Safety and Environment Department) – Privacy Protection.”

1.11 Performance of the Parent Company in 2011

Pursuant to the national legislation implementing Regulation (EC) No 1606 of 19 July 2002, the financial statements of the Parent Company Hera S.p.A. have been prepared in compliance with IAS/IFRS standards.

The main results attained during the year are presented hereunder:

(€ million)	2010	2011	Abs. Change	% Change
Revenues	1,482.1	1,527.2	45.1	3.0%
EBITDA	306.4	319.9	13.5	4.4%
Operating profit (EBIT)	147.2	153.5	6.3	4.3%
Net profit	124.1	87.8	-36.24	-29.2%

The interpretation of the results must also take into consideration the current set-up of the Group, which sees the distribution of the total result between the Parent Company and the various sales, operational and maintenance companies and specific business units. The decrease in net profit compared with the previous year is attributable, in the main, to the corporate transaction that was concluded in 2010 relating to the sale of 25% of Herambiente S.p.A. which generated a surplus in that year.

A summary is presented below of the reclassified balance sheet and financial position as at 31 December 2011, shown on a comparative basis with the balances as at 31 December 2010:

Analysis of invested capital and sources of financing	31/12/2010	%	31/12/2011	%	Abs. Change	% Change
Net fixed assets	3,286.9	100.6%	3,437.6	104.5%	150.7	4.6%
Net working capital	205.5	6.3%	81.9	2.5%	-123.6	-60.1%
Gross invested capital	3,492.4	106.9%	3,519.5	107.0%	27.1	0.8%
Other provisions	(226)	-6.9%	(231)	-7.0%	-5.3	2.4%
Net invested capital	3,266.5	100.0%	3,288.3	100.0%	21.8	0.7%
Total shareholders' equity	1,684.5	51.9%	1,677.2	52.2%	-7.4	-0.4%
Net financial debt	1,562.4	48.1%	1,534.7	47.8%	-27.7	-1.8%
Sources of financing	3,246.9	100.0%	3,211.9	100.0%	-35.0	-1.1%

Net invested capital increased as at 31 December 2011 by €21.8 million, rising from €3,266.5 million to €3,288.3 million. **Net fixed assets** as at 31 December 2011 amount to €3,437.6 million, an increase of €150.7 million compared with 31 December 2010. The change is connected with the investments made, which are more fully described in the Group's report on operations. **Net working capital** stands at €81.9 million. **Other provisions** increased from €225.9 million to €231.2 million, an increase of €5.3 million. **Shareholders' equity** decreased from €1,684.5 million to €1,677.2 million. In relation to the aforementioned change, the **net financial position** fell from €1,562.4 million as at 31 December 2010 to €1,534.7 million as at 31 December 2011.

1.12 Decisions concerning the Parent Company's results for the financial year

The Shareholders' Meeting of Hera S.p.A.:

- noted the report of the Board of Directors on operations;
- noted the report of the Board of Statutory Auditors;
- noted the report of the Independent Auditors;
- examined the financial statements at 31 December 2011 which end with a profit of €87,816,607.02;

resolved

- to approve the financial statements of Hera S.p.A. for the year to 31 December 2011 and the report of the Board of Directors on operations;
- to allocate the profit of €87,816, 607.02 for the year from 1 January 2011 to 31 December 2011 as follows:
 - €4,390,830.35 to the statutory reserves,
 - €83,425,776.67 to the dividend to shareholders
 - to supplement the dividend to shareholders of €16,925,461.19 by withdrawing it from the Extraordinary Reserves. The total distributable dividend therefore amounts to €100,351,237.86 equivalent to €0.09 per share. The distributable dividend from any treasury shares held at the dividend warrant detachment date shall be appropriated to the Extraordinary Reserves.
- to make the dividend payable from 7 June, with detachment of dividend warrant no. 9 on 4 June 2012.

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2

hera group
consolidated
financial
statements

to december 31 2011

2.01 Consolidated Financial Statements

2.01.01 Income statement

thousands of euro	notes	2011	2010
Revenues	4	4,105,680	3,666,898
Other operating revenues	5	210,189	210,431
Use of raw materials and consumables	6	-2,440,086	-2,140,470
Service costs	7	-870,486	-810,742
Personnel costs	8	-369,996	-361,931
Amortisation, depreciation and allowances	9	-310,325	-291,886
Other operating costs	10	-39,830	-38,821
Capitalised costs	11	49,324	81,903
Operating profit		334,470	315,382
Portion of profits (losses) pertaining to associated companies	12	6,260	5,868
Financial income	13	92,483	91,021
Financial charges	13	-211,987	-206,642
Total financial operations		-113,244	-109,753
Pre-tax profit		221,226	205,629
Taxes for the year	14	-94,471	-63,575
	<i>of which non-recurring</i>	<i>7,567</i>	<i>25,061</i>
Net profit for the year		126,755	142,054
Attributable to:			
Shareholders of Parent Company		104,590	117,218
Minority shareholders		22,165	24,836
Earnings per share	14.1		
basic		0.094	0.106
diluted		0.090	0.106

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate statement of financial position outlined in paragraph 2.02.01 of these consolidated financial statements.

2.01.02 Aggregate income statement

thousands of euro	2011	2010
Net profit/(loss) for the year	126,755	142,054
Fair value of derivatives, change in the period	4,642	7,129
Tax effect relating to other components of the Statement of Comprehensive Income	-1,216	-1,950
Change in the fair value of derivatives for the year for companies measured at equity	307	163
Total comprehensive profit/(loss) for the year	130,488	147,396
Attributable to:		
Shareholders of Parent Company	108,698	122,737
Minority shareholders	21,790	24,659

2.01.03 Statement of financial position

thousands of euro	notes	31-Dec-2011	31-Dec-2010
ASSETS			
Non-current assets			
Tangible assets	15	1,884,476	1,840,232
Intangible assets	16	1,802,521	1,728,498
Goodwill	17	377,760	377,579
Equity investments	18	135,865	135,344
Financial assets	19	11,039	10,912
Deferred tax assets	20	105,503	84,290
Financial instruments - derivatives	21	80,548	40,071
Total non-current assets		4,397,712	4,216,926
Current assets			
Inventories	22	72,761	53,880
Trade receivables	23	1,250,360	1,134,496
Contract work in progress	24	22,390	17,228
Financial assets	25	42,945	46,084
Financial instruments - derivatives	21	40,642	12,796
Current tax assets	26	6,164	3,812
Other current assets	27	211,833	177,795
Cash and cash equivalents	28	415,189	538,226
Total current assets		2,062,284	1,984,317
Non-current assets held for sale	29	10,606	
TOTAL ASSETS		6,470,602	6,201,243

Cont.d

thousands of euro	notes	31-Dec-2011	31-Dec-2010
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	30		
Share capital		1,115,014	1,115,014
-Reserve for own shares at par value		-9,674	-5,940
Reserves		537,538	514,662
-Reserve for own shares exceeding par value		-4,008	-3,105
Reserves for derivative instruments valued at fair value		-8,606	-12,407
Retained earnings (losses)		2,061	2,061
Profit (loss) for the year		104,590	117,218
Group shareholders' equity		1,736,915	1,727,503
Minority interest share		142,431	142,720
Total shareholders' equity		1,879,346	1,870,223
Non-current liabilities			
Loans - maturing beyond the next year	31	2,405,262	2,313,722
Employee leaving indemnity and other benefits	32	91,595	95,643
Provisions for risks and charges	33	227,055	210,968
Deferred tax liabilities	34	76,057	76,143
Financial leasing payables – maturing beyond the next year	35	5,277	8,882
Financial instruments - derivatives	21	17,657	44,082
Total non-current liabilities		2,822,903	2,749,440
Current liabilities			
Banks and other borrowings - maturing within the next year	31	118,467	147,837
Financial leasing payables – maturing within the next year	35	3,683	4,599
Trade payables	36	1,229,242	1,061,003
Current tax liabilities	37	36,998	39,117
Other current liabilities	38	332,253	315,435
Financial instruments - derivatives	21	47,710	13,589
Total current liabilities		1,768,353	1,581,580
TOTAL LIABILITIES		4,591,256	4,331,020
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES'		6,470,602	6,201,243

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate statement of financial position outlined in paragraph 2.02.02 of these consolidated financial statements.

2.01.04 Cash Flow Statement

thousands of euro	31-Dec-2011	31-Dec-2010
Pre-tax profit	221,226	205,630
Adjustments to reconcile net profit to the cash flow from operating activities:		
Amortisation and impairment of tangible assets	126,914	121,138
Amortisation and impairment of intangible assets	106,852	103,088
Effect of valuation using the equity method	(6,260)	(5,868)
Allocations to provisions	77,539	68,578
Financial charges/(income)	119,312	115,782
(Capital gains)/losses and other non-monetary elements (including valuation of commodity derivatives)	(6,751)	(31,532)
Change in provisions for risks and charges	(25,008)	(25,074)
Change in provisions for employee benefits	(6,857)	(8,038)
Total cash flow before changes in net working capital	606,967	543,704
(Increase)/decrease in inventories	(24,043)	(4,467)
(Increase)/decrease in trade receivables	(151,803)	(23,956)
(Increase)/decrease in trade payables	161,691	10,942
(Increase)/decrease in other current assets/liabilities	(14,069)	39,841
Change in working capital	(28,224)	22,360
Dividends collected	2,418	1,527
Interest income and other financial income collected	30,815	20,539
Interest expense and other financial charges paid	(121,246)	(108,768)
Taxes paid	(125,596)	(108,600)
Liquidity generated by operations (a)	365,134	370,762
Investments in tangible fixed assets	(155,400)	(193,085)
Investments in intangible fixed assets	(174,041)	(154,473)
Investments in companies and business units net of cash and cash equivalents	(6,604)	(6,086)
Sale price of tangible and intangible fixed assets	5,987	25,162
Disinvestments in non-consolidated equity investments	5	234
(Increase)/decrease in other investment activities	2,848	(25,877)
Liquidity generated/(absorbed) by investment activities (b)	(327,205)	(354,125)
New issues of long-term loans	50,000	140,000
Repayments of non-current loans	0	0
Repayments and other net changes in loans	(82,229)	18,703
Financial lease fees paid	(5,674)	(5,965)
Collection from sale of shareholdings without loss of control	0	125,532
Purchase of equity investments in consolidated companies	0	(4,125)
Dividends paid out to Hera shareholders and minority interests	(117,242)	(98,284)
Change in treasury shares in portfolio	(5,253)	(4,413)
Other minor changes	(568)	(191)
Liquidity generated/(absorbed) by financing activities (c)	(160,966)	171,257
Effect of change in exchange rates on liquidity (d)	0	0
Increase/(decrease) in liquidity (a+b+c+d)	(123,037)	187,894
Cash and cash equivalents at the beginning of the year	538,226	350,332
Cash and cash equivalents at the end of the year	<u>415,189</u>	<u>538,226</u>

Pursuant to Consob Resolution no. 15519 of 27 July 2006, the effects of relations with related parties on the Cash Flow Statement are disclosed in the special cash flow statement format shown in paragraph 2.02.03 of these consolidated financial statements.

2.01.05 Statement of Changes in Shareholders' Equity

thousands of euro	Share capital	Reserves	Reserves for derivative instruments valued at fair value	Profit for the year	Shareholders' equity	Minority interest share	Total
As at 31 December 2009	1,112,121	472,428	-12,995	71,052	1,642,606	58,125	1,700,731
Profit for the year				117,218	117,218	24,836	142,054
<u>Other elements of comprehensive income as at 31 December 2010:</u>							
fair value of derivatives for the year			5,356		5,356	-177	5,179
change in the fair value of derivatives for the year for companies measured at equity		163			163		163
Total comprehensive profit for the year		163	5,356	117,218	122,737	24,659	147,396
change in treasury shares in portfolio	-3,047	-1,366			-4,413		-4,413
sale of investee shares		52,674	1,578		54,252	71,280	125,532
change in perimeter		99			99	-4,224	-4,125
change in scope of consolidation		-870			-870	873	3
other movements		8,372	-6,346		2,026	-113	1,913
<u>Appropriation of profits for 2009:</u>							
- dividends paid out		-39,410		-49,524	-88,934	-7,880	-96,814
- allocation of retained earnings to reserves		18,640		-18,640	0		0
- allocation to other reserves		2,888		-2,888	0		0
As at 31 December 2010	1,109,074	513,618	-12,407	117,218	1,727,503	142,720	1,870,223
As at 31 December 2010	1,109,074	513,618	-12,407	117,218	1,727,503	142,720	1,870,223
Profit for the year				104,590	104,590	22,165	126,755
<u>Other elements of comprehensive income as at 31 December 2011:</u>							
fair value of derivatives for the year			3,801		3,801	-375	3,426
change in the fair value of derivatives for the year for companies measured at equity		307			307		307
Total comprehensive profit for the year		307	3,801	104,590	108,698	21,790	130,488
change in treasury shares in portfolio	-3,734	-903			-4,637		-4,637
convertible equity bond component		4,894			4,894		4,894
change in perimeter		199			199	-199	0
change in scope of consolidation		26			26	332	358
reimbursement of share capital of investees					0	-676	-676
other movements		111			111	-8	103
<u>Appropriation of profits for 2010:</u>							
- dividends paid out				-99,879	-99,879	-21,528	-121,407
- allocation of retained earnings to reserves		-6,839		6,839	0		0
- allocation to other reserves		24,178		-24,178	0		0
As at 31 December 2011	1,105,340	535,591	-8,606	104,590	1,736,915	142,431	1,879,346

2.02 Financial statements - Resolution 15519 of 2006 - Related parties

2.02.01 Income statement

thousands of euro	Notes	of which related parties							of which related parties						
		31-Dec-2011	A	B	C	D	Total	%	31-dic-2010	A	B	C	D	Total	%
Income Statement															
Revenues	4	4,105,680		27,616	111,483	5,969	145,068	3.5	3,666,898	7	31,909	84,399	6,987	123,302	3.4
Other operating revenues	5	210,189		92	1,862	227	2,181	1.0	210,431	10	94	58	294	456	0.2
Use of raw materials and consumables (net of changes to raw materials inventories and stocks)	6	-2,440,086		-43,943	-46	-38,479	-82,468	3.4	-2,140,470		-37,889	198	-34,676	-72,367	3.4
Service costs	7	-870,486	-3	-7,748	-13,181	-40,251	-61,183	7.0	-810,742	-559	-8,662	-7,915	-38,664	-55,800	6.9
Personnel costs	8	-369,996					0	0.0	-361,931						
Amortisation, depreciation and allowances	9	-310,325							-291,886						
Other operating costs	10	-39,830		-4	-1,062	-783	-1,849	4.6	-38,821		6	-1,431	-1,644	-3,069	7.9
Capitalised costs	11	49,324							81,903						
Operating profit		334,470	-3	-23,987	99,056	-73,317	1,749		315,382	-541	-14,543	75,309	-67,704	-7,478	
Portion of profits (losses) pertaining to associated companies	12	6,260		6,260			6,260	100.0	5,868		5,868			5,868	100.0
Financial income	13	92,483		1,367		179	1,546	1.7	91,021		781		107	888	1.0
Financial charges	13	-211,987				-7	-7	0.0	-206,642						
Total financial operations		-113,244	0	7,627	0	172	7,799		-109,753	6,649	107	6,756			
Pre-tax profit		221,226	-3	-16,360	99,056	-73,145	9,548		205,629	-541	-7,894	75,309	-67,596	-722	
Taxes paid	14	-94,471							-63,575						
of which non-recurring		7,567							25,061						
Net profit for the period		126,755	-3	-16,360	99,056	-73,145	9,548		142,054	-541	-7,894	75,309	-67,596	-722	
Attributable to:															
Shareholders of Parent Company		104,590							117,218						
Minority shareholders		22,165							24,836						
Earnings per share	14.1														
basic		0.094							0.106						
diluted		0.090							0.106						

Key of headings of related parties columns

A Non-consolidated subsidiaries

B Jointly controlled associated companies

C Related companies with significant influence (Municipality shareholders)

D Other related parties, statutory auditors, strategic executives and the Board of Directors

2.02.02 Statement of financial position

thousands of euro	Notes	of which related parties						of which related parties							
		A	B	C	D	Total	%	A	B	C	D	Total	%		
ASSETS															
Non-current assets															
Tangible fixed assets	15	1,884,476						1,840,232							
Intangible assets	16	1,802,521						1,728,498							
Goodwill	17	377,760						377,579							
Equity investments	18	135,865	72	102,389		33,080	135,541	99.8	100	101,851		33,093	135,044	99.8	
Financial assets	19	11,039		10,619			10,619	96.2		10,028			10,028	91.9	
Deferred tax assets	20	105,503													
Financial instruments - derivatives	21	80,548													
		4,397,712	72	113,008	0	33,080	146,160		4,216,926	100	111,879	0	33,093	145,072	
Current assets															
Inventories	22	72,761													
Trade receivables	23	1,250,360	37	13,729	19,425	14,045	47,236	3.8	1,134,496	73	19,840	20,104	13,989	54,006	4.8
Contract work in progress	24	22,390							17,228						
Financial assets	25	42,945		28,147		404	28,551	66.5	46,084		29,313			29,313	63.6
Financial instruments - derivatives	21	40,642							12,796						
Current tax assets	26	6,164							3,812						
Other current assets	27	211,833		2,284	979	16,040	19,303	9.1	177,795	0	209	362	16,887	17,458	9.6
Cash and cash equivalents	28	415,189							538,226						
		2,062,284	37	44,160	20,404	30,489	95,090		1,984,317	73	49,362	20,466	30,876	100,777	
Non-current assets held for sale	29	10,606													
TOTAL ASSETS		6,470,602	109	157,168	20,404	63,569	241,250		6,201,243	173	161,241	20,466	63,969	245,849	

Cont.d

thousands of euro	Notes	of which related						of which related parties							
		parties	A	B	C	D	Total	%	A	B	C	D	Total	%	
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	30														
Share capital		1,115,014						1,115,014							
-Reserve for own shares at par value		-9,674						-5,940							
Reserves		537,538						514,662							
-Reserve for own shares exceeding par value		-4,008						-3,105							
Reserves for derivative instruments valued at fair value		-8,606						-12,407							
Retained earnings (losses)		2,061						2,061							
Net profit for the period		104,590						117,218							
Group shareholders' equity		1,736,915						1,727,503							
Minority interest share		142,431						142,720							
Total shareholders' equity		1,879,346						1,870,223							
Non-current liabilities															
Loans - maturing beyond the next year	31	2,405,262						2,313,722							
Employee leaving indemnity and other benefits	32	91,595						95,643							
Provisions for risks and charges	33	227,055						210,968							
Deferred tax liabilities	34	76,057						76,143							
Financial leasing payables – maturing beyond the next year	35	5,277						8,882							
Financial instruments - derivatives	21	17,657						44,082							
		2,822,903						2,749,440							
Current liabilities															
Banks and other borrowings - maturing within the next year	31	118,467						147,837							
Financial leasing payables – maturing beyond the next year	35	3,683						4,599							
Trade payables	36	1,229,242	-3	12,601	10,755	36,473	59,826	4.9	1,061,003	128	15,010	5,570	23,152	43,860	4.1
Current tax liabilities	37	36,998							39,117						
Other current liabilities	38	332,253		-7	2,381	3,415	5,789	1.7	315,435	0	98	-31	863	930	0.4
Financial instruments - derivatives	21	47,710							13,589						
		1,768,353	-3	12,594	13,136	39,888	65,615		1,581,580	128	15,108	5,539	24,015	44,790	
Total liabilities		4,591,256	-3	12,594	13,136	39,888	65,615		4,331,020	128	15,108	5,539	24,015	44,790	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES'		6,470,602	-3	12,594	13,136	39,888	65,615		6,201,243	128	15,108	5,539	24,015	44,790	

Key of headings of related parties columns

A Non-consolidated subsidiaries

B Jointly controlled associated companies

C Related companies with significant influence (Municipality shareholders)

D Other related parties, statutory auditors, strategic executives and the Board of Directors

2.02.03 Cash Flow Statement

thousands of euro	31-dec-2011	of which related Parties
Pre-tax profit	221,226	
Adjustments to reconcile net profit to the cash flow from operating activities:		
Depreciation and impairment of tangible assets	126,914	
Amortisation and impairment of intangible assets	106,852	
Effect of valuation using the equity method	(6,260)	
Allocations to provisions	77,539	
Financial charges/(income)	119,312	
(Capital gains)/losses and other non-monetary elements (including valuation of commodity derivatives)	(6,751)	
Change in provisions for risks and charges	(25,008)	
Change in provisions for employee benefits	(6,857)	
Total cash flow before changes in net working capital	606,967	
(Increase)/decrease in inventories	-24043	
(Increase)/decrease in trade receivables	(151,803)	6,770
(Increase)/decrease in trade payables	161,691	15,966
(Increase)/decrease in other current assets/liabilities	(14,069)	5,261
Change in working capital	(28,224)	
Dividends collected	2,418	2,379
Interest income and other financial income collected	30,815	1,446
Interest expense and other financial charges paid	(121,246)	(7)
Taxes paid	(125,596)	
Liquidity generated by operations (a)	365,134	
Investments in tangible fixed assets	(155,400)	
Investments in intangible fixed assets	(174,041)	
Investments in companies and business units net of cash and cash equivalents	(6,604)	(6,580)
Sale price of tangible and intangible fixed assets	5,987	
Disinvestments in non-consolidated equity investments	5	
(Increase)/decrease in other investment activities	2,848	171
Liquidity generated/(absorbed) by investment activities (b)	(327,205)	
New issues of long-term loans	50,000	
Repayments of non-current loans	0	
Repayments and other net changes in loans	(82,229)	
Financial lease fees paid	(5,674)	
Collection from sale of shareholdings without loss of control	0	
Purchase of equity investments in consolidated companies	0	
Dividends paid out to Hera shareholders and minority interests	(117,242)	(51,796)
Change in treasury shares in portfolio	(5,253)	
Other minor changes	(568)	
Liquidity generated/(absorbed) by financing activities (c)	(160,966)	
Effect of change in exchange rates on liquidity (d)	0	
(Increase)/decrease in liquidity (a+b+c+d)	(123,037)	
Cash and cash equivalents at the beginning of the period	538,226	
Cash and cash equivalents at the end of the period	<u>415,189</u>	

2.03 Explanatory notes

2.03.01 Consolidated explanatory notes

Hera Spa (the Company) is a joint-stock company established in Italy and enrolled in the Bologna Companies' Register. The addresses of the registered offices and the locations where the main activities of the Group are carried out are indicated in the introduction to the consolidated financial statement dossier. The main activities of the Company and its subsidiaries (the Group) are described in the Directors' report.

The 2011 consolidated financial statements, comprised of the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and explanatory notes, have been prepared in application of Regulation (EC) No. 1606/2002 of 19 July 2002 in observance of the IAS/IFRS International Accounting Standards (hereinafter the IFRS) approved by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

Sufficient obligatory information to present a true and fair view of the Group's financial and equity position and of the economic result for the year has been provided.

Information on the Group's operations and on significant events after year end is provided in the Directors' report.

The figures in these financial statements are comparable with the same balances of the previous financial year, unless indicated otherwise in the notes commenting on the individual items.

The reclassifications shown below in these explanatory notes are not deemed to be significant for the purposes of balance sheet interpretation.

As of 1 January 2011, the Municipalities of Cesena, Ferrara, Forlì, Imola, Ravenna and Rimini were also considered related companies with significant influence. The tables do not show the associated positions as at 31 December 2010, considering the difficulties related to obtaining said information. However, in view of the ongoing nature of the underlying relations, it is believed said values may reasonably be in line with the same figures as at 31 December 2011.

Non-recurring costs and revenues are indicated separately in the financial statements.

Financial Statements

Unless indicated otherwise below in relation to the cash flow statement, the formats used are the same as those applied for the consolidated financial statements as at 31 December 2010.

A decremental format has been used for the income statement, with individual items analysed by type. We believe that this type of disclosure, which is also used by our major competitors and is in line with international practice, best represents company results.

The statement of financial position makes the distinction between assets and liabilities, current and non-current.

The cash flow statement has been prepared using the indirect method, as allowed by IAS 7. It should be noted that the cash flow statement has been amended with respect to the previous year in order to best represent the actual cash flows in the year in terms of operations and financial and investment management. Following said improvement, for the purposes of consistency, the figures from the previous year were reclassified so that the data can be directly compared.

The statement of comprehensive income is presented in a separate document from the income statement, as permitted by IAS 1 revised.

The statement of changes in shareholders' equity has been prepared as required by IAS 1 revised.

Moreover, with reference to Consob resolution no. 15519 of 27 July 2006 on financial statements, specific supplementary formats of income statement, statement of financial position and cash flow statement have been included, while highlighting the most significant relations with related parties, in order to avoid altering the overall clarity of the financial statements.

The general principle adopted in preparing these consolidated financial statements is the cost principle, except for the financial assets and liabilities (including the derivative instruments), which were measured at fair value.

In drawing up the consolidated financial statements, management was required to use estimates; the major areas characterised by valuations and assumptions of particular significance together with those having notable effects on the situations presented are provided in the paragraph "Significant estimates and valuations".

The consolidated statement of financial position and income statement schedules and the information included in the explanatory notes are expressed in thousands of Euro, unless otherwise indicated.

These consolidated financial statements, drawn up according to the IAS/IFRS principles, have been audited by PricewaterhouseCoopers Spa.

These consolidated financial statements as at 31 December 2011 were drawn up by the Board of Directors and approved by the same at the meeting held on 22 March 2012.

Scope of consolidation

The consolidated financial statements as at 31 December 2011 include the financial statements of the Parent Company Hera Spa and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, in such a way as to obtain benefits from the company's activity.

Small-scale subsidiaries and those in which the exercise of voting rights is subject to substantial and long-term restrictions are excluded from line-by-line consolidation and valued at cost.

Interests comprising fixed assets in large-scale associated companies are valued at equity. Those of an insignificant size are instead carried at cost. Subsidiaries and associated companies that are not consolidated, or valued at equity, are reported in note 18.

Companies held exclusively for future sale were excluded from consolidation and valued at cost or fair value, net of sales costs, whichever is the lesser. These investments are recorded as separate items.

Equity investments in joint ventures, in which the Hera Group exercises joint control with other companies, are consolidated with the proportional method reporting the assets, liabilities, revenues and costs on a line-by-line basis in a measure that is proportional to the Group's investment.

Changes in the scope of consolidation

Subsidiaries

<i>Consolidated companies</i>	<i>No longer consolidated companies</i>	<i>Notes</i>
	Hera Comm Mediterranea Srl	merged by incorporation into Hera Comm Srl
	SIS Società Intercomunale di Servizi Spa	winding up of the company resolved

On 1 December 2011, Hera Comm Mediterranea Srl was merged by incorporation in Hera Comm Srl, an operation that had no impact on the consolidated financial statements.

On 27 June 2011, the shareholders' meeting resolved the winding up of SIS Società Intercomunale di Servizi Spa, an investee company of Marche Multiservizi Spa, placing it into liquidation. Following this transaction, the company is measured at equity.

Jointly controlled companies

<i>Consolidated companies</i>	<i>No longer consolidated companies</i>	<i>Notes</i>
Enomondo Srl		Proportionally consolidated

On 16 February 2011, Herambiente Spa purchased an additional 10% stake in the share capital of Enomondo Srl from Caviro Società Cooperativa Agricola, increasing its share to 50%. The amendments to the articles of association following said transaction involve joint control by shareholders and proportional consolidation. Until 31 December 2010, the company was valued using the shareholders' equity method.

Associated companies

<i>New companies valued at equity</i>	<i>Companies no longer valued at equity</i>	<i>Notes</i>
	Adriatica Acque Srl	Consolidated at cost
	Enomondo Srl	Proportionally consolidated
	Dyna Green Srl	Winding up of the company resolved
	Estense Global Service Soc.Cons.arl	Consolidated at cost
	Service Imola Srl	Consolidated at cost

The shareholders' meeting of Dyna Green resolved the winding up of the company on 20 April 2011.

The companies Adriatica Acque Srl, Estense Global Service Scral and Service Imola Srl, were valued at cost in view of their low contribution to the Group's consolidated figures.

A list of the companies included in the scope of consolidation is provided at the end of these notes.

Changes in the scope of consolidation

On 27 April 2011, Hera Comm Srl purchased 50% of the share capital of Sadori Gas Srl.

Effective as of 1 July 2011, the merger by incorporation of Sadori Gas Srl in Hera Comm Marche Srl was completed, bringing about an increase in the latter's share capital, from Euro 1,458,332 to Euro 1,977,332. Following the consolidation of new partner Walter Sadori Srl, the total interest of the Group fell from 76.26% to 69.37%, leading to an increase in the share attributable to minority interests.

The above-mentioned operation involved an outlay of Euro 5,729 thousand. During the Purchase Price Allocation, the fair value measurement of the net assets and liabilities acquired involved the recognition of intangible assets amounting to Euro 8,846, amortised over the current year.

Effective as of 1 June 2011, the paid transfer of Consorzio Cimaf's business unit to Hera Spa was completed, relating to the natural gas distribution service in the municipalities of Fiumalbo, Pievepelago and Riolunato.

Evaluation criteria and consolidation principles

The financial statements used for the preparation of the consolidated statement of financial position and income statement schedules were those which the companies included within the scope of consolidation reclassified and adjusted (on the basis of specific instructions issued by the Parent Company) for the purposes of consistency with the accounting standards and principles of the Group. With regard to associated companies, adjustments to shareholders' equity values were considered in order to adapt them to IFRS principles.

When drawing up the consolidated statement of financial position and income statement schedules, the assets and liabilities as well as the income and expenses of the consolidated companies are included on a line-by-line basis. However, the receivables and payables, income and expenses, gains and losses resulting from operations carried out between companies included in the scope of consolidation have been eliminated. The book value of the equity investments is eliminated against the corresponding portion of investees' shareholders' equity.

On initial consolidation, the positive difference between the book value of the equity investments and the fair value of the assets and liabilities acquired, was allocated to the asset and liability items and on a residual basis to goodwill. The negative difference was immediately recorded in the income statement, as illustrated in the following section "business combinations". This negative difference was recorded in the consolidation reserve only if it related to acquisitions prior to 31 March 2004.

The total of capital and reserves of subsidiaries pertaining to minority interests is recorded within shareholders' equity in the account "minority interests". The portion of the consolidated result relating to minority interests is recorded in the account "Minority shareholders".

Dividends recorded under financial income of the consolidated companies are eliminated during the consolidation process of the relevant companies, against the retained earnings reserves under shareholders' equity. Dividends received from companies measured with the equity method reduce the book value of the investment, but are also a potential indicator of impairment of the equity investment. Dividends declared by companies valued at cost remained accounted for under financial income.

The valuation of the financial statement items has been carried out on the basis of the general criteria of prudence and accruals, with a view to the business as a going-concern. For the purposes of the accounting entries, priority is given to the economic substance of the transactions rather than their legal form.

The same standards and policies applied in the previous accounting period were followed in preparing these consolidated financial statements, taking into account the new accounting standards illustrated in the specific section “accounting standards, amendments and interpretations applied from 1 January 2011”. As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

The transactions with minority shareholders are recognised as “equity transactions.” Therefore, for purchases of additional shares after control is attained, the difference between the cost of acquisition and the book value of the minority shares purchased is allocated to the Group shareholders’ equity.

The criteria and principles adopted are outlined here below.

Tangible assets - Tangible assets are recorded at acquisition or production cost, including accessory costs, or at the value based on expert appraisals of the business assets, if relating to purchased companies, net of the related accumulated depreciation and any impairment. The production cost includes the portion of direct and indirect costs reasonably attributable to the asset (e.g. personnel costs, transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notary fees, land registry expenses). Cost includes any professional fees and, for certain assets, capitalised financial charges up to the moment the asset enters into service. The cost also comprises the costs for reclamation of the site which houses the tangible fixed asset, if it complies with the provisions of IAS 37.

Ordinary maintenance costs are charged in full to the income statement. Improvement, modernisation and transformation costs which increase the value of the assets, are charged to the balance sheet assets concerned.

The book value of tangible fixed assets is subject to assessment so as to identify any losses in value, particularly when events or changes in circumstances indicate that the book value cannot be recovered (for details, see the section “losses in value - impairment”).

Depreciation starts to be applied when the assets enter the production cycle. Work in progress includes costs relating to tangible fixed assets for which the process of economic use has not yet commenced. The tangible fixed assets are systematically depreciated in each accounting period using the economic-technical rates considered representative of the residual possible usefulness of the assets. The following tables contain the depreciation rates taken into account for the depreciation of the assets.

General services	min %	max %
Buildings	0	0
Land	1.5	3
via Razzaboni Mo property complex		
- land	0	0
- buildings	1 - 1,25	2 - 2,5
- external construction work	1.66	3.33
Light construction	5	10
Generic plant	7.5	15
Equipment	5	10
Office furniture and machinery	6	12
EDP machines	10	20
Vehicles and internal means of transport	10	20
Cars	12.5	25
Measurement and laboratory instruments	5	10
Remote control	10	20
- remote control apparatus (RTU)	5	10
- supervision centres	4.16	8.33
- data transmission network (telephone cable)	2.5	5
- data transmission network (fibre optics)	3.33	6.67
Public Lighting	4	8
- type 1 centre	2	4
- type 2 centre	1.25	2.5
- lighting unit (multiple points)	1.25	2.5
- lighting unit (single points/columns)	2	4
- flux controllers	1.25	2.5
- distribution network	1.43	2.86
- votive lighting	1.66	3.33
Electricity substations	3.5	7
Purification service	min %	max %
Land	-	-
Building civil works	1.5	3
Buildings IDAR construction sections	1.5	3
General and specific plant	7.5	15
Specific IDAR plant	5	10
Specific ITFI plant	5	10
Specific plant	5	10
- Purification plant/Civil works	1.66	3.33
- Purification plant	3.33	6.67
Lifting equipment	6	12
Laboratory equipment	5	10
Network	2.5	5
Electricity substations	3.5	7
Equipment	5	10
Furniture	6	12

Gas service	min %	max %
Land	-	-
1st stage pressure reducer stations - Abstraction		
- Buildings	2,50	5,50
- Generic plants	4	15
- Specific plants	2.33	10
2nd stage pressure reducer stations - district - specific plant- user stations	3.13	10
User transformers - Specific plant	3.13	8
Distribution network in steel	1.75	8
Distribution network in cast iron or spheroidal cast iron	1.96	8
Distribution network in PE or PVC	2.5	8
Outlets/Intakes	2.33	8
Meters	4	10
Cathodic protection	3.7	8
Electricity substations - Specific plant	3.5	7

District heating service	min %	max %
Land	-	-
- Production - Buildings	1.92	5.5
- Production - Generic plants	4.5	9
- Production - Specific plants	3.85	9
Distribution network	2.7	8
Meters	2.5	6.67
Heat exchange units	4.5	9
- Boilers	1,43	3.85
- Heat exchangers	2.5	5
- Expansion tanks	1,66	5.56
Pumping stations	-	-
- Electricity substations	2	4
- Generators	2,75	4,55
- Pumps	3,33	6,67
- Electricity substations	3.5	7
Equipment	5	10

- General and specific plant	1,25	2,5
- Disinfection plant	2.5	5
- Pumps	5	10
- Building works	1,43	2.86
Abstraction - Buildings/Civil works	1,25	2.5
Lifting and fresh water stations	-	-
- Buildings/Civil works	1,75	3.5
- General plant	7.5	15
- Specific plant	6	12
- Fresh water plant	4	8
- Disinfection plant	2.5	5
- Transformers	2	4
- Pumps	3.34	6,67
- Tanks	1,25	2,5
- Filtration plant and filters	2,78	5,56
- Generators and blowers	2,28	4,55
- Building works	1,43	2,86
Tanks	2	4
- Disinfection plant	2.5	5
- Building works	1,11	2,22
Pipelines and distribution network	2.5	5
Distribution network in steel, cast iron or spheroidal cast iron	1	2
Distribution network in reinforced cement -PE-PVC	1,43	2,86
Outlets/Intakes and connections	2.22	5
Meters	4	10
Electricity substations - Specific plant	3.5	7
Road vehicles	10	20

Land	-	-
Buildings	1.5	3
MV underground and overhead distribution network	2	4
LV underground and overhead distribution network	2.5	8
HV/MV-LV/MV transformers	2.86	7
- station transformers	2	4
- pole transformers	2.5	5
Connections	2.5	8
Meters	4	10
Tables	1.66	5
Limiting devices	1,66	5
Masonry and single-pole stations	1,66	3.57
Polyfers	1,25	2.5
Receiver stations	1,66	3,33

Land	-	-
Buildings	1.5	3
Secondary building units (warehouse)	1.5	3
General plant	7.5	15
Specific IR plant	5	10
- land	-	-
- buildings	1 - 1,25	2 - 2,5
- fixed plant with real estate pertinency	1,66 - 2	3,33 - 4
- external building works	1,66	3,33
- electricity production plants	2	4
- general plant	2.5	5
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.5	5
- waste-to-energy heater with fluid bed boiler line	3,57	7.14
- steam turbine and electricity production	2.5	5
- waste-to-energy line control systems	5	10
Specific BIOGAS plant. storage + IRE	5	10
- land	-	-
- buildings	1 - 1,25	2 - 2,5
- fixed plant with real estate pertinency	1,66 - 2	3,33 - 4
- external building works	1,66	3,33
- electricity production plants	2.5	5
- CDR packing	2.5	5
- selection, chopping, feeding and sorting plant	2,5 - 3,33	5 - 6,67
- ventilation plant	3,33	6,67
- general plant - stabilisation plant - storage tanks	2.5	5
- control systems	5	10
- containers and bins	5 - 10	10 - 20
- internal handling equipment	4,16	8,33
Specific waste composting plant	5	10
- land	-	-
- buildings	1 - 1,25	2 - 2,5
- fixed plant with real estate pertinency	1,66 - 2	3,33 - 4
- external building works	1,66	3,33
- general plant and lifting equipment	3,33	6,67
- pre-selection plant	2.5	5
- mixing plant	3,33 - 5	6,67-10
- palleting plant	5	10
- energy recovery plant	2.5	5
- screening an refining plant	3,33 - 4,16	6,67-8,33
- weighing plant	2,25	5
- deoxidisation/organic treatment systems	3,33	6,67
- second maturing	5	10
- cumulus turning and internal handling equipment	4,16	8,33
Vehicles and internal means of transport	10	20
Waste containers and equipment	5	10
General equipment	5	10
Snow service equipment	5	10
Sanitary equipment	5	10
Light construction	5	10
Motor vehicles	12.5	25
Controlled landfills	-	-

As required by IAS 16, the estimated useful lives of tangible fixed assets are reviewed each year so as to assess the need to revise them. In the event that the estimated useful lives do not provide a truthful representation of the expected future economic benefits, the relative depreciation schedule must be redefined according to the new assumptions. These changes are made prospectively to the income statement.

Land is not depreciated.

Gains and losses deriving from the sale or disposal of assets are determined as the difference between the sales revenues and the net book value of the assets, and are charged to the income statement.

Leasing - Leasing agreements are classified as financial leases when the terms of the agreement are such that they essentially transfer all the risks and benefits of ownership to the lessee. The assets forming the subject matter of financial leasing agreements are recorded among tangible fixed assets and stated at their fair value as at the date of acquisition, or if lower, at the current value of the minimum payments due for the leasing; they are depreciated on the basis of their estimated useful life on a consistent basis with the assets owned. The corresponding liability vis-à-vis the lessor is recorded in the statement of financial position. The payments for lease instalments are divided up into the principal portion and the interest portion and the financial charges are booked directly to the income statement for the period. All the other leases are considered to be operating leases and the related costs for the lease instalments are recorded on the basis of the conditions set forth in the agreement.

Intangible Assets - Intangible assets which are identifiable and can be monitored, and whose cost can be reliably determined based on the supposition that said assets will generate future economic benefits, are recorded in the accounts. These assets are stated at cost in accordance with the policies indicated for tangible fixed assets and, if they have a defined useful life, they are amortised systematically over the period of the estimated useful life. The amortisation commences when the asset is available for utilisation or in any case begins to produce economic benefit for the business. Work in progress includes costs relating to intangible fixed assets for which the process of economic use has not yet commenced. If the intangible fixed assets have an undefined useful life, they are not amortised but subjected to an annual impairment test, even in the absence of indicators which disclose losses in value.

Research costs are recorded in the income statement; any development costs for new products and/or processes are booked to the income statement in the year they are incurred, if they do not have multi-year use requirements.

Advertising expenses are charged directly to the income statement.

Industrial patent rights and know-how are representative of assets that are identifiable and capable of generating future economic benefits under the Company's control; these rights are amortised over the related useful lives.

Concessions and licences mainly comprise rights for the concession under management of local public services and are amortised on a straight-line basis over either the economic-technical life of the assets granted or the duration of the concession involved, whichever period is shorter. The residual value of the intangible fixed assets which corresponds with the water concessions contributed by the merged companies and/or the spun-off business segments is by contrast amortised in consideration of the average residual management duration in light of the agreements currently in force with the area agencies. The residual value of the intangible fixed assets which corresponds with the concessions for the management of the methane gas distribution networks contributed by the merged companies and/or the spun-off business segments is amortised in consideration of the residual transitory management duration anticipated by current legislation (Letta Decree and Marzano Law).

Concession arrangements in force with grantors and relating to gas distribution, electricity, integrated water cycle and public lighting assets, as envisaged under interpretation IFRIC 12 are accounted for by applying the "intangible asset model", since it was considered that the underlying concession arrangements do not guarantee the existence of an unconditional right in favour of the concessionaire to receive cash or other financial assets. The implementation of IFRIC 12 made it necessary to apply IAS 11 to the same infrastructures, since if the concessionaire constructs or improves an infrastructure that it does not control, the relative construction and improvement services carried out on behalf of the grantor are classified as construction contracts. So, considering that most works are contracted out externally and that on construction activities carried out internally the job margin cannot be identified individually from the benefits included in the remuneration for the service, these infrastructures are reported on the basis of costs actually incurred, net of any contributions paid by the entities and/or private customers.

The intangible assets recognised following a business combination are recorded separately from goodwill if their fair value can be reliably determined.

The gains and losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the book value of the assets; they are recorded in the income statement at the time of disposal.

Business combinations - Business combination transactions are stated by applying the acquisition method, as a consequence of which the buyer acquires the shareholders' equity and takes over the assets and liabilities of the acquired company. The cost of the transaction is shown as the fair value of the transferred assets, liabilities assumed and capital instruments issued in exchange for the control of the acquired company, as at the date of acquisition. The expenses related to the combination are generally recognised in the income statement at the time they are incurred.

Any positive difference between the cost of the transaction and the fair value at the date the assets and liabilities are acquired is attributed to goodwill (subject to impairment tests, as indicated in the paragraph below). If the process of allocating the purchase price shows a negative differential, it is immediately charged to the income statement at the date of acquisition.

Any consideration subject to conditions set forth in the business combination contract is measured at fair value on the acquisition date and considered in the value of the consideration paid for the business combination, for the purposes of calculating the goodwill.

Minority interests on the acquisition date are measured at fair value or according to the pro-quota value of the net assets of the acquired company. The valuation method selected is stated for each transaction.

In the case of business combinations that take place in phases, the equity investment previously held by the Group in the acquired company is revalued at the fair value on the date control was acquired and any resulting profit or loss is recognised in the income statement.

Losses in value - impairment - As of each balance sheet date and when events or situation changes indicate that the book value cannot be recovered, the Group takes into consideration the book value of the tangible and intangible fixed assets in order to assess whether there is any indication that said assets have suffered an impairment. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total of the write-down. The recoverable amount is either the fair value, less sales costs or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the financial flows to which said assets belong. Future cash flows are discounted back at a discount rate (net of taxation) that reflects the current valuation of the market and takes into account the risks associated with the specific business activities.

If the recoverable amount of an asset (or of a cash generating unit) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value that the asset would have had if the write-down had not been made for the loss in value. The write-back of the value is charged to the income statement.

Treasury shares - In application of IAS 32, treasury shares are recognised as a reduction in shareholders' equity. Also, any differences generated by future purchase or sale transactions are recorded directly as changes in shareholders' equity, without passing via the income statement.

Equity investments - Equity investments entered in this item refer to long-term investments.

Equity investments in associated companies - An associated company is a company over which the Group is able to exercise significant influence, (but not control, or joint control), by means of participation in the decisions on the financial and operating policies of the investee company. Investments in associated companies are carried at equity, except in the cases where they are classified as "held for sale", or when they are not of a significant value; in such an event they are carried at cost, with write-downs if necessary based on the results of the impairment test. In accordance with the equity method, the investments are stated in the statement of financial position at cost, as adjusted for the changes subsequent to acquisition in the net assets of the associated companies, net of any losses in value of the individual investments. The additional value of the acquisition cost with respect to the percentage due the Group of the current value of the identifiable assets, liabilities and potential liabilities of the associated company as of the acquisition date is recognized as goodwill. The goodwill is included in the book value of the investment and subject to an impairment test as part of the valuation of the equity investments.

Other equity investments and securities - The other equity investments and securities belong to the category anticipated by IAS 39 “financial assets available for sale” (commented on hereunder in the specific paragraph). They comprise instruments representative of shareholders’ equity and are stated at fair value and booked to shareholders’ equity. When the market price or fair value cannot be calculated, they are assessed at cost and can be adjusted if there are losses of value.

If the reasons for the write-down cease to exist, the investments carried at cost are revaluated within the limits of the write-downs made and the effect is booked to the income statement, or to shareholders’ equity if the investments are held as assets available for sale. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations vis-à-vis the investee company or in any event cover its losses.

As more fully specified hereunder, the financial assets that the Company intends or is able to maintain until maturity are stated at cost, represented by the fair value of the initial payment made in exchange, increased by the transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method.

Receivables and financial assets - The Group classifies financial assets in the following categories:

- assets valued at fair value with matching entry in the income statement;
- receivables and loans;
- financial assets held until maturity;
- financial assets available for sale.

Management determines their classification when they are first recorded.

Financial assets valued at fair value with matching entry in income statement

This category includes the financial assets acquired for short-term trading purposes, in addition to the derivatives, which are described in the specific paragraph below. The fair value of these instruments is determined by referring to the market value on the date the registration period ends. Changes in fair value of the instruments belonging to this category are immediately recorded in the income statement.

Classification under current and non-current reflects management's expectations regarding their trading: current assets include those whose trading is expected within 12 months or those identified as held for trading.

Receivables and loans

The category includes assets not represented by derivative instruments and not listed on an active market, from which fixed or determinable payments are expected. These assets are valued at amortised cost on the basis of the effective interest rate method. Should there be objective proof of indicators of impairment, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future: losses in value determined through impairment tests are recorded in the income statement. If reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from applying the amortised cost if the impairment testing had not been carried out. These assets are classified as current assets, except for the portions accruing after 12 months, which are included amongst the non-current assets.

Financial assets held to maturity

Unlike derivative instruments, these assets are those with a pre-established maturity which the Group intends and is able to keep in the portfolio until maturity. They are classified as current assets if their contractual maturity is expected within the next 12 months. Should there be objective proof of indicators of impairment, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future: losses in value determined through impairment tests are recorded in the income statement. If reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from applying the amortised cost if the impairment testing had not been carried out.

Financial assets available for sale

Financial assets, not represented by derivative instruments, designated expressly as falling within this item or not classified in any of the previous items are included in this category. These assets are valued at fair value, the latter determined by referring to the market prices at the balance sheet date, infra-annual situations or using financial measurement techniques and models, recording their change in value with matching entry in a specific shareholders' equity provision ("provision for assets available for sale"). This provision is recorded in the income statement only when the financial asset is actually sold or, in the case of negative changes, when the value reduction already recorded in the shareholders' equity is found to be unrecoverable. Classification as a current or non-current asset depends on management's plans and on the real negotiability of the security. Those whose sale is expected during the next 12 months are recorded as current assets.

Should there be objective proof of indicators of impairments, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future. The negative value changes previously recorded in the shareholders' equity reserve are transferred to the income statement. The impairment previously booked is restored if the circumstances that brought about its recording no longer exist.

Environmental bonds - The Group is subject to the various environmental regulations issued (Directive 2003/87/EC - Emission Trading; Italian Ministerial Decree 24/05 and subsequent modifications - Green Certificates; Italian Ministerial Decree 20/7/04 - Energy Efficiency Bonds) that require that the obligations established through use of certificates or bonds be observed. Therefore, the Group is obliged to meet a need in terms of grey certificates (emission trading), green certificates and white certificates (energy efficiency bonds).

Developing markets on which these bonds/certificates are handled has also made it possible to initiate a trading activity.

The bonds are valued according to the use they are assigned to.

The bonds held to meet the company's requirement are recorded as assets at cost. The environmental bonds assigned free of charge are initially recorded at a nil value. If the bonds in the portfolio prove to be insufficient to meet the need, a liability is recorded to guarantee adequate coverage when the bonds are delivered to the operator. Securities held for trading are recognized as assets and valued through recognition at fair value in the income statement.

Other non-current assets - These are stated at par value, and possibly adjusted for any losses in value corresponding to the amortised cost".

Trade receivables - These refer to financial assets deriving from commercial goods and services supply transactions and are valued at amortised cost, adjusted for impairment. Furthermore, these assets are eliminated in the event of sale which transfers all risks and benefits associated with their management to third parties.

Contract work in progress - When the result of a contract can be reliably estimated, contract work in progress is valued on the basis of the contractual payments accrued with reasonable certainty, on a percentage of completion basis (cost-to-cost), so as to allocate the revenues and the economic result of the contract to the pertinent individual accounting periods, in proportion to the stage of completion of the work. The positive or negative difference between the value of the contracts and the advance payments received is recorded respectively among the statement of financial position assets or liabilities. Contract revenues, in addition to the contractual payments, include the variations, the price review and the recognition of the incentives up to the extent it is probable that they represent effective revenues which can be determined reliably.

When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred. When it is probable that the total contract costs will be greater than the contractual revenues, the expected loss is immediately stated at cost.

Inventories - Inventories are recorded at purchase cost, including directly chargeable related costs, or net estimated realizable value, whichever is the lower. Cost is determined on the basis of average cost weighted on a continual basis. The net realisable value is calculated on the basis of the current costs of the inventories at year end, less the estimated costs necessary for achieving the sale.

The value of obsolete and slow-moving stock is written down in relation to the possible use or realization, by means of the provision of a specific materials obsolescence allowance.

Inventories of work in progress and finished products are valued at weighted average manufacturing cost for the period, which comprises the raw materials, the consumables and the direct and indirect production costs excluding general expenses.

Cash and cash equivalents - The item relating to liquid funds and cash equivalents includes cash and bank current accounts and deposits repayable on demand and other short-term financial investments with high liquidity that are readily convertible into cash and are subject to an insignificant risk regarding their change in value.

Financial liabilities - This item is initially stated at cost, corresponding to the fair value of the liability net of the transaction costs which are directly attributable to the issue of said liability. Following their initial recognition, financial liabilities, with the exception of derivatives, are valued on the basis of amortised cost, using the original effective interest rate method.

Employee leaving indemnity and other benefits - The liabilities relating to the defined-benefits plans (such as employee leaving indemnities - TFR) are calculated net of any assets serving the plan on the basis of actuarial suppositions and on an accruals basis in line with the employment services necessary for obtaining the benefits; the valuation of the liability is checked by independent actuaries. The portion of net cumulative value of the actuarial gains and losses exceeding the current obligation value by 10% for benefits defined at the end of the previous year is amortised over the remaining average working life of the employees (corridor method). Following the Italian Finance Bill no. 296 of 27 December 2006, companies with more than 50 employees and for quotas accrued as of 1 January 2007, the TFR is a defined benefit plan.

Provisions for risks and charges - The provisions for risks and charges comprise the amounts set aside as recorded in the financial statements on the basis of current obligations (as emerging from past events) which the Group believes it probably will have to meet. The provisions are set aside on the basis of the best estimate of the costs required to meet the fulfilment, as of the balance sheet date (with the assumption that there are sufficient elements for being able to make this estimate) and are discounted back when the effect is significant and the necessary information is available. In such event, the provisions are determined by discounting back the future cash flows at a pre-taxation discount rate that reflects the current market valuation and takes into account the risk associated with the business activities.

When the discounting back is carried out, the increase in the provision due to the passing of time is recorded amongst the financial charges. If the liability is associated with a tangible asset (such as the recovery of sites), the provision is recorded as a matching entry to the asset to which it refers and the recording of the charge in the income statement takes place by means of the depreciation process of the tangible fixed asset to which the charge refers. The methods envisaged by IFRIC 1 are adopted if liabilities are recalculated.

Trade payables - These refer to commercial supply transactions and are recorded at amortised cost.

Other current liabilities - These concern sundry transactions and are stated at par value, corresponding to the amortised cost.

Derivative financial instruments - The Group holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate and exchange rate fluctuations and the risk of changes in methane gas and electricity prices. In relation to said activities, the Group must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas linked to the sale of said commodities. The instruments used for handling price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, are carried out through commodity-swap agreements, aimed at pre-establishing the effects on the sales margins irrespective of the changes in the aforementioned market conditions.

The transactions which, in observance of the risk management policies, satisfy the requisites laid down by the accounting standards for hedge accounting treatment are classified as "hedging" (recorded in the terms indicated below), while those which, despite being entered into for hedging purposes, do not satisfy the requisites required by the standards, are classified as "trading". In this case, the fair value changes of the derivative instruments are recorded in the income statement during the period when they take place. Fair value is determined on the basis of the market reference value.

For recording purposes, the hedging transactions are classified as “fair value hedges” if they cover the risk of fluctuations in the market value of the underlying asset or liability; or as “cash flow hedges” if they cover the risk of changes in financial flows deriving both from an existing asset or liability, or from a future transaction, including transactions on commodities.

As far as derivative instruments classified as fair value hedges are concerned, which observe the conditions for the accounting treatment as hedging transactions, the gains and losses deriving from the determination of their market value are booked to the income statement. The gains and losses deriving from the adjustment to fair value of the element underlying the hedge are also booked to the income statement.

For instruments classified as cash flow hedges and that qualify as such, the fair value changes are recorded in a special shareholders' equity reserve called "cash flow hedge reserve" but only referring to the "effective" amount, through the statement of comprehensive income. This reserve is then recorded in the income statement at the time of economic manifestation of the underlying hedged object. The change in fair value referring to the ineffective portion is immediately recorded in the income statement of the period. If the underlying transaction should no longer be considered highly probable, or the hedging relationship can no longer be demonstrated, the corresponding portion of the “cash flow hedge reserve” is immediately recorded in the income statement.

If, on the other hand, the derivative instrument is sold and therefore the hedging of the risk for which the transaction was created no longer qualifies as effective, the amount of “cash flow hedge reserve” relating to it is kept until the economic effects of the underlying contract arise.

Derivatives incorporated within financial assets/liabilities are separated off and independently assessed at fair value, except for those cases where, in accordance with the provisions of IAS 39, the exercise price of the derivative instrument as at the starting date is close to the value calculated on the basis of the amortised cost of the reference assets/liabilities. In such case, the measurement of the incorporated derivative instrument is absorbed in the measurement of the financial assets/liabilities.

Assets and liabilities held for sale - Assets and liabilities held for sale whose value will be recovered mainly through sale rather than use. Assets and liabilities are classified into said category the moment the sale of the group of assets is considered highly likely and the assets and liabilities are immediately available for sale in the condition they are found in.

Assets held for sale are valued at cost or fair value, net of sales costs, whichever is the lesser.

Grants - Capital grants are stated in the income statement over the period necessary for correlating them to the related costs; they are represented in the statement of financial position by recording the grant as deferred revenue. Operating grants, including those received from users for connection purposes, are considered to be revenues for services carried out during the accounting period and are therefore recorded on an accruals basis.

Revenue recognition - Revenues and income are stated net of returned items, discounts and rebates, and net of taxes directly related to the sales of products and services rendered. They are broken down into revenues deriving from operating activities and financial income which accrues between the sale date and the payment date.

Specifically:

- the revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels);
- revenues from services rendered are recognised on the basis of services provided and in compliance with the relevant contracts;
- revenues from the sale of goods are recognised at the time the Group transfers the significant risks and benefits associated with ownership of the assets to the purchaser;
- costs are stated in accordance with the accruals principle.

Financial income and charges - Financial income and charges are recognised in accordance with the accruals principle. Dividends from “other companies” are recorded in the income statement, at the time the right to receive payment is established.

Income taxes for the year represent the sum of current and deferred taxes.

Current taxes are based on the taxable income for the year. Taxable income differs from the result recorded in the income statement, as it excludes positive and negative components which will be taxable or deductible in other years, and excludes items which will never be taxable or deductible. Current tax liabilities are calculated using current tax rates in force at the balance sheet date, and are recorded under the item “income taxes payable”.

In calculating the taxes for the year, the Company duly considered the effects deriving from the IAS tax reform introduced by Italian Law No. 244 of 24 December 2007, and in particular the enhanced principle of derivation set forth under Article 83 of the FCA that now envisages that “the criteria of qualification, time allocation and classification in the financial statements envisaged by the international accounting standards” apply to parties that apply the international accounting standards, also in derogation of the provisions of the FCA.

Deferred taxes are calculated having regard to the temporary differences in taxation, and are recorded under item “deferred tax liabilities”. The deferred tax assets are recorded to the extent in which their existence is considered probable in the years when their temporary differences will be reversed of a taxable income at least equal to the amount of the differences that will be offset.

Deferred and prepaid taxes are determined on the basis of the tax rates in force at the time the temporary differences are recorded. Any variations, as a result of amendments to taxes and/or to rates, will be recorded in the year in which the new provisions will come into force and will become effectively applicable. These changes are charged to the income statement, or the shareholders’ equity, depending on how the difference was originally charged.

Translation of foreign currency balances - The functional and reporting currency adopted by the Group is the Euro. Foreign currency transactions are initially recorded using the exchange rate in force as of the transaction date. Foreign currency assets and liabilities, with the exception of fixed assets, are recorded using the exchange rate in force as at the period end date and the related exchange gains and losses are duly charged to the income statement; any net gain that might arise is set aside in a specific restricted reserve until the date of realization.

Earnings per share - The earnings per share are represented by the net profit for the year attributable to the shareholders holding ordinary shares, taking into account the weighted average of the ordinary shares in circulation during the year. The diluted earnings per share are obtained by means of the adjustment of the weighted average of the shares outstanding, taking into account all the potential ordinary shares with dilution effect.

Transactions with related parties - Transactions with related parties take place on an arms'-length basis, in observance of efficiency and economic criteria.

Accounting standards, amendments and interpretations applicable from 1 January 2011

Starting from 1 January 2011, the following accounting standards and interpretations shall be compulsory as they have already concluded the EU endorsement process.

Amendments to IAS 32 - Financial Instruments: disclosure (regulation 1293/2009). These changes specifically refer to the classification of rights issues (warrants, options).

Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" (regulation 574/2010), limited exemption from comparative disclosures for first-time adopters envisaged under IFRS 7.

IAS 24 revised - "Related Party Disclosures" (Regulation 632/2010). The amendment clarifies the definition of "related party" and simplifies the information required in the case of transactions with related parties controlled by the Government.

Amendment to IFRIC 14 "Prepayments of a minimum funding requirement" (Regulation 633/2010). The objective of the amendments is to eliminate an undesired consequence of IFRIC 14 if the entity, subject to a minimum funding requirement, prepays contributions for which under specific circumstances the entity which makes the prepayment would have to record an expense. If a defined pension plan is subject to a minimum funding requirement, the change to IFRIC 14 sets forth that this prepayment be accounted for as an asset, as for any other prepayment.

IFRIC 19 "Extinguishing financial liabilities with equity instruments" (Regulation 662/2010). The purpose of this interpretation is to provide guidance on the debtor's measurement of equity instruments issued to entirely or partially extinguish a financial liability following a renegotiation of the related conditions.

On 6 May 2010, the International Accounting Standards Board (IASB) published “Improvements to the International Financial Reporting Standards,” subsequently adopted by the European Union under Regulation 149/2011. These Improvements mainly involve amendments to the existing International Accounting Standards:

- Improvement IFRS 3 “Business combinations”: this amendment clarifies that third party equity interests which do not give the holders the right to receive a proportional share of the subsidiary’s shareholders’ equity must be measured at fair value or as required by the applicable accounting standards. The issue of share based payments which are replaced as part of a business combination is also further clarified, with a specific guide for their accounting treatment.
- Improvement IFRS 7 “Financial instruments - supplementary disclosures”: the amendment provides clarifications on the interaction between disclosures of a qualitative and of a quantitative nature in regard to the risks inherent in financial instruments. Furthermore the requirement for disclosure of expired financial assets that have been renegotiated or written-down has been eliminated.
- Improvement IAS 1 - “Presentation of the Financial Statements”: the amendment requires that a reconciliation of the changes in the individual components of equity be presented in the notes or financial statements.
- Improvement to IAS 34 “Interim Financial Reporting”: this amendment contains clarifications about additional disclosures required for the preparation of the interim financial statements.

Accounting standards, amendments and interpretations endorsed by the European Union which are not yet applicable and have not been adopted early by the Group.

Starting from 1 January 2012, the following amendment to the accounting standards shall be applicable as it has already concluded the EU endorsement process:

Amendments to IFRS 7 “Financial instruments: supplementary disclosures”, the amendment, applicable to financial statements for years starting on or after 1 July 2011, promote transparency in the information presented in the financial statements on transfers (derecognition) of financial assets in the portfolio, improving disclosures on the risks which remain for the entity that performed the transfer and the effects on the financial position, especially if said transfers are carried out at the end of an accounting period.

It is believed that the adoption of said amendments and improvements will not significantly affect the financial statements of the Group.

Accounting standards, amendments and interpretations still not endorsed by the European Union

The following amendments to IFRSs (already approved by the IASB) and the following interpretations and amendments are in the process of being endorsed by the competent bodies of the European Union:

- **IFRS 9** “Financial Instruments”, published by the IASB on 12 November 2009 and subsequently amended on 28 October 2010. With effect from 1 January 2015, this standard is the first part of a process taking place in phases for the replacement of IAS 39 and introduces new criteria for the classification of financial assets and liabilities and for the derecognition of financial assets.
- Amendments to **IFRS 7** “Financial instruments: Supplementary disclosures”, published by the IASB on 16 December 2011 and applicable from 1 January 2013, requires more information on the effects of asset and liability offsetting on the financial position.
- Amendments to **IAS 12** “Income taxes”, published by the IASB on 20 December 2010 and applicable from 1 January 2012, clarifies the method of calculation of deferred taxes in the event of real estate investments measured at fair value based on IAS 40.
- Amendments to **IFRS 1** “First-time Adoption of International Financial Reporting Standards”, published by the IASB on 20 December 2010 and applicable from 1 July 2011.
- Amendments to **IFRS 10** “Consolidated financial statements”, published by the IASB on 12 May 2011 and applicable from 1 January 2013. The standard sets out new criteria for drafting the consolidated financial statements.
- Amendments to **IFRS 11** “Joint arrangements”, published by the IASB on 12 May 2011 and applicable from 1 January 2013, redefines the method of accounting of joint ventures in the consolidated financial statements.
- **IFRS 12** “Disclosure of interests in other entities”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013, expands the information required regarding various types of investments.
- **IFRS 13** “Fair value measurement”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013, provides a unique definition of the fair value concept, clarifying the calculation methods for financial statement purposes.
- **IAS 27** Revised “Separate financial statements”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013.
- **IAS 28** Revised “Investments in associates”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013.
- **IAS 1** “Presentation of the financial statements”; published by the IASB on 16 June 2011 and effective as of 1 July 2012, modifies the presentation of the statement of comprehensive income, requiring a separate indication of components depending on whether said items can then be reclassified to the income statement or not.
- **IAS 19** “Employee benefits”, published by the IASB on 16 June 2011 and applicable from 1 January 2013, eliminates the possibility of applying the corridor method, requiring the recognition in the income statement of the cost of employment and financial interests and recording in the statement of comprehensive income of the entire amount of actuarial gains and losses. Furthermore, the method of calculating the interest cost was modified.
- **IFRIC 20** - “Stripping costs in the production phase of surface mines”, published by the IASB on 19 October 2011 and applicable from 1 January 2013.
- Amendments to **IAS 32** “Financial instruments: disclosure”, published by the IASB on 16 December 2011 and applicable from 1 January 2014.

Risk management

Credit risk

The Group is active in business areas characterised by a low credit risk, given the nature of the activities carried out and considering that the credit exposure is distributed on a large number of clients. The reference market is the Italian market. Assets are recognised in the financial statements net of any write-downs determined on the basis of the default risk of the counterparties, taking into account the information available on solvency and the historical data.

Liquidity risk

The liquidity risk to which the Group is exposed may arise from difficulties in obtaining, in a timely manner, loans in support of operations. Cash flows, financing needs and the liquidity of the Group's companies are centrally monitored or managed, under the control of the Group's Treasury Department, for the purpose of ensuring an efficient and effective management of financial resources.

The financial planning of requirements, focused on medium-term borrowings, and the availability of abundant funds in credit facilities, allow effective management of liquidity risk.

Exchange rate risk and interest rate risk

The Group is not subject to exchange rate risk as it operates almost exclusively in the Italian market, both in relation to the sale of its services and the procurement of goods and services. As for interest rate risk, the Group regularly assesses its exposure to the risk of interest rate fluctuations and manages this risk by means of derivative financial instruments, in accordance with its risk management guidelines. Under these guidelines, the use of derivative financial instruments is restricted to the management of exposure to interest rate fluctuations related to cash flows and balance sheet assets and liabilities. These policies do not enable speculative activities to be carried out.

Fair Value Hierarchy

IFRS 7 requires classification of financial instruments measured at fair value in a three-level hierarchy based on the way the fair value was determined, i.e., with reference to the factors used in determining the value:

- level 1, financial instruments the fair value of which is determined on the basis of quoted prices in active markets;
- level 2, financial instruments the fair value of which is determined using valuation techniques that employ parameters that are directly or indirectly observable on the market. Instruments valued on the basis of the market forward curve and short term differential contracts are classified in this category;
- level 3, financial instruments the fair value of which is determined using valuation techniques that employ parameters that cannot be observed on the market, using internal estimates exclusively. The Group does not currently own any instruments that fall into this category.

Significant estimates and valuations

Use of estimates

Preparation of the consolidated financial statements and related notes requires the use of estimates and valuations by the directors, with effects on the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below. Specific information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

Impairment of goodwill

The Group carries out an analysis of the recoverable value of goodwill (impairment test) at least once a year. This test is based on the calculation of its value in use, which requires the use of estimates, as specified in paragraph 18 of these notes.

Allocations to provisions for risks

These provisions have been made by adopting the same procedures as previous years and hence by referring to the updated reports of the legal counsel and the consultants overseeing the disputes, as well as on the basis of developments in the related proceedings. The paragraph relating to provisions for risks sets out the assumptions used to estimate the provision for risks relating to INPS (Social Security) disputes.

Recognition of revenues

Revenues for the sale of electricity, gas and water are recognised and accounted for at supply and include the allocation for services rendered between the date of the last reading and the end of the financial year, but still not billed. This allocation is based on estimated of the customer's daily consumption, based on the historic profile, adjusted to reflect the weather conditions or other factors which might affect consumption under evaluation.

Deferred tax assets

Accounting for prepaid taxes takes place on the basis of expectations of taxable income in future years. The valuation of the taxable revenue expected for the purposes of accounting for prepaid taxes depends on factors that may vary over time and significantly affect the recoverability of the receivables from prepaid taxes.

Depreciation and amortisation

Amortisation and depreciation is calculated on the basis of the useful life of an asset. The useful life is determined by Management at the time the asset is recognized in the balance sheet; valuations of the duration of useful life are based on historical experience, market conditions and the expectation of future events that could affect the useful life itself, including technological changes. Therefore, it is possible that the actual useful life could differ from the estimated useful life.

Summary of reclassifications

Shown below are the effects on the statement of financial position as at 31 December 2010 generated by the reclassification of direct tax credits and payables (IRES, IRAP and substitute tax) under the specific items “Current tax assets” and “Current tax liabilities”. These reclassifications will be analysed further in detail in the notes that follow.

	<i>31-Dec-2010</i>	<i>2010</i>	<i>31-dec-2010</i>
	<i>Published</i>	<i>Reclassifications</i>	
BALANCE SHEET			
Current assets			
Current tax assets	0	3,812	3,812
Other current assets	181,607	-3,812	177,795
Current liabilities			
Tax payables	124,502	-124,502	0
Current tax liabilities	0	39,117	39,117
Other current liabilities	230,050	85,385	315,435

4 Revenues

	2011	2010	Changes
Revenues from sales and services	4,100,408	3,668,563	431,845
Change in contract work in progress	5,216	-1,751	6,967
Change in inventories of finished products	56	86	-30
Totale	4,105,680	3,666,898	438,782

Please see the Directors' Report for the analysis of sales trends by business sector and the note providing information by business area.

Revenues are achieved mainly in Italy.

5 Other operating revenues

	2011	2010	Changes
Long-term contracts	143,558	135,169	8,389
White certificates	17,691	15,478	2,213
Operating grants and grants for separated waste collection	16,276	14,844	1,432
Use and re-assessment of provisions	5,459	14,950	-9,491
Capital grants	3,890	3,674	216
Costs reimbursed	3,095	2,897	198
Grey certificates	2,829	3,632	-803
Insurance reimbursements	2,252	1,211	1,041
Sale of materials and stock to third parties	1,886	793	1,093
Leases	1,477	1,458	19
Capital gains on sales of goods	301	6,088	-5,787
Other revenues	11,475	10,237	1,238
Total	210,189	210,431	-242

The most substantial changes with respect to the same period of the previous year are described below.

"Long-term construction contracts" include revenues generated from the construction or improvement of infrastructures held under a concession arrangement, in application of IFRIC 12.

"White certificates" and "Grey certificates" show the revenues recorded for the Compensation Fund of the electricity sector, after energy goals were attained (white certificates) and for the Ministry for the Environment, for the grey certificates mainly pertaining to the cogeneration plant in Casalegno. Specifically, in relation to the latter plant, Law Decree no. 72 of 20/5/2010, later converted with Law no. 111 of 19 July 2010, established that the plants that do not receive free allocation of permits are entitled to monetary repayment.

"Operating grants and grants for separated waste collection".

Operating grants, amounting to Euro 3,905 thousand in 2011 (Euro 893 thousand in 2010) are mainly comprised of:

- reimbursement of expenses incurred for the provision of the protection service at the chemical hub of Terni, Euro 1,242 thousand, based on the resolution from the Authority for Electrical Energy and Gas (resolution ARG/elt 163/11);
- incentives paid by GSE for the production of electricity from renewable sources, amounting to Euro 1,405. This item recorded an increase over 2010 (Euro 757 thousand) due to the entry into operation of 3 new plants.

The contributions from separate waste collection, amounting to Euro 12,371 thousand in 2011, (Euro 13,951 in 2010), are made up mainly of the value from packaging (cardboard, iron, plastic and glass) transferred to the consortia of the Conai chain and electrical and electronic equipment sold to Raee (electrical and electronic waste collection centre).

The decrease compared with the previous year is due to the combined effect of:

- paper and cardboard packaging sold in 2011 in the unregulated market and, therefore, recorded in revenues, saw a decrease of Euro 3,019;
- higher quantities of plastic and glass of Euro 834 thousand;
- operating grants disbursed by the Province of Forlì Cesena, Ato 8 and the Region of Emilia Romagna, amounting to Euro 902 thousand.

"Use and re-assessment of provisions" mainly includes uses for the costs of labour, leachate and resource hour costs as regards Group landfills, amounting to Euro 3,317 thousand, compared to Euro 6,502 thousand in 2010. Lower uses registered in 2011 compared to the previous year are attributable mainly to lower leachate costs of landfills used up as a result of unfavourable weather conditions recorded in 2011. In 2010, the item "Use and reassessment of funds" also included uses of the bad debt provision, for Euro 8,000 thousand.

"Reimbursement of costs", made up mainly of repayments from companies or entities relating to personnel seconded and the recovery of expenses from customers.

"Insurance reimbursements" registered an increase of Euro 1,041 thousand and relates mainly to repayments received in 2011, for:

- damages caused to the cogeneration plant in the Fossolo district in Bologna (Euro 250 thousand);
- damages caused to the Aranova Turbo-expander in Ferrara (amounting to Euro 302 thousand);
- damages caused to the Cesenatico treatment plant (Euro 140 thousand);
- reimbursements for legal cover (Euro 290 thousand);
- various minor damages incurred (Euro 46 thousand).

"Capital gains from sales of goods" mainly recorded for the disposal of resources, waste disposal bins and sundry equipment; the figure for the previous year included mainly capital gains generated by the sale of the real estate complexes in Bologna - Via Ranzani (Euro 3,234 thousand) and in Sassuolo - Via Brigata Folgore (Euro 2,343 thousand).

"Other revenues", include mainly the recovery of costs for environmental services and relating to the electricity and gas sector.

6 Use of raw materials and consumables

	2011	2010	Changes
Electricity ready for sale	1,285,598	1,212,962	72,636
Methane ready for sale and LPG net of change in stocks	989,090	800,972	188,118
Maintenance materials net of changes in stocks	55,737	60,853	-5,116
Water	39,224	35,501	3,723
Electricity for industrial use	24,751	6,797	17,954
Methane for industrial use	14,600	4,051	10,549
Fuels and lubricants	14,259	13,164	1,095
Chemical products	13,954	14,313	-359
Heat management combustible materials	4,863	1,763	3,100
Charges and revenues from derivatives	-11,534	-2,399	-9,135
Charges and revenues from certificate valuation	-2,713	-13,433	10,720
Consumables and sundry	12,257	5,926	6,331
Total	2,440,086	2,140,470	299,616

Please see the Directors' report and notes showing information by business segment for the analysis of trends in the costs of raw materials and consumables. Please refer to note 21 of the statement of financial position for the item "Charges and revenues from derivatives".

The most substantial changes with respect to the same period of the previous year are described below.

"Electricity ready for sale", this item also includes the cost of green, grey and white certificates incurred in 2011 amounting to Euro 39,419 thousand (Euro 26,671 thousand in 2010), in particular:

- white certificates, Euro 18,904 thousand (Euro 11,959 thousand as at 31 December 2010);
- grey certificates, Euro 11,295 thousand (Euro 5,462 thousand as at 31 December 2010);
- green certificates, Euro 9,220 thousand (Euro 9,250 thousand as at 31 December 2010).

"Charges and revenues from certificate valuation": includes the results of the fair value measurement of the following certificates:

- green, revenues of Euro 4,814 thousand (Euro 11,276 thousand as at 31 December 2010);
- grey, expenses of Euro 2,759 thousand (income of Euro 2,157 thousand as at 31 December 2010);
- white, income of Euro 658 thousand.

The significant decrease over the previous year is attributable mainly to the sale to GSE of green certificates already in the portfolio in the previous year and relating to the years 2008, 2009 and 2010 for the Ferrara waste-to-energy plant (Euro 13,699 thousand classified under "sales and service revenues" in 2011).

7 Service costs

	2011	2010	Changes
Charges for works and maintenance	248,240	253,600	-5,360
Energy transport and storage	181,995	135,789	46,206
Waste transportation, disposal and collection services	172,372	169,457	2,915
Fees paid to local authorities	69,712	69,486	226
Professional, legal, tax and organisational services	25,043	23,071	1,972
IT and data processing services	22,533	19,379	3,154
Rents and leases payable	20,464	18,607	1,857
Postal and telephone costs	15,356	15,470	-114
Technical services	14,639	17,614	-2,975
Insurance	13,565	11,253	2,312
Recruitment, training and other staff costs	12,736	11,713	1,023
Bank fees and charges	8,167	7,593	574
Announcements and advertising	7,927	7,238	689
Cleaning and security costs	5,493	4,575	918
Remuneration to Statutory Auditors, Directors, Area Committees	5,319	5,022	297
Laboratory analysis	4,628	3,898	730
Meter readings	4,558	5,097	-539
Fees payable	4,010	3,895	115
Transportation	3,465	1,821	1,644
Utilities	1,980	3,260	-1,280
Expenses for long-term contracts	334	-	334
Other service costs	27,950	22,904	5,046
Total	870,486	810,742	59,744

The most substantial changes by comparison with the previous year are described below.

"Charges for works and maintenance". This item includes costs relating to the construction, or improvement, of infrastructures held under a concession arrangement, in order to reflect application of the interpretation IFRIC 12. The reduction by comparison with the previous year is due mainly to a reduction in investments, as detailed in the comments in the Directors' report.

“Energy transport and storage”, the increase is attributable principally to higher volumes of electricity and gas sold on third party grids, amounting to Euro 39,263 thousand and Euro 6,943 thousand respectively. The increase in the volumes of gas sold in 2011 were due to the change in the scope of consolidation (amounting to Euro 4,205 thousand) brought about by the acquisition Sadori Gas Srl, a transaction detailed in a specific section in these explanatory notes.

“Waste transportation, disposal and collection services”, the increase can be attributed to more waste management services provided in some Municipalities. This increase in costs was followed by an increase in revenues which were included in the tariff (TIA).

The item “fees paid to local authorities” includes the charges incurred for the use of public owned networks, fees paid to asset companies for the rent of gas, water and electricity cycle assets and the leasing of the drop-off points. The change compared with the previous year is due to the combined effect of:

- lower rent paid to two Bologna Municipalities following the expiry of the relative concession contracts, totalling Euro 2,386 thousand;
- lower rent paid to the Ato 1 Marche Nord Municipalities, amounting to Euro 576 thousand, following the redefinition of the parameters for calculating the amounts to be paid;
- higher rent paid to the company Unica Reti, of Euro 750 thousand, of which Euro 400 thousand of a non-recurring nature following a transaction regarding the rental agreement for the gas business unit stipulated on 24 February 2003 and, Euro 350 thousand as a result of the signing of a new gas addition contract on 5 May 2011;
- higher rent paid to Con.Ami for the gas rental contract with the Municipality of Medicina, amounting to Euro 450 thousand (entered into on 1 July 2010 following the repurchase of networks sold in 2009);
- higher rent paid, of Euro 2,000 thousand, to the Municipality of Pesaro following the renegotiation of the heat and public lighting management contract in 2011. In 2010, this contract was recorded under sales and service revenues net of agreed rent.

“IT and data processing services”, the increase is due mainly to higher costs for IT services, amounting to Euro 2,109 thousand and telecommunications services, totalling Euro 995 thousand.

“Technical services”, the reduction is due primarily to a decrease in investments, as detailed in the comments in the Directors’ report.

“Fees to Statutory Auditors, Directors, Area Committees”, includes costs incurred for the different company bodies and for Area Committees.

“Other service costs”: the increase is due mainly to the considerable strengthening in sales activities and sale of energy services.

8 Personnel costs

	2011	2010	Changes
Wages and salaries	260,560	253,904	6,656
Social security contributions	86,548	85,983	565
Employee leaving indemnity and other benefits	980	917	63
Other costs	21,908	21,127	781
Total	369,996	361,931	8,065

The increase in labour costs is mainly due to changes in contractual trends.

As shown below, there were no significant changes in the number of employees, both at overall level and in terms of the individual category

The average number of employees in the period in question, analysed by category, is as follows:

	2011	2010	Changes
Managers	128	126	2
Middle Management	343	331	12
Employees	3,353	3,275	78
Workers	2,689	2,784	-95
Average number	6,513	6,516	-3

On the whole, the average pro-capita labour cost for 2011 was equal to Euro 57 thousand, up 3.6% compared to the figures registered in the corresponding period of the previous year.

As at 31 December 2011, the effective number of employees was 6,484 units (6,491 units as at 31 December 2010).

9 Amortisation, depreciation and provisions

	2011	2010	Changes
Depreciation of tangible fixed assets	126,914	121,138	5,776
Amortisation of intangible fixed assets	106,852	103,088	3,764
Bad debt provisions	49,686	37,083	12,603
Provisions for risks and charges	26,873	30,577	-3,704
Total	310,325	291,886	18,439

As regards the breakdown of the items, please refer to the comments under “tangible fixed assets”, “intangible assets”, “trade receivables” and “provisions for risks and charges” in the statement of financial position.

10 Other operating costs

	2011	2010	Changes
Special landfill levy	11,276	11,404	-128
Taxation other than income taxes	9,416	8,065	1,351
State rentals	2,916	3,578	-662
Membership fees and other fees	2,877	3,644	-767
Capital loss on sale of goods	1,832	3,202	-1,370
Other minor charges	11,513	8,928	2,585
Total	39,830	38,821	1,009

The most substantial changes by comparison with the previous year are described below.

“Special landfill levy”, corresponds to the payment of ecotax on landfills managed by the Group.

“Taxation other than income taxes”, the increase compared to 2010 is mainly linked to:

- rent for the occupation of spaces and public areas relating to previous periods paid to the Municipality of Bologna;
- payment of outstanding Municipal Property Tax to the Municipality of Bologna for the Viale Berti Pichat area, and to the Municipality of Ravenna on the Ravenna incinerator.

“Capital loss on the sale of goods” generated by the following disposals:

- electricity meters, Euro 696 thousand (Euro 1,185 thousand as at 31 December 2010);
- resources, waste disposal bins, containers and other equipment, Euro 502 thousand (Euro 287 thousand as at 31 December 2010);
- different areas in the Bologna real estate complex - Viale Berti Pichat, Euro 205 thousand relating to operations already completed during the year (Euro 1,381 thousand as at 31 December 2010);
- refractory on the Ferrara and Modena waste-to-energy plants, amounting to Euro 365 thousand.

“Other minor charges”, the increase compared to the previous year is mainly due to gas distribution service continuity and safety costs.

11 Capitalised costs

	2011	2010	Changes
Increases of fixed assets for internal works	49,324	81,903	-32,579
Total	49,324	81,903	-32,579

“Increases of fixed assets for internal works” mainly include labour, financial charges and other charges (such as outbound inventory movements and motor car hours) directly attributable to jobs performed within the Group. Financial expenses were calculated by applying an average rate of 3.83%.

The decrease compared to the previous year is attributable not only to a reduction in investments, but the completion of the waste-to-energy plant in Rimini during the year. An analysis of the investments can be found in the notes to the balance sheet assets and to the Directors’ Report.

12 Portion of profits (losses) pertaining to associated companies

	2011	2010	Changes
Portion of profits	8,806	7,744	1,062
Portion of losses	-2,546	-1,876	-670
Total	6,260	5,868	392

The portion of “profits (losses) pertaining to associated companies” include the effects generated from measurement using the equity method.

As regards the “portion of profits”, we’d like to point out the following changes compared to the previous year:

- Aimag Spa, a positive Euro 3,267 thousand,
- Sgr Spa, a positive Euro 985 thousand,
- Set Spa, a negative Euro 3,181 thousand.

The increase compared to the previous year is mainly ascribable to the results of Aimag Spa.

The “Portion of losses” refers to the company Oikothen Scarl as a result of the losses actually recorded and valuations linked to the future prospects of the company. Please refer to note 33 “Provisions for risks and charges”.

13 Financial income and charges

Financial income	2011	2010	Changes
Interest rate and foreign exchange derivatives	80,605	63,265	17,340
Banks	5,539	963	4,576
Customers	3,698	4,324	-626
Income from valuation at fair value of financial liabilities	-	20,861	-20,861
Capital gains on equity investments and dividends from other companies	139	129	10
Other financial income	2,502	1,479	1,023
Total	92,483	91,021	1,462
Financial charges	2011	2010	Changes
Bond loans	87,671	77,913	9,758
Charges from valuation at fair value of financial liabilities	56,744	46,955	9,789
Interest rate and foreign exchange derivatives	29,342	46,862	-17,520
Discounting of provisions and financial leases	13,575	13,569	6
Mortgages	11,160	10,325	835
Bank current account overdrafts	4,027	2,920	1,107
Capital losses and write-down of equity investments	265	16	249
Other financial charges	9,203	8,082	1,121
Total	211,987	206,642	5,345

The change in the financial operations is described, overall, in the Directors' Report.

The most significant items are described hereunder.

For the items "Income and charges from valuation at fair value of financial liabilities" and "Interest rate and foreign exchange derivatives", please see note 21 of the balance sheet.

The financial charges regarding "Bond loans" comprise:

- Euro 76,541 thousand in financial charges actually paid (Euro 62,459 thousand in 2010);
- Euro 11,129 thousand in financial charges generated by the valuation of said financial liabilities at amortised cost (Euro 15,454 thousand in 2010). With regard to the method used, please note that in the recalculation, the maximum duration of the loans was assumed, and it was also assumed that the put options would not be exercised for the duration of the same loans, within the terms set out in the contract.

The increase over the previous year is mainly due to the higher charges calculated:

- on the convertible bond for a nominal Euro 140 million issued effective as of November 2010;
- on additional disbursements of Euro 20 million relating to two “put loans”, effective from November and December 2010;
- on a further disbursement of Euro 50 million relating to the convertible “put bond”, effective as of October 2011.

For details on bonds subscribed by the Group, please refer to note 31 “Banks and medium/long- and short-term loans”.

“Capital gains on equity investments and dividends from other companies”, amounting to Euro 139 thousand, relating to dividends received in 2011 from the companies Ricicla Srl, Service Imola Srl and Banca di Credito Cooperativo.

“Capital losses and the write-down of investments”, are composed of capital losses recorded following the closure of the liquidation of the companies Ingenia Srl, Consorzio Energia Servizi Bologna and Italcic, amounting to Euro 64 thousand, Euro 5 thousand and Euro 35 thousand respectively, and the write-down of the investment in Intercomunale Servizi Spa, placed into liquidation on 27 June 2011, totalling Euro 161 thousand.

As for “Other financial charges”, the item mainly includes the charges borne for the non-without recourse factoring of receivables, amounting to Euro 7,463 thousand (Euro 6,286 thousand as at 31 December 2010).

The item “Discounting of provisions and financial leases” is broken down as follows:

	2011	2010	Changes
Restoration of third party assets	6,238	4,495	1,743
Landfill post-closure provision	5,206	7,104	-1,898
Employee leaving indemnity and other similar benefits	1,685	1,427	258
Financial leasing	446	543	-97
Total	13,575	13,569	6

14 Taxes for the year

This item is made up as follows:

	2011	2010	Changes
Current taxes (Ires, Irap and substitute tax)	120,709	128,570	-7,861
Deferred taxes	-3,935	-57,125	53,190
Prepaid taxes	-22,303	-7,870	-14,433
Total	94,471	63,575	30,896

The taxes for the financial year 2011 amount to Euro 94,471 thousand and include the non-recurring positive effects of Euro 7,567 thousand, including Euro 1,215 against the sheltering by substitute tax of the higher values recorded on the balance sheet following extraordinary transactions already carried out in financial year 2009 pursuant and consequent to art. 176, subsection 2-ter, of the Italian Income Tax Code, and Euro 6,352 thousand relating to the realignment of controlling interests pursuant to art. 23, sub-sections 12-14, of Legislative Decree no. 98/2011 and art. 20 of Legislative Decree no. 201/2011. In 2010 taxes for the year amounted to Euro 63,575 thousand and included the positive non-recurring effects, for Euro 25,061 thousand. The increase in the tax rate for the year 2011, 42.70%, compared to 2010, 30.92%, is attributable mainly to:

- the lower incidence of the positive non-recurring effects relating to sheltering operations carried out in 2011 compared to those in 2010;
- the increase in the incidence of IRAP due to the increase of 0.30% in the rate applicable to concessionary companies pursuant to Legislative Decree 98/2011, equal to around Euro 1,000 thousand;
- the effect of the Ires surcharge, so-called "Robin tax", (Euro 11,624 thousand for 2011 and Euro 7,714 thousand for 2010), in relation to which Legislative Decree 138/2011 made provision for an increase of 4% for the 2011-2013 three-year period and involved an increase in taxation of Euro 3,910 thousand in 2011.

Current taxes are broken down as follows:

Current taxes	2011	2010	Changes
Ires	83,201	74,197	9,004
Irap	30,680	28,804	1,876
Substitute tax Law 244/07 - recapture EC framework	-159	-179	20
Substitute tax "split perimeter"	323	323	0
Substitute tax	6,664	25,425	-18,761
Total	120,709	128,570	-7,861

The theoretical rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 27.50%; the reconciliation with the effective rate is provided below.

Statement of reconciliation between theoretical and effective tax rate	Income statement value	Percentage value of tax effect
Pre-tax result	221,226	
Ires calculation		
Ordinary rate	-60,837	-27.50%
Robin Tax surcharge	-10,228	-4.60%
Dividends	-1,128	-0.50%
Amortisation of goodwill	1,018	0.50%
Other increases/(decreases)	28	0.00%
Irap and other current taxes		
Irap	-30,514	-13.80%
Substitute tax	7,183	3.20%
Foreign current taxes	8	0.00%
Effective rate	-94,471	-42.70%

The data are only provided for Ires purposes in view of the fact that the special Irap regulations render irrelevant a reconciliation between the theoretical tax charge derived from balance sheet data and the effective tax charge determined on the basis of tax regulations.

The prepaid and deferred taxes relating to the year 2011 refer to the following variations between taxable income and profit recorded in the financial statements.

Details of temporary differences (receivables)	31-dec-11			31-dec-10		
	temporary differences	tax effect	acquisitions/sales	temporary differences	tax effect	acquisitions/sales
Prepaid taxes with an impact on the income statement:						
Bad debt provision	87,636	28,271		60,955	18,940	
Provisions for risks and charges	71,642	13,904		69,503	14,000	
Provisions for employee benefits	3,313	911		5,600	1,667	
Amortisation and depreciation	96,837	28,639		88,772	26,131	
Realignment of equity investments	36,660	12,217		-	-	
Other	50,979	11,314		46,487	11,520	
Total	347,067	95,256	694	271,317	72,258	
Amount credited (charged) to the income statement		22,303				
Prepaid taxes with an impact on the statement of comprehensive income:						
Cash flow hedges	16,281	5,731		20,948	6,953	
Total	16,281	5,731		20,948	6,953	
Amount credited (charged) to the statement of comprehensive income		-1,222				

Details of temporary differences (provision)	31-dec-11			31-dec-10		
	temporary differences	tax effect	acquisitions/sales	temporary differences	tax effect	acquisitions/sales
Deferred taxes with an impact on the income statement:						
Provisions for risks and charges	64,461	20,082		72,088	22,356	
Provisions for employee benefits	16,882	5,184		16,429	5,109	
Tangible and intangible assets	118,766	39,126		107,662	34,738	
Leasing	8,349	2,625		8,646	2,694	
Capital gains with instalments	3,323	914		5,216	1,445	
Other	30,767	8,126		37,696	9,794	
Total	242,548	76,057	3,855	247,737	76,136	
Amount credited (charged) to the income statement		3,935			-	
Deferred taxes with an impact on the statement of comprehensive income:						
Cash flow hedges	-	-		26	7	
Total	-	-		26	7	
Amount credited (charged) to the statement of comprehensive income		7			-	
Total tax effect (book value)		76,057			76,143	

In calculating the taxes for the year, the effects deriving from the IAS tax reform introduced by Italian Law 244 of 24 December 2007 were duly considered, and of the associated implementing decrees, Ministerial Decree no. 48 of 1 April 2009, and Ministerial Decree of 8 June 2011, coordination of the international accounting standards with the rules of calculation of the Ires and Irap taxable base, envisaged under art. 4, subsection 7-quater, of Legislative Decree 38/2005; and in particular the strengthened principle of derivation set forth under art. 83 of the Consolidation Act on Income Taxes that now envisages that “the criteria of qualification, time allocation and classification in the financial statements required by the international accounting standards apply to parties that apply the international accounting standards, also in derogation of the provisions of the Consolidation Act on Income Taxes.

Information on the "tax moratorium"

In accordance with Law Decree no. 10 of 15 February 2007, subsequently converted into Law no. 46 of 6 April 2007, governing the terms for reimbursement of government aid declared illegitimate by the Ruling of the European Commission no. 2003/193 dated 5 June 2002, on 6 April 2007 Hera Spa (with respect to the position regarding the former Seabo Spa) was served the notices/orders issued by the Inland Revenue office responsible for the area, demanding the payment of a total amount of Euro 22,313 thousand for the tax periods from 1997 to 1999 involved in the recovery.

The appeals submitted to the Provincial Tax Commission of Bologna were rejected by means of rulings dated 19 April 2008, except for that relating to the tax period 2007. In this case, the commission recognised the legitimacy of the deduction of tax withheld and of the tax credit carried over from previous years amounting to Euro 3,738 thousand; therefore, in June 2008, a total of Euro 17,400 thousand was paid.

Subsequently, on 11 September 2008, the Inland Revenue office sent an additional payment request for interest related to the suspension period, paid in December 2008, for Euro 660 thousand.

Appeals were presented on 3 October 2008, rejected by rulings filed on 29 January 2010, by the Regional Tax Commission of Emilia Romagna which, by amending the first instance rulings, derecognised the legitimacy of the deduction of tax withheld and of the tax credit for tax periods before 2007; therefore, on 27 October 2010, an additional Euro 7,455 thousand was paid in this respect.

The appeals were submitted to the Supreme Court on 29 April 2010, which were discussed on 24 January 2012.

Please also note that, under the terms of agreements made between shareholders (and specifically reported in the IPO prospectus) at the time of the incorporation giving rise to the creation of Hera Spa, local authorities undertook "to compensate Hera Spa for any cost, loss or damage sustained by the same in relation to mandatory regulatory measures revoking tax benefits that the company and the companies taking part in the incorporation have enjoyed". Therefore, in relation to the recovery no cost was accounted for, and as at 31 December 2011, outstanding receivables for collection, related to all payments made by Hera Spa for the position related to the former Seabo Spa, amount to Euro 1,061 thousand as at the date of these financial statements.

Law Decree no. 185/2008 and Law Decree no. 135/2009

Art. 24 of Law Decree no. 185 of 29 November 2008, converted with amendments into Law no. 2 of 28 January 2009, intervened "in order to fully implement" the repeatedly mentioned decision of the Commission on 5 June 2002. As for this provision, on 30 April 2009, the Emilia Romagna Regional Management sent three tax assessment notices on the position of the former Meta for the 1997, 1998 and 1999 tax periods, for which Euro 4,823 thousand was paid on 8 May 2009. Appeals were filed with the Provincial Tax Commission of Bologna against the aforementioned assessment notices on 7 July 2009; at the hearing on 14 February 2011, following the reunification with proceedings to deal with additional assessment notices, pending before another section of the same provincial tax commission, commented on hereunder, all proceedings were adjourned so that the parties could attempt to reach a reconciliation.

Art. 24 of the Law Decree no. 185 of 29 November 2008, was then amended by art. 19 of the Law Decree no. 135 of 25 September 2009, which added subsection 1-bis to the above-mentioned art. 24. On 2 October 2009, the Emilia Romagna Regional Management sent two assessment notices for the former company Meta Spa, regarding the 1998 and 1999 tax periods, as a "supplement" to notices already sent on 30 April 2009, in order to cancel two deductions made and previously accepted according to the opinion, shared by the Attorney General, expressed on 28 April 2009 by the Presidency of the Council of Ministers on profits, which were reissued into the public circuit due to the distribution to public bodies shareholders, and the further portion of profits made in the electricity segment. The amounts requested total Euro 22,751 thousand.

On the same date, the Emilia Romagna Regional Management sent four assessment notices for the former company Seabo Spa, regarding the 1997, 1998, 1999 tax periods, in order to acknowledge the irregularities already contained in the report on findings of 17 October 2005. These irregularities could not be taken into account when the notices and injunctions were issued on 6 April 2007, as, at that time, art. 1 of the Law Decree no. 10 of 15 February 2007 granted the Inland Revenue Office powers of "simple settlement" of the tax returns submitted by the taxpayer. The amounts required for the former company Seabo, amounted to Euro 759 thousand.

The total amounts required, by effect of the proceeding provided for by art. 19 of Law Decree no. 135/2009, amounted therefore to Euro 23,510 thousand, and were paid on 20 October 2009.

On 27 November 2009, the Company filed all appeals to the Bologna Provincial Tax Commission to cancel all assessment notices of 2 October 2009, regarding the positions of both former Seabo and former Meta. As regards the former Seabo position, discussion at the public hearing took place on 26 January 2011, in which the Board adjourned the case to attempt a reconciliation between the parties; the case was heard at the hearing on 15 February 2012 and ruling no. 29/17/12 handed down by the Provincial Tax Commission of Bologna, Section no. 17, filed on 23/02/2012, which partially upheld the company's appeal with reference to the recoveries concerning landfill post-closure provisions.

As regards the ex Meta case, discussion at the public hearing occurred on 14 February 2011, with the case adjourned for all proceedings to attempt a reconciliation between the parties. Discussion of the disputes could be set by the end of 2012.

Except for the still-outstanding disputes, aimed at recovering what has already been paid, the entire "tax moratorium" situation shall be considered concluded, since future disbursements which create financial impacts on the Group's accounts are not expected.

Report on the assessment notices issued in 2010

Seven notices were issued to Hera Spa and Hera Comm on 19 November and 22 December 2010 in their capacities of beneficiary companies of the total spin-off of the company Hera Ferrara Srl effective as at 31 December 2009. Said notices for first and second assessment levels concerning IRES and IRAP followed the tax audit on the Ferrara area operating company for tax years 2005, 2006 and 2007 that came to an end on 16 September 2010 with the report on findings of the Ferrara Tax Police Squad.

The irregularities basically concerned a mere error that took place in financial year 2005 in the intercompany costs accounting between Hera Ferrara Srl and Hera Spa, which caused a double recording of the same cost amounting to about Euro 200 thousand. Nevertheless, after said error of double recording of the same cost was discovered in the following financial year 2006, it was corrected by recording a contingent asset of the same amount, duly subject to taxation. It ensued that in force of the consolidated taxation system, the effect of the double deduction of the cost during tax year 2005 was eliminated by the recording, and subsequent taxation, of the cost as a contingent asset. On 13 January 2011, tax settlement proposals were submitted to the Emilia Romagna Regional Management, Large Taxpayers Office, pursuant to art. 6, subsection 2, of Legislative Decree no. 218 of 1997, which concluded positively for the companies, solely involving the payment of penalties reduced by one quarter.

With reference to said event, on 27 December 2011, the company was notified of a tax assessment for VAT purposes regarding the aforementioned accounting error, amounting to Euro 40 thousand; on 29 February 2010, the company submitted an appeal relating solely to tax, then settled the penalties under facilitated terms; discussions on the dispute could take place by the end of 2012.

Three assessment notices for IRES, IRAP and VAT concerning tax year 2005 were issued to Hera Spa on 29 December 2010 following the tax audit on tax year 2005 that was completed with the report on findings dated 1 October 2010, drawn up by the Financial Police, Bologna Tax Police Squad; the subject matter of the report is an irregularity regarding intercompany services (so-called management expenses regarding use of the trademark) supplied by Hera S.p.a. in its capacity of Parent Company of the Hera Group, to the Area Operating Company subsidiary of Forlì-Cesena, Hera Forlì-Cesena Srl.

Although it found the cost split criteria initially established by the intercompany contracts legitimate, the Tax Authorities question the subsequent reduction of the recharge percentages of the management expenses, generally called management fees, following a subsequent agreement that the parties entered into which adjusted the criteria initially envisaged. In the opinion of the Tax Authorities, said adjustment reducing fees due for the services that the holding company supplied entailed tax evasion on the part of Hera Spa, since the lower recharge of management fees to Sot of Forlì-Cesena ensured said costs remained the responsibility of Hera Spa, which would have therefore "illegitimately deducted" them when calculating its IRES and IRAP tax base in the absence of the inherence principle. Likewise, the failure to charge the fee for using the "Hera Group" trademark would have brought about a lower revenue for Hera S.p.a. compared to what was originally foreseen in the intercompany agreement, and so IRES, IRAP and VAT tax evasion allegedly occurred in this case as well in the opinion of the office. On 18 February 2011, tax settlement proposals were submitted to the Emilia Romagna Regional Management, Large Taxpayers Office, pursuant to art. 6, subsection 2, of Legislative Decree no. 218 of 1997, which concluded negatively for the company. Therefore, on 20 May 2011, the related appeals were submitted to the Provincial Tax Commission of Bologna.

Following said appeals presented by the company, the Tax Authorities, by means of act notified on 17 August 2011, partially cancelled, under the appeal process, the payment orders already issued in respect of the IRES component regarding royalties for use of the trademark, and for the entire recovery effected for VAT purposes. The company is still waiting for a date to be set for the hearing before the Provincial Tax Commission of Bologna. Pending the tax proceedings, the company was notified of a tax payment request on 4 January 2012, for the provisional recording of Euro 653 thousand, which the company paid on 29 February 2012.

The company decided it did not have to make any allocation to the provision for risks for the assessment notices in question as it considers the alleged violations charged against the company groundless. This is based on the circumstance that the companies involved adhered to the Group taxation system for the period in question pursuant to articles 117 et seq. of the Italian Income Tax Code, according to which the tax actually due to the Tax Authorities is paid in the consolidated income tax return, based on the algebraic sum total of the taxable incomes of the individual companies adhering to the system. It is therefore believed none of the individual companies can be found to have committed tax evasion.

Information on the tax assessments communicated in the 2011 tax period

On 29 September 2011, a tax assessment commenced at the company regarding income taxes and IRAP, conducted by the Financial Police, Bologna Tax Police Squad. The inspections, still ongoing, examined, for IRES and IRAP purposes, the tax years from 2006 to 2010, with a particular focus on the company's economic-financial transactions with public service AATOs. On 24 October 2011, the report on findings solely relating to the 2006 tax year was drafted and issued to the company, limited to the alleged incorrect tax accounting of AATO running costs. According to the contents of the report on findings, the aforementioned costs, relating solely to the 2006 tax year, totalling Euro 2,581 thousand, regarding the functioning of the AATOs, would be considered, on the basis of the joint provisions of article 148, subsection 4, and article 154, subsection 1 of Legislative Decree no. 152 of 3 April 2006, non-deductible as irrelevant, pursuant to art. 109 of T.U.I.R. (Italian Income Tax Code), to the company activities carried out. The company submitted its defensive arguments, following which, the Office did not follow up the assessment proposal formalised in the Financial Police's report on findings.

14.1 Earnings per share

	2011	2010
Profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (A)	104,590	117,218
Interest expenses relating to the liability component of convertible bonds	2,464	0
Adjusted profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (B)	107,054	117,218
Weighted average number of shares in circulation for the purposes of calculation of profit (loss) per share:		
- basic (C)	1,107,545,844	1,110,853,551
- diluted (D)	1,183,881,722	1,110,853,551
Profit (loss) per share (in euro)		
- basic (A/C)	0.094	0.106
- diluted (B/D)	0.090	0.106

The base earnings per share is calculated on the economic result attributable to holders of ordinary shares of the parent company. Diluted earnings per share takes account of the issuing of the convertible bond referred to under note 31.

15 Tangible fixed assets

	31-Dec-11	of which financial	assets leasing	held under agreements	31-Dec-10	of which financial	assets leasing	held under agreements	Changes
Land and buildings	398,860			10,776	368,693			11,113	30,167
General plant and machinery	1,227,184			3,640	1,145,330			4,939	81,854
Other movable assets	109,971			11,724	114,631			15,267	-4,660
Work in progress and advance payments	148,461				211,578				-63,116
Total	1,884,476			26,140	1,840,232			31,318	44,246

Tangible fixed assets are disclosed net of accumulated amortisation. Their composition and changes in the period are as follows:

	Land and buildings	Plant and machinery	Other movable assets	Fixed assets in progress and advance payments	Total tangible fixed assets
PURCHASE COST					
At 31.12.2009	373,510	1,514,162	336,311	358,747	2,582,730
Increases	15,766	56,371	22,500	101,984	196,621
Divestments	-9,752	-2,929	-18,238	-2,726	-33,645
Change in scope of consolidation	-	5,473	1,359	-	6,832
Reclassifications and other changes	59,448	181,155	9,229	-246,427	3,405
As at 31.12.2010	438,972	1,754,232	351,161	211,578	2,755,943
ACCUMULATED DEPRECIATION					
As at 31.12.2009	58,460	539,483	219,562	-	817,505
Increases	8,851	84,356	26,930	-	120,137
Divestments	-2,497	-1,332	-13,767	-	-17,596
Change in scope of consolidation	-	1,537	900	-	2,437
Reclassifications and other changes	5,465	-15,142	2,905	-	-6,772
As at 31.12.2010	70,279	608,902	236,530	-	915,711
NET VALUE					
As at 31 December 2009	315,050	974,679	116,749	358,747	1,765,225
As at 31 December 2010	368,693	1,145,330	114,631	211,578	1,840,232
PURCHASE COST					
As at 31.12.2010	438,972	1,754,232	351,161	211,578	2,755,943
Increases	23,132	51,573	18,190	62,788	155,683
Divestments	-377	-4,323	-13,623	-268	-18,591
Change in scope of consolidation	6,684	20,990	444	-	28,118
Reclassifications and other changes	21,771	97,729	1,375	-125,639	-4,764
Reclassifications - IFRS 5	-12,470	-1,491	-	-	-13,961
As at 31.12.2011	477,712	1,918,710	357,547	148,459	2,902,428
ACCUMULATED DEPRECIATION					
As at 31.12.2010	70,279	608,902	236,530	-	915,711
Increases	11,099	89,883	25,932	-	126,914
Divestments	-137	-2,993	-11,232	-	-14,362
Change in scope of consolidation	102	315	-414	-	3
Reclassifications and other changes	49	-3,767	-3,241	-	-6,959
Reclassifications - IFRS 5	-2,540	-815	-	-	-3,355
As at 31.12.2011	78,852	691,525	247,575	-	1,017,952
NET VALUE					
As at 31 December 2010	368,693	1,145,330	114,631	211,578	1,840,232

The breakdown and main changes within each category are commented on below.

"Land and buildings", totalling Euro 398,860 thousand, consist of Euro 316,691 thousand in buildings and Euro 82,169 thousand in land. In relation to land, these are mainly company-owned properties on which the majority of the sites and production plants stand. The increases comprise the extraordinary maintenance works carried out at the company offices in Modena-Via Razzaboni and Bologna-Viale Berti Pichat (management building), execution of the building works at certain drop-off points, execution of the building works on the Cogeneration Plant in Imola, purchase of land earmarked for landfills from the Municipality of Ravenna, and building works on the 4th line of the waste-to-energy plant in Coriano-Rimini, which entered operation during the year. As regards "IFRS 5 reclassifications", please refer to note 29 "Non-current assets held for sale".

"Plant and machinery", amounting to Euro 1,227,184 thousand, is made up mainly of distribution networks and plants relating to business not falling within the scope of the concession system and, therefore, principally: district heating, electricity in the Modena area, waste disposal, waste treatment, purification and composting, material recovery and chemical-physical treatment, anaerobic digesters, and special waste treatment plants. The increase in the period mainly reflects the extension of the district heating and cogeneration networks in certain areas of Bologna, Forlì and Cesena, the completion and normalisation of drop-off points, completion of the Cogeneration Plant in Imola-Via Casalegno and the 4th line of the Coriano-Rimini waste-to-energy plant, plus works to increase the size of active landfills. The decreases also include the disposal of electricity meters. As regards "IFRS 5 reclassifications", please refer to note 29 "Non-current assets held for sale".

"Other moveable assets", equal to Euro 109,971 thousand, include the equipment, waste disposal bins, furniture, electronic machines, motor vehicles and motor cars, including the public works vehicles at the plants for handling and compacting the waste. As regards the increases in the year, the purchases of assets linked to the "E-Gate" initiative (concerning the separate waste collection in the Rimini area), and other equipment should be noted in particular. Divestments mainly concerned waste disposal bins and motor vehicles relating to the environmental sector.

"Work in progress and advance payments", equal to Euro 148,461 thousand, mainly consist of investments carried out for the development of district heating, electricity distribution and extraordinary maintenance work on structural properties and waste-to-energy plants. Other significant works included the new "Disitrat" sludge treatment plant in Ravenna, the new "Digest dry" plants at the Rimini and Lugo (Ra) composting sites, the new CIC slag recovery plant in Modena, plus revamping works on the 3rd line of the waste-to-energy plant in Modena. The significant decrease is due mainly to the completion of construction works on the 4th line of the Coriano-Rimini the waste-to-energy plant.

The amounts indicated in the item "Change in scope of consolidation", for a net Euro 28,115 thousand, relate almost entirely to the portion pertaining to the Group of the thermoelectric and biomass plant owned by Enomondo Srl, a company subject to joint control.

For a more accurate analysis of investments in the period, please see the Directors' Report, section 1.03.01.

16 Intangible fixed assets

	31-Dec-11	31-Dec-10	Changes
Industrial patents and know-how	30,761	30,385	376
Concessions, licences, trademarks and similar	53,976	80,777	-26,800
Public services under concession	1,487,399	1,416,810	70,589
Work in progress and advance payments for public services under concession	156,164	139,614	16,549
Work in progress and advance payments	41,892	33,829	8,063
Other	32,329	27,083	5,246
Total	1,802,521	1,728,498	74,023

Intangible fixed assets are stated net of their accumulated amortisation and are broken down below with details of the changes during the year:

	Industrial patents and know-how	Concessions, licences, trademarks and similar	Public services under concession	Work in progress and advance payments for public services under concession	Work in progress and advance payments	Other	Total intangible assets
PURCHASE COST							
As at 31.12.2009	154,927	241,495	1,698,731	168,474	31,898	68,591	2,364,116
Increases	3,039	302	76,570	58,282	13,595	2,616	154,404
Divestments	-	-71	-7,764	-	-290	-20	-8,145
Change in scope of consolidation	-	-	-9,339	-	-	-1	-9,340
Reclassifications and other changes	7,703	-3,010	91,745	-87,142	-11,375	276	-1,803
As at 31.12.2010	165,669	238,716	1,849,943	139,614	33,828	71,462	2,499,232
ACCUMULATED DEPRECIATION							
As at 31.12.2009	116,313	145,786	375,727	-	-	38,198	676,024
Increases	17,783	13,928	65,606	-	-	5,771	103,088
Divestments	-	-55	-735	-	-	-19	-809
Change in scope of consolidation	-	-	-9,339	-	-	-1	-9,340
Reclassifications and other changes	1,188	-1,720	1,873	-	-	430	1,771
As at 31.12.2010	135,284	157,939	433,132	-	-	44,379	770,734
NET VALUE							
As at 31 December 2009	38,614	95,709	1,323,004	168,474	31,898	30,393	1,688,092
As at 31 December 2010	30,385	80,777	1,416,811	139,614	33,828	27,083	1,728,498
PURCHASE COST							
As at 31.12.2010	165,669	238,716	1,849,943	139,614	33,828	71,462	2,499,232
Increases	4,593	472	75,927	67,337	21,861	4,049	174,239
Divestments	-69	-2	-1,108	-	-140	-4,593	-5,912
Change in scope of consolidation	122	-1	898	-	-	9,952	10,972
Reclassifications and other changes	13,622	-31,474	81,248	-50,787	-13,656	654	-395
As at 31.12.2011	183,938	207,711	2,006,908	156,164	41,892	81,523	2,678,135
ACCUMULATED DEPRECIATION							
As at 31.12.2010	135,284	157,939	433,132	-	-	44,379	770,734
Increases	17,883	11,419	71,589	-	-	5,960	106,852
Divestments	-51	-2	-758	-	-	-1,813	-2,624
Change in scope of consolidation	61	-1	-	-	-	761	822
Reclassifications and other changes	-	-15,621	15,546	-	-	-93	-169
As at 31.12.2011	153,176	153,735	519,509	-	-	49,194	875,614
Net value	30,761	53,976	1,487,399	156,164	41,892	32,329	1,802,521
As at 31 December 2010	30,385	80,777	1,416,811	139,614	33,888	27,083	1,728,498
As at 31 December 2011	30,761	53,976	1,487,399	156,164	41,892	32,329	1,802,521

The breakdown and main changes within each category are commented on below.

“Industrial patents rights and know-how”, totalling Euro 30,761 relates mainly to costs incurred for the purchase and implementation of IT systems SAP R/3 ECC6 and related applications. These costs are amortised over five years.

“Concessions, licences, trademarks and similar rights”, amounting to Euro 53,976 thousand, mainly includes the value of the rights held by the Parent Company Hera Spa in relation to the gas, water and purification plants. The decrease in this item is due to the transfer from “concessions, licences, trademarks and similar rights” to “public services under concession” of assets related to the purification services in the Municipalities of Bologna and Pianoro as well as assets related to the gas service in the Municipality of Sasso Marconi, as provided under the related contracts on reaching the expiry dates of said concessions.

“Public services under concession”, equal to Euro 1,487,399 thousand, made up of the assets relating to the gas, water, purification, sewerage, and public lighting businesses throughout the entire territory managed by the Hera Group, and the electricity distribution business in the Imola area only. The assets mainly relate to distribution grids and networks and plants. This item also includes costs for improvement to said assets, receivables due from the asset-owning companies, as well as reclassifications of amounts from the item “Concessions, licences, trademarks and similar rights” following the expiry of the concession (details of the municipalities and services are provided above).

“Intangible assets under construction and advance payments for public services under concession”, amounting to Euro 156,164 thousand, relate to said assets detailed above which are still to be completed as at the end of the year.

“Work in progress and advance payments”, equal to Euro 41,892 thousand, essentially comprise still incomplete IT projects.

The item “Other”, equal to Euro 32,329 thousand, mainly relates to other sundry long-term charges, rights of use of networks and infrastructures for the passage and laying of optical fibre telecommunication networks. These also include the costs incurred for applications for AIA (Integrated Environmental Authorisation) certification of the WTE plants and landfills.

The amounts indicated in the item “Change in the scope of consolidation”, amounting to a net value of Euro 10,150 thousand, relate principally to:

- Euro 7,962 thousand relating to intangible assets that arose during the Purchase Price Allocation of Sadori Gas Srl, control of which was acquired in 2011 and merged by incorporation into Hera Comm Marche Srl on 1 July 2011;
- Euro 898 thousand relating to the transfer to Hera Spa of the natural gas distribution service in the municipalities of Fiumalbo, Pievepelago and Riolunato, by the CIMAF Consortium.

The above operations are commented on in the section “Change in the scope of consolidation” in these notes.

17 Goodwill

	31-dec-11	31-dec-10	Changes
Goodwill	320,972	320,791	181
Goodwill from consolidated procedure	56,788	56,788	-
Total	377,760	377,579	181

The main values are as follows:

- residual goodwill from the 2002 integration resulting in the creation of Hera Spa, Euro 81,258 thousand;
- goodwill relating to the integration of Agea SpA in 2004, for Euro 41,659 thousand. Said goodwill represents the additional value of the purchase cost compared to the fair values of the Group's portion of assets and liabilities recorded. In particular, with regard to the current value of Hera Spa shares issued following the increase in capital for the merger by incorporation of Agea spa, in accordance with IFRS 3 the share value was calculated as at the effective date control was taken of Agea Spa (1 January 2004);
- goodwill and goodwill from consolidation procedure, related to the integration operation of the Meta Group, Euro 117,686 thousand. This goodwill, entered in assets and initially measured at cost, represents the additional value of the purchase cost compared to the fair value of the assets and liabilities recognised for the Group. Specifically, with regard to the current value of Hera Spa shares issued following the increase in capital to service the merger by incorporation of Meta Spa, this value was calculated as at the end of 2005, accepted as the effective date that control was taken of Meta Spa;
- goodwill relating to the merger of Geat Distribuzione Gas Spa into Hera Spa. This goodwill of Euro 11,670 thousand represents the excess purchase cost over and above the fair value of assets and liabilities recognised for the Group as at 1 January 2006 (the date at which effective control was taken by Hera Spa);
- goodwill relating to the merger of Sat Spa. This goodwill of Euro 54,883 thousand represents the excess acquisition cost over and above the fair value of the assets and liabilities recognised for the Group. Specifically, with regard to the fair value of Hera SpA shares issued following the increase in capital from the merger by incorporation of Sat SpA, this value was calculated as at 1 January 2008, the date at which take-over became effective.

The increase compared to the previous year is due mainly to the transfer of the gas distribution service in some Modenese municipalities by the CIMAF Consortium.

The main “goodwill from consolidation procedure” arises from the following companies consolidated on a line by line basis:

- Marche Multiservizi Spa, Euro 20,790 thousand;
- Hera Comm Marche Srl, Euro 4,565 thousand;
- Medea Spa, Euro 3,069 thousand;
- Asa Scpa, Euro 2,789 thousand;
- Hera Luce Srl, Euro 2,328 thousand;
- Gastecnica Galliera Srl, Euro 2,140 thousand;
- Nuova Geovis Spa, Euro 1,775 thousand.

The remaining goodwill and goodwill from consolidation procedure items refer to minor operations.

As required by the reference accounting standards (IAS 36) goodwill undergoes impairment testing. The following table shows the allocation of this item to the cash generating unit or group of units in accordance with the maximum aggregation limits that may not exceed the business segment identified in accordance with IFRS 36.

Goodwill	
(mln€)	
Gas	107.3
Electricity	43.2
Integrated water cycle	41.2
Waste management	174.5
Other services	10.0
Structure	1.6
Total goodwill	377.8

The impairment therefore involved gas, electricity, integrated water cycle, waste management and other services business areas. The recoverable value of the cash generating units, to which the separate goodwill was attributed, was reviewed by determining the value in use, meant as the current value of the discounted cash flows (duly discounted according to the discounted cash flow method) taken from the business plan prepared for the 2011-2015 period, approved by the Board of Directors of the Parent Company. The current value of an irredeemable debenture, calculated based on last year flows and taking account, for the water cycle only, of the gradual achievement of the full capital payment, as provided for by the current regulations, are added to said flows. In the developed hypothesis, the non-renewal of concessions was taken into consideration, in an estimated percentage of 20%. At the same time, a similar percentage was considered to determine the flow, equal to the net accounting value of assets, which will be redeemed.

While drawing up the Business Plan, which consolidates the Group perspective activities, assumptions consistent with those used in previous plans were used. These assumptions were defined based on final figures, projections internally processed and compared with external sources.

The development of revenues was processed based on the evolution of tariffs for the businesses governed by business unit regulations and/or agreements with the competent Authorities. In particular, revenues from the gas distribution market are projected based on evidence arising from Resolution no. 159/08 and, as for electricity distribution, based on Resolution no. 348/07 of the Italian Authority for Electricity and Gas. Revenues on the sale of gas and electricity on the non-eligible market were projected to 2015, based on Resolutions no. 64/09 and 156/07, respectively, of the Italian Authority for Electricity and Gas. As for the water cycle, revenues were projected based on both the immobility of volumes distributed and the fees referring to agreements signed, or being signed when the Plan was drawn up, with the single local AATOs. As for urban hygiene, the assumption of full tariff coverage was formulated over the term of the plan on all local areas supplied, pursuant to law.

Changes in the prices of gas and electricity sold and purchased on the free market were processed based on business opinions expressed by internal bodies in charge of analysing these factors, and in compliance with the energy scenario set forth when the business plan was started. The latter was drawn up by a panel of institutional observers according to the best forecasts.

The development of plants for the disposal and recovery activities in the waste management cycle is consistent with estimates made in the plans in the provinces where the Hera Group operates. The scheduling for the realisation of investments and the following start-up of the new plants is the result of the best estimate of technical structures, in compliance with each planning process.

Cost evolution was consistent with the projected inflation considered in the economic and financial Planning Document and, as regards staff, with indications contained in the various work contracts. Effectiveness and synergies were planned in compliance with operations that the Group has carried out over the last few years.

The investment plan is consistent with the maintenance requirements of plant efficiency. This plan is supplemented by investment and development expectations in both initiatives which grant full economic benefit at full production within the term of the Plan, and development initiatives which will grant an economic return after the term of the Plan. The single “relevant” investments were specifically evaluated as for the economic return and strategic importance in the pertaining industrial sector.

The Plan definition, as in past years, saw huge involvement from each single company and profound interaction with management at various organisational levels, over a period of more than 5 months.

According to the aforementioned remarks, the basic assumptions that underlined the development of the impairment test, were formulated by the management, bearing in mind the remaining lifetimes of the reference concessions, on the basis of medium/long term growth rates differentiated by individual asset and expected growth in the respective generating unit sectors (2% on average).

The rate used to discount back the flows is 6.82% after taxes.

As the test results were positive, it was unnecessary to adjust the recorded values provided above. It is worth noting that the outcome of the above mentioned procedures has been specially approved by the Board of Directors of the Parent Company, as recommended by provisions set forth by Consob, Bank of Italy and ISVAP.

18 Equity investments

	31-dec-11	31-dec-10	Changes
Non-consolidated subsidiaries			
Calor Più Italia Scrl	6	6	-
Consorzio Energia Servizi BO	-	5	-5
Consorzio Frullo	4	4	-
Hera Servizi Comiteriali Srl	20	20	-
Ingenia Srl	-	63	-63
Solhar Alfonsine Srl	5	-	5
Solhar Bentivoglio Srl	5	-	5
Solhar Faenza Srl	5	-	5
Solhar Ferrara Srl	5	-	5
Solhar Modena Srl	5	-	5
Solhar Piangipane Srl	5	-	5
Solhar Ravenna Srl	5	-	5
Solhar Rimini Srl	5	-	5
Total	70	98	-28
Associated companies			
Aimag Spa	39,910	35,992	3,918
Dyna Green Srl	37	35	2
Enomondo Srl	-	5,592	-5,592
Feronia Srl	705	826	-121
Ghirlandina Solare Srl	65	20	45
Modena Network Spa	1,201	1,207	-6
Refri Srl	2,413	2,422	-9
Set Spa	35,860	34,972	888
Sgr Servizi Spa	17,111	15,232	1,879
Sei Spa	702	702	-
So.Sel Spa	600	475	125
Tamarete Energia Srl	3,498	3,890	-392
Other minor companies	288	487	-199
Total	102,390	101,852	538
Other companies			
Calenia Energia Spa	9,073	9,073	-
Energia Italiana Spa	13,233	13,233	-
Galsi Spa	10,524	10,524	-
Other minor companies	575	564	11
Total	33,405	33,394	11
Total equity investments	135,865	135,344	521

Equity investments in non-consolidated subsidiaries

The main differences compared to 31 December 2010 relate to:

- Ingenia Srl in liquidation, on 29 June 2011 was deleted from the Register of Companies
- Solhar Alfonsine Srl, Solhar Bentivoglio Srl, Solhar Faenza Srl, Solhar Ferrara Srl, Solhar Modena Srl, Solhar Piangipane Srl, Solhar Ravenna Srl and Solhar Rimini Srl, incorporated on 31 January 2011, still not operational as at the balance sheet date.

Equity investments in associated companies

The changes compared to 31 December 2010 relating to Aimag Spa, Set Spa, Sgr Servizi Spa, Tamarete Energia Srl and Feronia Srl, reflect the acknowledgment of the portion of profits/losses accounted by the respective companies.

As of 1 January 2011, Enomondo Srl was proportionally consolidated, following the acquisition of an additional 10% of share capital. Until 31 December 2010, the company was valued using the equity method.

19 Financial assets

	31-dec-11	31-dec-10	Changes
Loan receivables from associated and other companies	10,621	10,029	592
Fixed-income securities	309	309	-
Receivables for mortgages to be collected and advanced commissions	109	574	-465
Total	11,039	10,912	127

“Loan receivables from associated and other companies”, comprises non-interest bearing loans or loans regulated at market rates, granted to the following companies:

	31-dec-11	31-dec-10	Changes
Set Spa	5,964	5,964	-
Sei Spa	3,348	2,828	520
Modena Network Spa	960	960	-
Oikothen Scarl	322	277	45
Dyna Green	25	-	25
Other minor companies	2	-	2
Total	10,621	10,029	592

The main differences relate to:

- Sei Spa, for three disbursements in January, June and November 2011 amounting to Euro 140 thousand, Euro 300 thousand and Euro 80 thousand respectively;
- Oikothen Scarl, for another disbursement in October 2011 of Euro 45 thousand;
- Dyna Green, per a non interest-bearing loan disbursed in May 2011 of Euro 25 thousand.

20 Deferred tax assets

	31-dec-11	31-dec-10	Changes
Prepaid taxes	100,987	79,212	21,775
Receivables for substitute tax	4,516	5,078	-562
Total	105,503	84,290	21,213

“Prepaid taxes” are generated from the temporary differences between balance sheet profit and taxable income. Please refer to note 14, “income taxes”, for a fuller explanation of this matter.

“Substitute tax credits” relate to tax paid for the tax sheltering of 2002 goodwill, which is an advance payment of current taxes.

For a better understanding, see the table below which shows the reclassification to the item “Prepaid taxes” as at 31 December 2010, in order to show “Substitute tax credits”.

	31 Dec. 10 published	reclassification	31 Dec. 10 reclassified
Prepaid taxes	74,361	4,851	79,212
Prepaid taxes- las lfrs	9,929	-9,929	-
Receivables for substitute tax	-	5,078	5,078

21 Financial instruments - derivatives

Non-current assets / liabilities € / 000	Fair value hierarchy	Underlying hedged	31-dec-11			31-dec-10		
			Notional value	Fair Value Assets	Fair Value Liabilities	Notional value	Fair Value Assets	Fair Value Liabilities
Interest rate derivatives								
- Interest rate Swap	2	Loans	502.3 million	18,864		14.2 million	169	
- Interest rate Swap	2	Loans	331.5 million		16,991	913.2 million		42,817
- Interest rate Option	2	Loans	9.1 million		666	18.8 million		1,265
Total interest rate derivatives				18,864	17,657		169	44,082
Exchange rate derivatives (financial transactions)								
- Cross Currency Swap	2	Loans	20 billion JPY	61,684		20 billion JPY	39,902	
Total exchange rate derivatives (financial transactions)				61,684	0		39,902	0
Total				80,548	17,657		40,071	44,082
- Interest rate Swap	2	Loans	203.9 million		4,712	13.8 million		71
- Interest rate Option	2	Loans	3.6 million		105			
Interest rate derivatives				22	4,817		27	71
Commodity derivatives								
- Swap	2	Crude oil	1,232,300 Bbl	4,866		516,650 Bbl	1,607	
- Swap	2	Commodity	21,550 Ton	562		59,900 Ton	2,959	
- Swap	2	Electricity formulas	3,833,855 MWh	32,782		3,037,342 MWh	7,916	
- Swap	2	Fuel formula	153,590 MWh	610		22,080 MWh	118	
- Swap	2	Crude oil	508,300 Bbl		1,694	512,300 Bbl		389
- Swap	2	Commodity	163,250 Ton		3,274	13,200 Ton		765
- Swap	2	Electricity formulas	2,992,735 MWh		35,548	3,349,812 MWh		10,747
- Swap	2	Fuel formula						
Total commodity derivatives				38,820	40,516		12,600	11,901
Exchange rate derivatives (commercial transactions)								
- Swap	2	EUR/USD exchange rate	68.5 million Usd	1,800		6.0 million Usd	169	
- Swap	2	EUR/USD exchange rate	55.5 million Usd		2,377	50.5 million Usd		1,617
Total exchange rate derivatives (commercial transactions)				1,800	2,377		169	1,617
Total				40,642	47,710		12,796	13,589

Derivative financial instruments classified under non-current assets amount to Euro 80,548 thousand, (Euro 40,071 thousand as at 31 December 2010); Euro 18,864 thousand refers to interest rate derivatives, and Euro 61,684 thousand to foreign exchange rate derivatives relating to financing operations. **Derivative financial instruments classified under non-current liabilities** amount to Euro 17,657 thousand, (Euro 44,082 thousand as at 31 December 2010), and all refer to interest rate derivatives.

Financial instruments recorded under current assets and liabilities represent derivative contracts expected to be realised within the next year. Derivative financial instruments classified under current assets amount to Euro 40,642 thousand, (Euro 12,796 thousand as at 31 December 2010); Euro 22 thousand refers to interest rate derivatives, Euro 38,820 thousand to commodity derivatives and Euro 1,800 thousand to foreign exchange rate derivatives relating to commercial transactions. Derivative financial instruments classified under current liabilities amount to Euro 47,710 thousand, (Euro 13,589 thousand as at 31 December 2010); Euro 4,817 thousand refers to interest rate derivatives, Euro 40,516 thousand to commodity derivatives and Euro 2,377 thousand to foreign exchange rate derivatives relating to commercial transactions.

With regard to **derivatives on current and non-current interest rate** as at 31 December 2011, the Group net exposure is negative by Euro 3,588 thousand, compared with a negative exposure of Euro 43,957 thousand as at 31 December 2010. The highly positive change in the fair value compared to the previous year is due to a combination of different factors:

- decrease in the interest rate curve, with reference to hedging of financial liabilities at fixed rate, especially corresponding to medium-term maturities;
- realisation of cash flows, corresponding to contractual maturities, linked to derivatives with a negative fair value as at 31 December 2010;
- reduction in the notional value of the derivatives subscribed to hedge loans with a repayment plan in place;
- signing of new derivative hedging contracts with negative values as at 31 December 2011, which partly offset the changes mentioned previously.

The fair value of the **derivatives subscribed to hedge the exchange rate and the fair value of the loans denominated in foreign currency** as at 31 December 2011 is positive by Euro 61,684 thousand, compared with a positive value, equal to Euro 39,902 thousand, as at 31 December 2010. The significant change in fair value is mainly due to the strengthening of the Japanese Yen against the Euro and to a significantly lesser extent, the trend in the interest rate curve.

As at 31 December 2011, the net fair value of **commodity derivatives** was a negative Euro 2,273 thousand, compared to value of Euro 748 thousand, also negative, as at 31 December 2010. The reduction in fair value recorded in the period is attributable to the trend in commodity prices in relation to the type of hedging transactions effected and with a simultaneous increase in volumes subject to hedging. In particular, the significant increase in the price of crude oil over the previous year should be noted.

The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices; in the absence prices quoted on active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. The fair value of the commodity derivatives is calculated using input directly observable on the market. All derivative contracts entered into by the Group are with leading institutional counterparties.

Interest rate and foreign exchange derivative instruments held as at 31 December 2011, subscribed in order to hedge loans, can be classed into the following categories (figures in thousands of €):

Interest rate / exchange rate derivatives (financial transactions)	Underlying	31-dec-2011					31-dec-2010				
		Notional value	Fair Value Assets	Fair Value Liabilities	Income	Charges	Notional value	Fair Value Assets	Fair Value Liabilities	Income	Charges
- Cash Flow Hedge	Loans	386.2 million	0	18,117	69	11,166	410.7 million	0	23,086	21	20,145
- Fair Value Hedge	Loans	649.8 million	80,548	4,191	79,783	17,423	649.8 million	39,902	20,308	62,346	25,597
- Non Hedge Accounting	Loans	18.3 million	22	166	753	753	60.8 million	196	759	898	1,120
Total			80,570	22,474	80,605	29,342		40,098	44,153	63,265	46,862

Interest rate derivatives identified as cash flow hedges show a residual notional amount of Euro 386.2 million (Euro 410.7 million as at 31 December 2010) against variable rate loans of the same amount.

Income and charges associated to said class of derivatives predominantly refer to cash flows realised, or to the recording of shares of future flows, which shall have a financial impact in the following period.

As at 31 December 2011 the breakdown of net charges relating to derivatives classified as cash flow hedges, amounting to Euro 11,097 thousand, is as follows:

Cash Flow Hedges €/000	31-dec-2011 Income / (Charges)	31-dec-2010 Income / (Charges)
- Cash Flows realised	-11,425	-20,598
- Accrued Interest	456	805
- Ineffective portion	-128	-331
Total	-11,097	-20,124

The considerable reduction in net financial charges compared with the same period in the previous year (see Note 13 “Financial income and charges”) is predominantly due to the trend (in the context of hedges entered into) in interest rates. In fact, the growth trend in the short-term Euribor rates continued in the first half of 2011 in particular, generating a positive effect on fixed rate hedges entered into. Another factor which contributed marginally to the decrease in net cash flows paid was the gradual reduction in the notional value of some derivatives linked to loans in the repayment phase.

The ineffective portion relating to this class of interest rate derivative led to the recording of net charges totalling Euro 128 thousand in the income statement. All the hedging relationships between the aforementioned derivatives contracts and the related underlying liabilities are qualified as “Cash Flow Hedges” and involved the recording in the Group shareholders’ equity, of a specific negative reserve, amounting to Euro 8,606 thousand, net of the related tax effect.

Interest rate and foreign exchange derivatives identified as fair value hedges of liabilities booked to the income statement show a residual notional amount of Euro 649.8 million (unchanged compared to 31 December 2010), against loans of the same amount. In the case of loans denominated in foreign currency, the notional amount of the derivative expressed in Euro is the translation to the original exchange rate hedged. Specifically, the financial liabilities hedged comprise a bond loan in Japanese Yen with a residual notional amount of JPY 20 billion and a ten-year fixed rate bond of Euro 500 million. These derivatives led to the recording of financial income of Euro 79,783 thousand and financial charges of Euro 17,423 thousand; in parallel, a fair value assessment of the underlying loans was performed, recording financial charges for Euro 56,744 thousand.

As at 31 December 2011 the breakdown of income and charges relating to derivatives classified as fair value hedges and the related underlying liabilities valued at fair value was as follows:

Fair Value Hedges €/000	31-dec-2011			31-dec-2010		
	Income	Charges	Total	Income	Charges	Total
- Valuation of derivatives	60,935	-4,191	56,744	46,955	-20,861	26,094
- Accrued Interest	19		19	1,937	0	1,937
- Cash Flows realised	18,829	-13,232	5,597	13,454	-4,736	8,718
- Ineffective portion	0	0	0	0	0	0
Total economic effect of derivatives	79,783	-17,423	62,360	62,346	-25,597	36,749

Underlying elements covered €/000	31-dic-11			31-dic-10		
	Income	Charges	Total	Income	Charges	Total
Valuation of financial liabilities		-56,744	-56,744	20,861	-46,955	-26,094
Total	0	-56,744	-56,744	20,861	-46,955	-26,094

The reduction in net financial income and charges associated with this type of hedge, compared to the previous year, reflects the changes in the fair value of the financial instruments illustrated above, specifically with reference to the decrease in the interest rate curve and change in the fair values of foreign exchange derivatives, in addition to negative final cash flows.

The remaining interest rate derivatives not in the hedge accounting have a residual notional value of Euro 18.3 million (Euro 60.8 million as at 31 December 2010); some of these contracts are the result of mirroring transactions carried out in previous years as part of a restructuring of the derivatives portfolio. The remaining contracts which, under the criteria envisaged by the international accounting standards, cannot be accounted for under hedge accounting, were however put in place for hedging purposes only.

As for embedded derivatives, reference should be made to note 31.

Commodity derivative instruments held as at 31 December 2011 can be classed into the following categories (figures in thousands of €):

Exchange rate / commodity derivatives (commercial transactions)	Underlying	31-dec-2011				31-dec-2010			
		Fair Value Assets	Fair Value Liabilities	Income	Charges	Fair Value Assets	Fair Value Liabilities	Income	Charges
- Cash Flow Hedge	Electricity formulas	0	0	0	0	0	0	3,697	2,441
- Non Hedge Accounting	Commodity transactions	40,620	42,893	58,593	47,059	12,769	13,518	66,099	64,957
Total		40,620	42,893	58,593	47,059	12,769	13,518	69,796	67,398

Commodity derivatives recorded under hedge accounting were all closed as at 31 December 2010.

The commodity derivatives classified as non-hedge accounting also include contracts put in place substantially for hedging purposes, but which, on the basis of the strict requirements set forth by international accounting standards, cannot be formally classified under hedge accounting. In any event, these contracts generate income and charges referring to higher/lower purchase prices of raw materials and, as such, are recognised as operating costs.

On the whole, in 2011, the commodity derivatives generated Euro 58,593 in income and Euro 47,059 thousand in charges, for a net gain to the income statement of Euro 11,534 thousand, compared to a net gain of Euro 2,398 thousand as at 31 December 2010. The significant increase refers mainly to the sale of swaps previously stipulated to hedge the variable price of contracts for the purchase of raw materials (gas and electricity), whose value increased at the same time as the increase in the price of crude oil and which is essentially balanced by a similar increase in the cost of the raw material deriving from the aforementioned purchase contracts.

Interest rate risk and currency risk on financing transactions

The Group's financial requirements are also met by turning to outside resources in the form of debt. The cost of the various forms of borrowing can be affected by market interest rate fluctuations, with a consequent impact on the amount of the net financial charges. Equally, interest rate fluctuations also influence the market value of financial liabilities. In the case of loans denominated in foreign currency, the cost may also be affected by exchange rate fluctuations with an additional effect on net financial charges. To mitigate interest rate volatility risk and, at the same time, guarantee the correct balance between fixed rate indebtedness and variable rate indebtedness, the Group has stipulated derivatives on interest rates (Cash Flow Hedges and Fair Value Hedges) against part of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives (Fair Value Hedges) to fully hedge loans in foreign currency.

Sensitivity Analysis - Financial transactions

In conjecturing an instant shift of -50 basis points in the interest rate curve with respect to the interest rates effectively applied for the assessments as at 31 December 2011, at like-for-like exchange rates, the potential increase in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly Euro 20.8 million. Likewise, conjecturing an instant shift of +50 basis points in the interest rate curve, there would be a potential decrease in fair value of about Euro 19.8 million.

These fair value changes would have no effect on the income statement if it were not for the potential ineffective portion of the hedge, as they refer to financial derivative instruments classified under hedge accounting. As for the effects on the consolidated statement of comprehensive income, in the event of a negative shift in the curve, the change in Cash Flow Hedge reserves would be negative for Euro 1.7 million, net of tax, while in the event of a positive shift, the change would be positive for Euro 1.7 million, net of tax.

As for derivatives designated as fair value hedges, these fair value changes would have no effect on the income statement, except for that limited to the ineffective portion of the hedge, since they are offset by a change in the fair value of the underlying liabilities being hedged, in the opposite sign.

The effects on the income statement of the fair value changes of the instruments not in hedge accounting, as they almost entirely undergo mirroring transactions, would be insignificant.

In conjecturing an instant rise of 10% in the EUR/JPY exchange rate, with no change in interest rates, the potential decrease in the fair value of derivative financial instruments held as at 31 December 2011 would amount to approximately Euro 23.7 million. Likewise, an instant fall in the same amount would bring about a potential increase in the fair value of the instruments of around Euro 28.9 million. As these are exchange rate derivatives regarding financing transactions, fully designated as fair value hedges, these changes would have no effect on the income statement, except for that of the potentially ineffective portion of the hedge, since they are offset by a change in the fair value of the underlying liability being hedged, in the opposite sign.

Market risk and currency risk on commercial transactions

In relation to the wholesale activities carried out by the subsidiary Hera Trading Srl, the Group must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas linked to the sale of said commodities, including therein fixed price contracts stipulated, as well as any exchange rate risk in the event that the commodity purchase/sale agreements are concluded in currencies other than the Euro (essentially the US dollar).

With reference to those risks, the Group objective is to lessen the risk of fluctuation in the forecast budget margins. The instruments used for handling price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, are carried out through swap agreements, aimed at pre-establishing the effects on the sales margins irrespective of the changes in the aforementioned market conditions.

Though these transactions are substantially put in place for hedging purposes, in order to realise all possible synergies and decrease operating costs, they are concretely implemented by deconstructing the indices included in the underlying contracts and reaggregating them by individual type and net external exposure. As a result, in most cases, the direct correlation of the hedging transactions with the related underlying elements is lost, thereby making these transactions non-compliant with the requirements of IAS 39 for hedge accounting.

Sensitivity Analysis - Commercial transactions

In conjecturing an instant 10 dollar-per-barrel rise in the Brent price, with no change in the Euro/Dollar exchange rate, and no change in the curve of the national standard price, the potential reduction in the fair value of derivative financial instruments held as at 31 December 2011 would amount to approximately Euro 0.7 million. On the contrary, an instant fall in the same amount would bring about a potential increase in the fair value of the instruments of around Euro 0.7 million.

In conjecturing an instant rise in the exchange rate of 0.05 dollars per Euro, with no change in the Brent price, and no change in the national standard price, the potential decrease in the fair value of derivative financial instruments held as at 31 December 2011 would amount to approximately Euro 0.2 million. Likewise, an instant fall in the same amount would bring about a potential increase in the fair value of the instruments of around Euro 0.2 million.

In conjecturing an instant +5 €/MWh change in the national standard price curve, with no change in the Euro/Dollar exchange rate, and no change in the Brent price, the potential increase in the fair value of derivative financial instruments held as at 31 December 2011 would amount to approximately Euro 1.2 million. On the contrary, an instant change of -5 €/MWh would bring about a potential decrease in the fair value of the instruments of around Euro 1.2 million.

22 Inventories

	31-dec-11	31-dec-10	Changes
Raw materials and stocks	68,926	47,918	21,008
Finished products	701	790	-89
Advance payments	3,134	5,172	-2,038
Total	72,761	53,880	18,881

“Raw materials and stocks”, stated net of an obsolescence provision of Euro 675 thousand (Euro 564 thousand as at 31 December 2010) are comprised mainly of gas stocks, Euro 45,157 thousand (Euro 24,820 thousand as at 31 December 2010) and raw materials and stocks (spare parts and equipment used for maintenance and running of operating plants), equal to Euro 23,769 thousand (Euro 23,098 thousand as at 31 December 2010).

The change, compared with 31 December 2010, is attributable to the increase in the price of gas and higher stocks of gas destined for the domestic market before the end of the thermal season (March 2012).

The item “Advance payments”, amounting to Euro 3,134 thousand, relates to advance payments on gas supply, down compared to the previous year mainly as a result of the renegotiation of the payment terms on a long-term contract.

23 Trade receivables

	31-dec-11	31-dec-10	Changes
Receivables from customers	689,312	611,348	77,964
Receivables from customers for invoices to be issued	547,319	503,312	44,007
Receivables from associated companies	13,729	19,836	-6,107
Total	1,250,360	1,134,496	115,864

Trade receivables as at 31 December 2011 amounted to Euro 1,250,360 thousand (Euro 1,134,496 thousand as at 31 December 2010) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2011. The balances are stated net of the provisions for doubtful receivables amounting to Euro 105,244 thousand (Euro 77,294 thousand as at 31 December 2010) which is considered to be fair and prudent in relation to the estimated realisable value of said receivables.

With reference to the disputed receivables linked to electricity supply under the “protection” service relating to 8 customers falling within the scope of the Terni chemical hub (technical dispute, requiring intervention from the Italian Authority for Electricity and Gas), the following should be noted:

- as at the balance sheet date, the amount actually billed came to Euro 18,447 thousand;
- the Italian Authority for Electricity and Gas, by means of resolution ARG/elt 163/11, defined a mechanism for the payment/compensation to the Group, to be effected by the Equalisation Fund for the Electricity Sector, both for the amounts billed and not collected as at 9 December 2011, amounting to Euro 11,614 thousand, and in relation to extraordinary financial expenses, totalling Euro 1,242 thousand;
- as at the balance sheet date, the residual amount of receivables due and, in any case, already paid in advance to the Group by the Equalisation Fund for the Electricity Sector, came to Euro 10,810 thousand, while the sum of Euro 168 thousand in extraordinary expenses was already collected;
- the day after the bi-monthly check performed by CCSE on 28 February 2012, the amounts pursuant to the previous point came to Euro 6,251 thousand and Euro 939 thousand respectively

In consideration of the above, everything was deemed to have been concluded positively.

The changes occurring in the provision during the year are provided below:

	31-dec-10	Provisions	Change in scope of consolidation	Uses and other movements	31-dec-11
Provision for doubtful receivables	77,294	49,686	381	-22,117	105,244
Total	77,294	49,686	381	-22,117	105,244

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on historic analyses of the receivables regarding the general body of the customers (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the following paragraph “credit risk”. The change in the scope of consolidation refers to the merger by incorporation of Sadori Gas Srl into Hera Comm Srl, as illustrated in these notes in section “Change in the scope of consolidation”.

The table below shows the reclassification from the item “receivables due from customers for invoices to be issued” on 31 December 2010, with respect to the information published in the item “Receivables due from associated companies” for a better comparison of the data:

	31 Dec. 10 published	reclassification	31 Dec. 10 reclassified
Receivables from customers for invoices to be issued	504,365	-1,053	503,312
Receivables from associated companies	18,783	1,053	19,836

Credit risk

The book value of the trade receivables shown in the financial statements is the maximum theoretical exposure to credit risk for the Group as at 31 December 2011. Even if not standardised, there is a procedure for providing credit to customers that provides for individual evaluations to be made. These operations make it possible to reduce the concentration and exposure to credit risk posed by both business and private customers. Analyses are periodically made of the credit standings still open so as to single out any critical issues. Should individual positions turn out to be entirely or partially uncollectible, an adequate write-down is provided. With regard to the receivables that do not undergo individual write-downs, allocations are made to the provision for doubtful receivables, on the basis of historic analysis (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the creditor).

Trade receivables, mainly achieved in Italy, can be broken down into the following classes:

31-dec-11	Institutions	Business	Mass Market	Total
amount	83,321	272,495	333,496	689,312
incidence	12%	40%	48%	100%

31-dec-10	Institutions	Business	Mass Market	Total
amount	87,087	290,587	233,674	611,348
incidence	14%	48%	38%	100%

24 Contract work in progress

	31-dec-11	31-dec-10	Changes
Contract work in progress	22,390	17,228	5,162
Total	22,390	17,228	5,162

Contract work in progress as at 31 December 2011 relates to long-term orders for plant works. The increase is due mainly to more environmental reclamation works.

25 Financial assets

	31-dec-11	31-dec-10	Changes
Financial receivables from associated companies	28,146	29,313	-1,167
Portfolio securities and financial policies	4,470	7,221	-2,751
Receivables for mortgages to be collected	2,937	1,098	1,839
Receivables for loans given to others	7,392	8,452	-1,060
Total	42,945	46,084	-3,139

The item “Financial receivables from associated companies” comprises interest-bearing loans granted to the following companies:

	31-dec-11	31-dec-10	Changes
Tamarete Energia Srl	26,816	23,736	3,080
Modena network spa	900	900	-
Ghirlandina Solare	250	396	-146
Enomondo Srl	-	4,100	-4,100
Other minor companies	180	181	-1
Total	28,146	29,313	-1,167

The main changes compared to 31 December 2010 refer to Tamarete Energia Srl, which was granted an additional loan in 2011, and to Enomondo Srl which, following the acquisition of an additional 10% of share capital by the Group, as described in the appropriate section “Change in the scope of consolidation”, is valued using the proportional method. The company was valued at equity until 31 December 2010.

“Portfolio securities and financial policies” includes bonds issued by Banca di Credito Cooperativo, amounting to Euro 4,150 thousand, and investment policies with banks, amounting to Euro 320 thousand. The reduction compared to 31 December 2010 is due to the redemption of an investment policy amounting to Euro 2,761 thousand.

“Receivables for loans given to others”. Of note we report:

- the closure of a credit position in respect of customers amounting to Euro 7,696 thousand;
- the disbursement of an interest-bearing loan for a nominal Euro 4,000 from Asa Scpa to a minority shareholder;
- the interest-bearing loan granted to the jointly controlled company Enomondo Srl, amounting to Euro 2,050, which represents the residual portion of the assets recorded in the separate financial statements of Parent Company Herambiente Spa. The loan as at 31 December 2010 was stated for its full amount, equal to Euro 4,100 thousand, in consideration of the valuation of said company at equity.

26 Current tax assets

	31-dec-11	31-dec-10	Changes
Income tax receivables	6,164	3,812	2,352
Total	6,164	3,812	2,352

“Current tax assets” relate to the surplus of advance payments made for direct IRES and IRAP taxes in 2011, with respect to the payable accrued.

In 2010, the values relating to “Current tax assets” were classified under “other current assets”; please refer to the section “summary of reclassifications” in the explanatory notes.

27 Other current assets

	31-dec-11	31-dec-10	Changes
Energy efficiency bonds and emission trading	76,080	67,744	8,336
VAT, excise and surcharges	43,287	2,300	40,987
Guarantee deposits	18,507	23,924	-5,417
Receivables for tariff components	12,382	7,819	4,563
Sundry tax receivables	7,399	7,316	83
Equalisation fund for the electricity and gas sectors for standardisation and continuity income	6,656	14,692	-8,036
Receivables due from asset companies	5,093	4,880	213
Costs advanced for leases and rentals	3,799	3,905	-106
Contributions	4,796	5,694	-898
Advances to suppliers/employees	4,372	3,707	665
Insurance costs	4,038	5,494	-1,456
Receivables due from municipalities for tax moratorium	1,061	2,029	-968
Receivables due from social security institutions	539	678	-139
Other receivables	23,824	27,613	-3,789
Total	211,833	177,795	34,038

The breakdown and changes in the main items are described compared with 31 December 2010.

“Energy efficiency bonds and emissions trading”, include:

- green certificates, Euro 44,951 thousand (Euro 39,058 thousand as at 31 December 2010);
- white certificates, Euro 19,280 thousand (Euro 15,478 thousand as at 31 December 2010);
- grey certificates, Euro 11,849 thousand (Euro 13,208 thousand as at 31 December 2010).

As regards green certificates, it should be noted that, in December 2011, certificates relating to the years 2008, 2009 and 2010 for the waste-to-energy plant in Ferrara were sold to GSE (Energy Services Operator). Hera Spa accounted for the green certificates regarding the WTE plant in Ferrara, for a total amount accrued for years 2008, 2009 and 2010, equal to Euro 18,117 thousand, based on provisions envisaged by art. 1, paragraphs 1117 and 1118 of Law no. 296/2006 (2007 Finance Act). On 10 March 2011, GSE gave official communication that the conditions were satisfied for obtaining 100% of said certificates.

In this table, the Administration body recognises the incentives in favour of electricity power plants from renewable sources and sources assimilated to renewable sources, without making any distinction between organic and inorganic portion of waste, safeguarding the purchase right of plants, as the one located in Ferrara which, at the date of entry into operation of the financial bill itself (1 January 2007), met all the conditions required by the aforementioned law and in particular: a) signature of the appropriate agreement with GSE, b) almost completed plant and c) necessary authorisations.

In this regard, it should be noted that, during the phase of recognition of green certificates of the WTE plant in Ferrara, GSE identified all the consumption of said incineration plant with the auxiliary services, without taking into due consideration the unique features and objectives of a waste-to-energy plant. In respect of said dispute, the Group, based on in-house technical analyses and having consulted its legal advisors, reviewed its credit positions recorded for the years 2008, 2009 and 2010 relating to the Forlì and Modena plants, and promoted all the initiatives necessary, not least the appeal before the competent administrative offices, in order to obtain payment of the amount held to be due.

The Item "VAT, excise and surcharges", amounting to Euro 43,287 thousand, consists of VAT credits due from the tax authorities, for Euro 3,204 thousand, and of excise and regional surtaxes of Euro 40,083 thousand. The change, compared with 31 December 2010, is due to an increase in receivables for excise and additional regional taxes amounting to Euro 40,016 thousand (Euro 67 thousand as at 31 December 2010) and receivables for VAT, amounting to Euro 971 thousand (Euro 2,233 thousand as at 31 December 2010). These changes are to be interpreted together with the changes shown in the item in liabilities, "Other current liabilities" - note 38. To understand these changes, particularly with regards to excise duties and surtaxes, note must be taken of the procedures that regulate financial relations with the Tax Authorities. In particular, advance payments during the year were calculated according to quantities of gas and electricity billed in the previous year. Using these methods, credit/debit positions can be generated with differences that are also significant between one period and another.

"Security deposits", composed mainly of:

- the deposit made to Acosea Impianti Srl for Euro 12,000 thousand;
- other minor deposits in favour of public institutions and companies, Euro 4,248 thousand (Euro 3,881 thousand as at 31 December 2010);
- deposits in favour of the Property Valuation Office, Euro 2,259 thousand (Euro 2,099 thousand as at 31 December 2010) to guarantee the payment of revenue tax collected from customers.

The reduction compared to 31 December 2010 is due mainly to the repayment of a security deposit to GSE of Euro 5,944 thousand.

The item "Sundry tax receivables", equal to Euro 7,399 thousand (Euro 7,316 thousand as at 31 December 2010) mainly comprises tax credits on district heating.

The item "Equalisation fund for the electricity and gas sectors for standardisation and continuity income" shows a balance of Euro 6,656 thousand (Euro 14,692 thousand as at 31 December 2010). The decrease compared to the previous year relates to the amount collected in 2011 in relation to the gas and electricity standardisation and the components of the Ug2 and Gs system of the gas sector. In this regard please refer to note 38 "Other current liabilities", in the item "Equalisation Fund for the Electricity Sector".

The item “Contributions”, amounting to Euro 4,796 thousand, down compared with 31 December 2010, chiefly relates to receivables for payments to a sinking fund by various Entities, but still to be collected.

As regards “receivables from municipal authorities for tax moratorium”, please refer to note 14.

Some reclassifications made in the corresponding items as at 31 December 2010 are provided below:

	31 Dec. 10 published	reclassified	31 Dec. 10 reclassified
Receivables for tariff components	0	7,819	7,819
Equalisation fund for the electricity and gas sectors for standardisation and continuity income	21,693	-7,001	14,692
Other receivables	28,431	-818	27,613

28 Cash and cash equivalents

As at 31 December 2011, cash and cash equivalents totalled Euro 415,189 thousand (Euro 538,226 thousand as at 31 December 2010) and include cash, cash equivalents, and bank cheques and drafts held in centralised and decentralised accounts for a total of Euro 193 thousand. They also include bank and financial institution deposits in general, available for current transactions and post office accounts totalling Euro 414,996 thousand. To get a better grasp of the financial trends in 2011, please refer to the cash flow statement and the comments shown in the Directors' report.

29 Non-current assets held for sale

	31-dec-11	31-dec-10	Changes
Land and buildings	9,930		9,930
General and specific plants	676		676
Total	10,606		10,606

Non-current assets held for sale, reclassified from the item Tangible fixed assets in application of IFRS 5, amount to Euro 10,606 thousand and relate to:

- the portion of the property complex in Berti Pichat area known as Area P1, amounting to Euro 8,003 thousand (preliminary sale agreement of 30 November 2011). In this regard, it should be noted that the area in question is to be redeveloped which will involve the construction, by a third party construction firm, of a new management building and urbanisation of the surrounding spaces; the agreement signed with the construction firm envisages that part of said building will then be leased to the Group;
- the property in Via Dozza no. 8 in Bologna, amounting to Euro 2,603 thousand (preliminary sale agreement of 21 July 2011).

Furthermore, the amortisation/depreciation relating to said assets involve an insignificant amount.

Classification of financial assets and liabilities pursuant to IFRS 7

The following table illustrates the composition of Group assets by measurement class. The fair value of the derivatives is instead itemized in Note 21.

31-Dec-11 thousands of euro	Fair value in income statement	Receivables and Loans	Held to maturity	Held for sale	Total
Non-current assets		10,730		309	11,039
Financial assets measured at fair value				309	309
Non-current receivables due from related parties		10,621			10,621
Receivables		109			109
Current assets	51,028	1,455,804		4,470	1,511,302
Trade receivables		1,250,360			1,250,360
Financial assets measured at fair value				4,470	4,470
Current receivables due from related parties		30,601			30,601
Financial receivables		7,874			7,874
Other assets	51,028	166,969			217,997
31-Dec-10 thousands of euro					
Non-current assets		10,603		309	10,912
Financial assets measured at fair value				309	309
Non-current receivables due from related parties		10,029			10,029
Receivables		574			574
Current assets	48,634	1,306,332		7,221	1,362,187
Trade receivables		1,134,496			1,134,496
Financial assets measured at fair value				7,221	7,221
Current receivables due from related parties		29,313			29,313
Financial receivables		9,550			9,550
Other assets	48,634	132,973			181,607

With regard to "non-current assets", please see the itemization in Note 19.

With regard to "current assets", please see the itemization in Notes 23, 25, 26 and 27.

The following table illustrates the composition of Group liabilities by measurement class. The fair value of the derivatives is instead itemized in Note 21.

31-Dec-11 thousands of euro	Fair value in income statement	Hedged items (fair value hedge)	Amortised Cost	Total
Non-current liabilities		719,114	1,691,425	2,410,539
Loans		719,114	1,686,148	2,405,262
Financial leasing payables			5,277	5,277
Current liabilities	2,795		1,717,848	1,720,643
Loans			118,467	118,467
Financial leasing payables			3,683	3,683
Trade payables			1,229,242	1,229,242
Other liabilities	2,795		366,456	369,251

31-Dec-10 thousands of euro	Fair value in income statement	Fair value in income statement	Receivables and loans	Total
Non-current liabilities		662,370	1,660,234	2,322,604
Loans		662,370	1,651,352	2,313,722
Financial leasing payables			8,882	8,882
Current liabilities	3,143		1,440,346	1,443,489
Loans			147,837	147,837
Financial leasing payables			4,599	4,599
Trade payables			1,061,003	1,061,003
Other liabilities	3,143		226,907	230,050

With regard to "non-current liabilities", please see the itemization in Notes 31 and 35.

With regard to "current liabilities", please see the itemization in Notes 31,35,36,37 and 38.

30 Share capital and reserves

The statement of changes in shareholders' equity is shown in section 2.01.05 of these consolidated financial statements.

Share capital

The share capital at 31 December 2011 was 1,115,013,754 Euro units, fully paid in, and represented by 1,115,013,754 ordinary shares with a nominal value of Euro 1 each.

Reserves for treasury shares

The "Reserve for treasury shares" has a negative value of Euro 9,674 thousand; it reflects the number of treasury shares in the portfolio as at 31 December 2011 and is considered a reduction of share capital. The items "Reserve for gains/losses on sale of treasury shares" and "Reserve for treasury shares exceeding par value" are recorded among the shareholders' equity reserves for a negative value of Euro 787 thousand and a negative value of Euro 3,221 thousand, respectively. These reserves, established in compliance with the reference accounting standards, reflect the treasury shares transactions carried out as at 31 December 2011. The change during the year generated capital losses amounting to Euro 740 thousand.

Reserves

The item "Reserves", equal to Euro 537,538 thousand, includes the following reserves:

- "legal" for Euro 31,751 thousand,
- "extraordinary" for Euro 31,096 thousand,
- "revaluation" for Euro 4,356 thousand,
- "share premium reserve" for Euro 15,269 thousand,
- "capital account payments" for Euro 5,400 thousand,
- "retained earnings" for Euro 35,780 thousand,
- "share swap surplus" for Euro 42,408 thousand,
- "IFRS 3 reserve" for Euro 227,008 thousand, deriving from the integrations of Agea Spa, Meta Spa, Geat Distribuzione Gas Spa, Sat Spa, Agea Reti Srl, Con.Ami and Area Assets Spa;
- "IAS/IFRS reserve" for Euro 143,473 thousand, generated after adoption of international accounting standards;
- "reserve for dividends received on treasury shares" for Euro 997 thousand.

Cash Flow-Hedge Reserve

As at 31 December 2011, this reserve had a negative balance of Euro 8,605 thousand following changes determined by fair value valuation of reference derivatives.

31 Payables to banks and medium/long- and short-term financing

As at 31 December 2011, medium/long term loans totalled Euro 2,405,262 thousand (Euro 2,313,722 thousand as at 31 December 2010), and relate to mortgages and loans of Euro 479,182 thousand and bond issues of Euro 1,926,080 thousand.

Medium/long-term payables to banks also include loans underwritten by subsidiaries Fea Srl and Nuova Geovis Srl, for Euro 51,900 thousand and Euro 1,781 thousand respectively. These loans are secured by mortgages and special liens. Repayment, with final maturity on 30 June 2019 and 30 June 2014, shall be in 6-monthly instalments, as established in the contract.

The table below shows the bonds and loans as at 31 December 2011, stated at their residual nominal value (millions of €), with an indication of the portion expiring within and after 5 years:

Type	Residual amount 31 Dec. 11	Portion due within one year	Portion due within 5 years	Portion due after 5 years
Bond	1,250	-	500	750
Convertible bond	140	-	140	
Puttable Bond/Loan	590	-	-	590
Amortising	142	33	76	33
Amortising secured collateral	56	4	31	21
Bullet	180	-	180	
Total	2,358	37	927	1,394

The main terms and conditions of the puttable bonds and loans are shown below:

Puttable bonds and loans	Term (years)	Expiry	Nominal value	Coupon	Annual rate	
<i>Convertible bond</i>	Luxembourg stock exchange	3	01/10/2013	140	Fixed, half-yearly	1.75%
<i>Eurobond</i>	Luxembourg stock exchange	10	15/02/2016	500	Fixed, annual	4.13%
<i>Eurobond</i>	Luxembourg stock exchange	10	03/12/2019	500	Fixed, annual	4.50%
<i>Bond (ex put bond)</i>	Listed on the EuroTLX Markets	13	17/11/2020	100	For the first 3 years, 3-month Euribor minus 29 cents. For the next 10 years, fixed rate of 4.593% plus 10-year credit spread. Quarterly coupon	4.593%+CS
<i>Put Loan</i>	From 2010 the holder has the possibility of requesting redemption at par every two years	13	22/11/2020	70	For the first 3 years, 3-month Euribor minus 45 cents. For the next 10 years, fixed rate of 4.41% plus a 2-year credit spread. Quarterly coupon	4.41%+CS
<i>Put Loan</i>	From 2010 the holder has the possibility of requesting redemption at par every two years	13	06/12/2020	70	For the first 3 years, 3-month Euribor minus 46 cents. For the next 10 years, fixed rate of 4.44% plus a 2-year credit spread. Quarterly coupon	4,44%+CS
<i>Bond</i>	Cross Currency Swap 150 € million	15	05/08/2024	20,000 JPY	Fixed, half-yearly	2.93%
<i>Put Bond</i>	From 2012 the holder has the possibility of requesting redemption at par every two years	23	10/10/1931	250	For the first 3 years, fixed rate 4.20%. From 10/10/2011 fixed rate 4.65% + 1-year CS. From 10/10/2012 until expiry, fixed rate of 4.65% plus 5-year credit spread. Quarterly coupon	4.65% +CS
<i>Put Bond</i>	From 2011 the holder has the possibility of requesting redemption at par every two years	27	08/08/1934	200	For the first 5 years, 3-month Euribor less 45 cents. From 08/08/2012 until 08/08/2016 fixed rate 3.15% plus 2-year credit spread. From 08/08/2016 until expiry, fixed rate of 4.85% plus 2-year credit spread. Quarterly coupon	Euribor 3m - 0.45%

It should be noted that, in October 2011, as provided for in the contract, an additional Euro 50 million was drawn down relating to the Put Bond maturing in 2031.

These loans do not provide for financial debt covenants, apart from the corporate rating limit by one rating agency only that is lower than “Investment Grade” level (BBB-).

As at 31 December 2011, short-term loans totalled Euro 118,467 thousand (Euro 147,837 thousand as at 31 December 2010) and include payables to banks and other lenders.

Liquidity risk

Liquidity risk consists of the impossibility to cope with the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs. Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done with the centralised management of incoming and outgoing flows (centralised treasury service); in the prospective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.

Current cash, cash equivalents, and credit facilities, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. In particular, as at 31 December 2011, there are unused credit lines totalling more than Euro 900 million.

32 Employee leaving indemnities and other benefits

This includes provisions for employee leaving indemnities and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations. The calculation is made using actuarial techniques and discounting future liabilities to the balance sheet date. These liabilities comprise the matured receivables of the employee at the presumed date of leaving the company.

The item "Gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly solely to settle payments made to eligible retirees. In both cases, recalculations have been made using the same actuarial methods implemented for the employee leaving indemnities. The item "tariff reduction provision" was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

The table below shows the changes in the above provisions during the year.

	31-dec-10	Provisions		Uses and other movements	Changes in scope of consolidation	31-dec-2011
		provisions	financial charges			
Employee leaving indemnity	87,657	500	1,496	-5,832	143	83,964
Provision for tariff reduction	3,340	258	85	-330	-	3,353
Premugas fund	2,384	185	61	-421	-	2,209
Gas discount	2,262	37	43	-273	-	2,069
Total	95,643	980	1,685	-6,856	143	91,595

The item "Uses and other movements" mainly includes the amounts paid to employees.

The item "Change in the scope of consolidation" includes the value of the provisions for employee leaving indemnities as at 1 July 2011 of the company Sadori Gas Srl, merged by incorporation into Hera Comm Marche Srl, as indicated in the paragraph "change in the scope of consolidation" in these notes.

The main assumptions used in the actuarial estimate of the employee benefits are as follows:

	31-dec-11	31-dec-10
Annual technical rate of discounting	4.78%	4.65%
Annual rate of inflation	1.70%	1.50%
Average rate of increase in total salaries	3.50%	3.50%
Annual rate of increase in employee leaving indemnity	2.78%	2.63%
Annual frequency of leaving employment due to causes other than death	1.71%	1.71%
Average annual frequency of use of the provision for employee leaving indemnities	1.42%	1.42%

In interpreting said assumptions, account is taken of the following:

1. for probabilities of death, those relating to Istat SIMF 2006 tables;
2. for probabilities of disability, those, distinguished by gender, adopted in the Inps model for 2010 projections;
3. as regards the pension age, the new effective dates were considered for pension treatment envisaged by 'Manovra Bis' (Law Decree no. 138 of 13 August 2011, introducing "additional urgent measures for financial stabilisation and development") and changes introduced by Law no. 122 of 30 July 2010, in terms of social security and pension windows and linking the pensionable age to an increase in the human life expectancy.

33 Provisions for risks and charges

	31-dec-10	Provisions		Uses and other movements	Changes in the scope of consolidation	31-dc-11
		provisions	financial charges			
Provision for restoration of third party assets	81,332	7,309	6,238	-228	-	94,651
Provision for landfill closure and post-closure expenses	95,028	4,500	5,206	-8,096	-	96,638
Provision for legal cases and disputes brought by personnel	20,711	6,820	-	-7,597	-	19,934
Other provisions for risks and charges	13,897	8,425	-	-6,490	-	15,832
Total	210,968	27,054	11,444	-22,411	-	227,055

The **provision for the restoration of third party assets**, equal to Euro 94,651 thousand, includes the provisions made in relation to the legal and contractual restrictions encumbering Hera Spa and Group companies in their capacity as leaseholders of the distribution networks owned by the asset companies. The allocations are made on the basis of economic-technical amortisation rates held to be representative of the residual possibility of use of the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. Pursuant to IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The **provision for landfill closure and post-closure expenses**, equal to Euro 96,638 thousand, represents the amount set aside to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently in use. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted back in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component inferred from the discounting back procedure, while the uses represent the effective outlays which came about during the year.

“Uses and other movements” decreased by Euro 8,096 thousand, as follows:

- “uses” for Euro 10,418 thousand, of which Euro 3,317 thousand booked as a contra entry to “other revenues” (please refer to note 5 of the income statement),
- “other movements”, relating to a Euro 2,322 thousand increase in the provision due to the change in the closure and post-closure costs estimated during the updating of the appraisals of certain landfills,

The provision for legal cases and disputes brought by personnel amounting to Euro 19,934 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees. The provision includes Euro 8.2 million relating to ongoing litigation with the INPS over the payment of contributions on social security benefits (CIG, CIGS, Mobility) and on the reduction of contribution rates for family allowances (CUAF) and for the maternity contribution with regard to employees governed by the electricity sector collective labour agreement in the Modena area.

In relation to the contributions on CIG, CIGS and mobility, the Hera Group deems that said contribution is not due, not only based on legal rules but also on the fundamental consideration that these social shock absorbers are effectively unusable since the Group runs essential services, which must be constantly insured. By contrast, INPS believes that the transformation into a joint-stock company and the transfer to private parties of even just a portion of the share capital, support the belief that the contributory obligation is enforceable. With its message no. 18089 of 10 July 2007, INPS ordered that, according to the principles stated in circular no. 63/2005, the contribution obligation for CIG, CIGS and Mobility was to go into effect on the very date the circular was issued, i.e. May 2005. This is in compliance with the Council of State opinion expressed (opinion no. 65 of 8 February 2006 referring to Enel Spa) regarding the non-retroactivity of the contribution obligations referred to in the circular. Actually, despite the fact that the literal tone of the message seems to undoubtedly regard the industrial companies of the public institutions (former municipal enterprises) as well, INPS - in latching on to circular 63/2005 - maintained that the message takes on its area of application, thereby referring only to Enel Spa, and asserts this in court. On 5 February 2008, the Employment Ministry intervened with a message addressed to the INPS General Management. It stated that the conclusions the Council of State reached regarding the non-retroactivity prior to May 2005 of the contribution obligation for CIG, CIGS and Mobility by necessity are general and unequivocal in order to protect the unavoidable principle of "par condicio" amongst market operators. Therefore, they also apply to the industrial companies of the public institutions (which the Hera Group also is part of).

Following a declaratory action brought in 2000 by Amir Spa, Hera Spa submitted an appeal to the Supreme Court, which was concluded with ruling 14847/09 rejecting the appeal for CIG contributions. The Supreme Court could, however, review the opinion, also following appeals we filed against other negative second instance rulings. At the very least, it should confirm the waiver of contributions to the redundancy fund (CIG) for periods prior to May 2005, according to the specific opinion of the Council of State.

In addition, it should also be noted that the INPS shall not file any new claims regarding CIG, CIGS and Mobility following the new classification in the Service sector, from 2010, of nearly all the Group companies (the contribution in question shall only apply to the Industrial sector).

Regarding the contribution for family allowances (Cuaf) and the maternity contribution, this type of litigation only concerns the INPDAP personnel regulated by the electricity sector collective labour agreement, and is based on the interpretation of article 41 of Law 488/1999 (Finance Act 2000). In particular, this contribution relates to the area of Modena only, as it results from the former Meta Spa. Following consultation at the time with the Modena INPS Positions Management Office, the former Meta Spa applied reduced rates starting in 2001, at the same time it requested reimbursement of the greater contributions it had paid in, but which were not due, regarding financial year 2000 (reimbursement that then was actually made between 2001 and 2002).

As from November 2003, however, INPS served notices requesting payment of the contributions at the full rate, completely amending the interpretative position previously adopted, deeming that the reduction of the CUAF and maternity rates owed by the electricity sector was not applicable for the workers enrolled with INPDAP. Meanwhile, this reduction was applied without objection in the case of the Enel Spa Group companies. The CUAF and maternity contribution differential that service companies have to pay for personnel registered with INPDAP until 31/12/2008 is equivalent to a total of 4.29% more than what has to be paid for INPS personnel; from 1/1/2009, with the equalisation of the maternity rate, the CUAF differential of 3.72% continues to exist, however.

This higher rate penalises the "former municipal enterprises" severely by comparison with other market operators. Confservizi has brought this failed contribution harmonisation consequent to Law 335/1995 to the attention of the Employment Ministry several times, which in turn has consulted the Council of State. The Council deemed a special legislative initiative necessary (circular no. 88 of 31 May 2004), which rules out the possibility of an administrative solution. In spite of Confservizi's efforts to push through this legislative initiative, as of today no result is yet to be seen.

Finally, a note on the evolution of the regulatory framework for unemployment and sickness contributions. art. 20 of Law Decree 112/2008 has forfeited any past INPS claims relating to Unemployment and Sickness contribution. The portion of contributions contained in these filings for such purposes is no longer considered a risk. In addition, there may be no new INPS claims as all Hera Group companies have regularly paid the Sickness contribution since 2005 and the Unemployment contribution since 2009.

In view of the information reported above, and particularly the uncertainty of the outcome of the CIG, CIGS and Mobility cases, an allocation of Euro 8.2 million was made for liabilities deriving from filings received up until the present day and still suspended, amounting to approximately Euro 18.6 million. This amount refers to the contributions contained in the filings by way of CIG, CIGS, Mobility, CUAFF and Maternity, excluding however the portion by way of Unemployment and Sickness contributions for the above reasons. This fund, set up using prudential criteria, is deemed to be appropriate, in view of both the likely development of the litigation and the opinions of the appointed legal advisors.

The provision for risks and charges, amounting to Euro 15,832 thousand, comprises provisions made against sundry risks. The main items are summarised below:

- Euro 1,642 thousand for the "MIS quota, charges for electrical service continuity and equal distribution";
- Euro 2,175 thousand in spending on restoration of goods reverting freely, relating to the water supply system of the river Rosola, held under concession and other provisions for risks of very modest amounts connected with environmental problems;
- Euro 470 thousand relates to the provision made in relation to customer compensation for water service leaks;
- Euro 1,857 thousand, relating to the provision set up to cover losses actually recorded and the future prospects of Oikothén Scral;
- Euro 404 thousand, relating to the "Valle Savio fund", established to address the works for the community adjacent to the Busca landfill, in the municipality of Cesena;
- Euro 787 thousand, provision for the cost of disposal of waste stored at Group plants;
- Euro 966 thousand in allocations for future expenses relating to the landfill of a subsidiary;
- Euro 1,126 thousand relates to the provision made in relation to the possible effects of Italian Authority for Electricity and Gas resolution no. 89/08 (ec79/07), which creates an obligation on the part of companies selling gas, of a financial payout to final customers under OTB (base tariff option) for the period referred to in the first half of 2006. The residual amount, as at 31 December 2011, corresponds to the most prudential scenario in relation to the amount which may be paid to final customers;

- Euro 2,087 thousand, for potential expenses for environmental issues relating to sites for which there are no proper formalised agreements with the municipalities concerned. As regards environmental issues, it should be noted that order no. 252 of 20 May 2010 of the Supreme Court sanctioned the fiscal nature of said expenses. Therefore, having also consulted its legal advisors, the Group believes there are no longer any legal or substantive obligations to pay said amounts to the municipalities of Modena and Forlì. The allocation made therefore represents the best estimate of the amount the Group could be required to pay, only in the case where a dispute develops with counterparties and a settlement reached.

34 Deferred tax liabilities

	31-dec-11	31-dec-10	Changes
Deferred tax payables	76,057	76,143	-86
Total	76,057	76,143	-86

Deferred tax liabilities are generated by temporary differences between the balance sheet profit and taxable income, commented on in note 14 "Taxes for the year".

35 Financial leasing payables

	31-dec-11	31-dec-10	Changes
Financial leasing payables due within one year	3,683	4,599	-916
Financial leasing payables due after one year	5,277	8,882	-3,605
Total	8,960	13,481	-4,521

This item represents the recording of payables arising from the accounting of leasing transactions using the financial method. The change compared with the previous year is due to the payment of the rentals accrued during the period and the early redemption of some contracts regarding a Group company.

Details of financial leasing payables, broken down by asset category, are shown below:

Financial leasing payables	31-Dec-10			
	Payables due within 12 months	Medium/long-term payables due between 1 and 5 years	Medium/long-term payables due after 5 years	Rent falling due
Land and buildings	1,271	3,055	-	4,511
Plant and machinery	671	3,978	-	5,279
Other movable assets	2,657	1,849	-	4,799
Total financial leasing payables	4,599	8,882	-	14,589

Financial leasing payables	Payables due within 12 months	Medium/long-term payables due between 1 and 5 years	Medium/long-term payables due after 5 years	Rent falling due
Land and buildings	1,838	1,138	-	3,054
Plant and machinery	1,117	2,424	-	3,927
Other movable assets	728	1,715	-	2,688
Total financial leasing payables	3,683	5,277	-	9,669

The net value of assets recorded in the financial statements is shown below (please refer to the values indicated in note 15 "Tangible fixed assets"):

Net value of assets recorded in financial statements	Assets held under financial leasing agreements			31-dec-11
	31-dec-10	Increases	Decreases	
Land and buildings	11,113	67	(404)	10,776
Plant and machinery	4,939	-	(1,299)	3,640
Other movable assets	15,267	640	(4,183)	11,724
Total assets held under financial leasing agreements	31,319	707	(5,886)	26,140

36 Trade payables

	31-dec-11	31-dec-10	Changes
Trade payables	608,496	527,667	80,829
Trade payables for invoices to be issued	599,357	508,603	90,754
Payables for advances received	12,861	14,477	-1,616
Payables due to associates	8,531	10,128	-1,597
Payables due to non-consolidated subsidiaries	-3	128	-131
Total	1,229,242	1,061,003	168,239

“Trade payables”, all of a commercial nature and inclusive of sums set aside to cover invoices due, total Euro 1,207,853 thousand as at 31 December 2011 compared to Euro 1,036,270 thousand as 31 December 2010.

“Payables for advances received” relate to advances received in relation to tender contracts for environmental reclamation and gas supply.

The majority of trade payables are the result of transactions carried out in Italy.

The key amounts owed to associated companies, again for commercial reasons, are itemised below:

	31-dec-11	31-dec-10	Changes
Set Spa	3,241	5,591	-2,350
Estense Global Service Soc.Cons.a r.l.	2,145	540	1,605
So.Sel Spa	1,782	2,096	-314
Service imola Srl	893	995	-102
Modena Network Spa	363	799	-436
Aimag Spa	69	89	-20
Other minor companies	38	18	20
Total	8,531	10,128	-1,597

For a better comparison of the data, the table below shows the reclassification from the item “trade payables for invoices to be issued” on 31 December 2010, with respect to the information published in the items “Payables due to associated companies” and “Payables due to non-consolidated associated companies”.

	31 Dec. 10 published	reclassification	31 Dec. 10 restated
Trade payables for invoices to be received	513,683	-5,080	508,603
Payables due to associated companies	5,095	5,033	10,128
Payables due to non-consolidated subsidiaries	81	47	128

37 Current tax liabilities

	31-dec-11	31-dec-10	Changes
Income tax payables	12,355	13,683	-1,328
Payables for substitute tax	24,643	25,434	-791
Total	36,998	39,117	-2,119

The most significant changes that have occurred since last year are noted below:

“Income tax due” is attributable to the setting aside of taxes accrued on the income generated during the period.

For “Payables for substitute tax”, please refer to note 14 on income taxes.

In 2010, the values relating to “Current tax liabilities” were reclassified under “Tax payables”; please refer to the section “summary of reclassifications” in the explanatory notes.

38 Other current liabilities

	31-dec-11	31-dec-10	Changes
Guarantee deposits	73,465	61,652	11,813
Capital grants	67,620	68,895	-1,275
Personnel	24,936	26,442	-1,506
Payables due to social security and welfare institutions	22,003	22,215	-212
Excise and surcharges	21,168	44,013	-22,845
VAT	18,710	11,075	7,635
Payables for tariff components	14,345	12,345	2,000
Municipalities for environmental disruption and establishing of guarantees	13,547	5,572	7,975
Employee withholdings	10,857	10,340	517
Equalisation fund for electricity and gas sector	11,706	8,921	2,785
Payables due to shareholders for dividends	8,771	5,894	2,877
Third party project and study work	4,478	4,804	-326
Other tax payables	3,182	3,986	-804
Insurance and deductibles	3,047	2,911	136
Energy efficiency bonds and emission trading	2,795	3,143	-348
Customers	2,350	1,354	996
Sewerage fees	577	570	7
Directors, Statutory Auditors and Area Committees	275	180	95
Other payables	28,421	21,123	7,298
Total	332,253	315,435	16,818

Comments are provided below on the most significant items and the associated changes as at 31 December 2010:

“Guarantee deposits” reflect the sums paid by customers for gas, water and electricity administration agreements. The increase compared to 31 December 2010 is attributable almost entirely to the acquisition of new customers.

“Capital grants” refer to investments in the water and waste management sector. This item will decrease in proportion to the amount of depreciation calculated on the reference assets.

The item “Personnel” relates to holidays accrued but not yet taken as at 31 December 2011 and the productivity bonus.

The item “Payables due to social security and welfare institutions” relates to contributions due to these institutions for the month of December, and accrued salaries recorded.

“Excise and surcharges” fell compared to 31 December 2010. For an explanation please see note 27 “other current assets”, and particularly the mechanism that governs the financial relations with the tax authority.

“VAT”; the significant increase over the previous year relates to the lower payment on account made in December 2011 (in application of the effective payment method), with respect to 31 December 2010 when the advance payment was calculated using the historical method.

“Municipalities for environmental disruption and establishing of guarantees”, the significant increase compared to the previous year is due to a different classification adopted as of 2011. In the 2010 financial statements, environmental issues with certain municipalities were recorded in trade payables.

“Equalisation Fund for the Electricity and Gas Sector”, reflects the debt positions for equalisation on the gas distribution/measurement, some components of the gas service system and equalisation of the electricity service. The increase compared to the previous year relates to payables for electricity equalisation and gas distribution (receivables due in the previous year). In this regard, see Note 27 “Other current assets”.

"Payables due to shareholders for dividends" refer to the subsidiary Fea Srl (Euro 8,771 thousand), for amounts due to the minority shareholder.

“Energy efficiency bonds and emission trading”, relating to grey certificates (Euro 1,625 thousand) and green certificates (Euro 1,170 thousand). These figures were Euro 3,053 thousand for grey certificates and Euro 90 thousand for green certificates as at 31 December 2010. This entry reflects the obligation to redeliver the certificates to the competent authorities based on applicable legislation.

IFRS 8

2011 Income statement

millions of euro	Gas	Electricity	Water cycle	Waste management	Other services	Structure	Total	Consolidated financial statements
Direct revenues	1,457.0	1,524.4	588.4	636.0	75.3	34.8	4,315.9	4,315.9
Infra-cycle revenues	30.0	59.4	6.4	58.9	23.2	17.2	195.1	
Total direct revenues	1,487.0	1,583.8	594.8	694.9	98.5	52.0	4,510.9	4,315.9
Indirect revenues	3.2	1.5	1.9	45.2	0.2	-52.0	0.0	
Total revenues	1,490.2	1,585.2	596.7	740.1	98.7	0.0	4,510.9	4,315.9
EBITDA	208.7	73.2	150.2	194.2	18.5	0.0	644.8	644.8
Direct Deprec., Amort. And Prov.	51.1	40.8	66.2	99.0	17.4	35.8	310.3	310.3
Indirect Deprec., Amort. And Prov.	8.4	4.7	11.0	10.6	1.1	-35.8		
Total Deprec., Amort. And Prov.	59.5	45.5	77.2	109.6	18.5	0.0	310.3	310.3
EBIT	149.2	27.7	73.0	84.6	0.0	0.0	334.5	334.5

2010 Income statement

millions of euro	Gas	Electricity	Water cycle	Waste management	Other services	Structure	Total	Consolidated financial statements
Direct revenues	1,182.2	1,393.8	562.0	619.3	75.1	44.9	3,877.3	3,877.3
Infra-cycle revenues	43.4	70.6	7.8	51.9	23.4	12.7	209.7	
Total direct revenues	1,225.6	1,464.4	569.8	671.2	98.5	57.6	4,087.0	3,877.3
Indirect revenues	11.6	3.9	9.4	31.9	0.9	-57.6	0.0	
Total revenues	1,237.1	1,468.3	579.2	703.1	99.4	0.0	4,087.0	3,877.3
Direct Deprec., Amort. And Prov.	193.9	59.8	142.0	195.1	16.4	0.0	607.3	607.3
Indirect Deprec., Amort. And Prov.								
Total Deprec., Amort. And Prov.	49.9	28.0	61.6	97.0	18.0	37.4	291.9	291.9
	9.0	5.2	10.7	11.1	1.4	-37.4		
EBIT	58.9	33.2	72.3	108.2	19.3	0.0	291.9	291.9
R.O.	135.0	26.6	69.7	86.9	-2.9	0.0	315.4	315.4

Balance sheet December 2011

millions of euro	Net working capital	Net fixed assets	Provisions	Shareholders' equity	NFP	Consolidated financial statements
Total assets	1,614.7	4,306.1	0.0	0.0	549.8	6,470.7
Financial assets and cash and cash equivalents					549.8	549.8
Tax assets	57.0	105.5				162.5
Unallocated Group assets	10.2	327.1				337.3
Sector activities	1,547.6	3,873.5	0.0	0.0	0.0	5,421.1
- of which:						
GAS	521.9	921.2				1,443.1
Electricity	479.5	541.8				1,021.3
Water cycle	217.9	1,126.6				1,344.5
Waste managements	282.1	1,153.3				1,435.4
Other services	46.2	130.7				176.8
Total liabilities	1,646.2	13.5	394.7	1,879.4	2,536.9	6,470.7
Financial liabilities and loans					2,536.9	2,536.9
Tax liabilities	91.5		76.1			167.5
Unallocated Group liabilities	4.8	13.5	4.1	1,879.4		1,901.9
Sector liabilities	1,549.9	0.0	314.5	0.0	0.0	1,864.4
- of which:						
GAS	478.1		78.3			556.4
Electricity	472.0		16.0			488.0
Water cycle	219.4		68.0			287.5
Waste management	335.5		145.6			481.1
Other services	44.8		6.6			51.4
Comprehensive total	-31.5	4,292.7	-394.7	-1,879.4	-1,987.1	0.0

Balance sheet December 2010

millions of euro	Net working capital	Net fixed assets	Provisions	Shareholders' equity	NFP	Consolidated financial statements
Total assets	1,400.0	4,186.4	0.0	0.0	614.8	6,201.2
Financial assets and cash and cash equivalents					614.8	614.8
Tax assets	13.6	84.3				97.9
Unallocated Group assets		338.4				338.4
Sector activities	1,386.4	3,763.7	0.0	0.0	0.0	5,150.1
- of which:						
GAS	453.2	895.6				1,348.8
Electricity	434.9	526.7				961.6
Water cycle	198.2	1,075.1				1,273.3
Waste management	250.6	1,129.5				1,380.1
Other services	49.5	137.0				186.4
Total liabilities	1,429.1	44.1	382.8	1,870.2	2,475.0	6,201.2
Financial liabilities and loans					2,475.0	2,475.0
Tax liabilities	109.1		76.1			185.3
Unallocated Group liabilities		44.1	1.8	1,870.2		1,916.2
Sector liabilities	1,320.0	0.0	304.8	0.0	0.0	1,624.8
- of which:						
GAS	426.5		72.1			498.7
Electricity	362.0		14.9			376.9
Water cycle	194.8		63.5			258.3
Waste management	292.5		147.6			440.2
Other services	44.1		6.6			50.7
Comprehensive total	-29.1	4,142.3	-382.8	-1,870.2	-1,860.2	0.0

Revenues, credit and debt positions, are realised primarily in respect of entities that operate in Italy.

Guarantees provided

	31-dec-2011	31-dec-2010
Bank sureties and guarantees:	890,986	370,591
Insurance sureties and guarantees:	184,863	301,777
Total	1,075,849	672,368

As regards bank sureties and guarantees, the value as at 31 December 2011 is broken down as follows:

- Euro 223,929 thousand for sureties to Public Institutions (Ministry of the Environment, Emilia Romagna Region, various Provinces and Municipalities) to guarantee the correct management of plants for the treatment of waste, landfills and depositaries, for the proper execution of services relating to the disposal of waste, reclamation works and managerial and post-operating activities;
- Euro 571,463 thousand for sureties and letters of patronage issued to guarantee the timely payment for supplies of raw materials. The change compared to the previous year is due to the process of redefinition of the actual commitments provided by the Parent Company in relation to some subsidiaries in order to better represent the risk encumbering said Group;
- Euro 45,549 thousand for sureties issued on behalf of Parent Company Hera Spa and subsidiaries Medea Spa, Hera Luce Srl, Herambiente Spa and Marche Multiservizi Spa, to guarantee the correct fulfilment of contractual commitments;
- Euro 40,950 thousand for the guarantee issued to associated company Set Spa, to guarantee a loan granted to the same by Banca Infrastrutture Innovazione e Sviluppo Spa;
- Euro 7,239 for sureties issued to associated companies Set Spa and Feronia Srl in favour of third parties for the fulfilment of contractual obligations;
- Euro 899 thousand for sureties issued to the Inland Revenue for the reimbursement of VAT credits on behalf of Hera Spa and subsidiary Romagna Compost Srl;
- Euro 580 thousand for the surety issued in the interest of associated company Oikothén Scarl to guarantee a loan granted by Banca BNP Paribas.
- Euro 377 thousand for the surety issued in the interest of associated company Modena Network Spa to guarantee a loan granted by Unicredit.

As regards insurance sureties and guarantees, the value as at 31 December 2011 is broken down as follows:

- Euro 184,863 thousand for sureties issued to Public Institutions (various Provinces and Municipalities in the Emilia Romagna and Marche Regions, Ministry of the Environment) and third parties, to guarantee the correct management of public utility services, waste disposal services, the proper execution of crossing works with company operators, reclamation works, plant managerial activities for waste treatment (including post-closure) and waste landfill activities.

With regard to the other commitments, we note the following:

	31-dec-2011	31-dec-10
Commitments		
Third party assets in use by the Hera Group	1,257,873	1,222,165
Collateral security in favour of third parties	170,650	171,837
Other commitments	5,402	5,595
Total	1,433,925	1,399,597

- “Third party assets in use by the Hera Group” may be broken down as follows:
 - Euro 1,143,315 thousand for assets used by the Parent Company by way of concession or lease of business unit;
 - Euro 88,168 thousand for assets used by the Marche Multiservizi Group by way of lease of a business unit for the gas service;
 - Euro 15,690 thousand for assets used by subsidiary Medea by way of concession for the gas networks of the Municipality of Sassari;
 - Euro 4,137 thousand for assets leased from Herambiente Spa by CON.AMI and the associated plant engineering of the Tre Monti landfill in Imola (Bo);
 - Euro 6,563 thousand for third party IT and network equipment at the data centre of subsidiary Acantho Spa.
- “Collateral security in favour third parties” includes:
 - Mortgages and special liens on land, plants and machinery recorded by the subsidiary Fea Srl in favour of the pool of banks that subscribed the project financing for Euro 150,000 thousand;
 - Mortgages guaranteeing the loan of the subsidiary Nuova Geovis Srl for Euro 4,156 thousand;
 - Mortgages on the buildings (Pesaro and Urbino sites) of the Marche Multiservizi Group, due to the bank awarding the loan for Euro 17,681 thousand.
- “Other commitments”, equal to Euro 5,402 thousand, mainly include salary-backed loans and small employee loans.

2.03.01 Explanatory notes - related parties

Management of the services

The Hera Group, through Parent Company Hera Spa, holds concessions of local public services of economic interest (distribution of natural gas via local gas pipelines, integrated water service and waste management services, including sweeping, collection, transport and waste recovery and disposal) in a large amount of its territory of competence and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini). The electricity distribution service has been carried out in the Imola district, in the municipality of Modena and in some municipalities of the province of Modena. Other public utility services (including district heating systems, heat management and public lighting) are provided under market conditions, i.e. through special agreements with local authorities. Through special agreements with local authorities, Hera Spa is responsible for the waste treatment and disposal service, excluded from the regulatory activity carried out by the environmental authorities (AATO), but subject to control by the Regional Authority for water services and urban waste management.

The AATO are responsible, under regional and national legislation governing the sector, for controlling and regulating tariffs for integrated water and urban cleaning services, which were formerly managed by the concession-granting municipal authorities. However, these authorities are represented at meetings of the AATO. In observance of the provisions of said regional law and related national legislation (specifically article 113 of the Consolidated Local Authority Act and the sector regulations regarding the assignment of services on an exclusive basis), the Hera Group entered into special agreements with the AATOs, which establish the entry into effect of the technical and tariff planning.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, implementing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the Directors' Report. Hera Spa has longer residual terms than those set out for managing entities that have promoted partial privatisations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing.

The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. The gas distribution tariffs are set in accordance with the regulations in force and with the deliberations adopted from time to time by the Italian Authority for Electricity Energy and Gas. The territory in which Hera carries out the gas distribution services consists of "tariff areas" in which a distribution tariff is uniformly applied to the various categories of customers.

In the case of electricity, the purpose of the concessions (30 years in duration and renewable according to current regulations) is energy distribution activity, including, amongst other things, management of the distribution networks and operation of connected plants, ordinary and extraordinary maintenance and programming and identification of development initiatives and measurement. A suspension or expiry of the concession may be ordered by the authority regulating the sector if the concession holder is found to be inadequate or to be in breach of regulations in force, in such a way as to prejudice provision of the electricity distribution service in a serious and far-reaching manner.

The concession holder is obliged to apply the tariffs set by regulations in force and resolutions adopted by the Italian Authority for Electricity and Gas to the consumers. The tariff regulation in force when the Consolidated Financial Statements for the year were approved (to which this report is attached) was resolution ARG/elt no. 199/2011 of the Italian Authority for Electricity and Gas and subsequent amendments and additions ("Provisions of the Italian Authority for Electricity and Gas for carrying out electricity transmission, distribution and measurement services for the regulatory period 2012-2015 and provisions regarding the economic conditions regulating the provision of the connection service"), which replaced the previous resolution no. 348/2007 applicable up to 31/12/2011 ("Integrated law of provisions for the supply of electricity transmission, distribution and measurement services for the regulatory period 2008-2011 and provisions regarding the economic conditions regulating the provision of the connection service").

Water sector

The water service managed by Hera in its area of competence is carried out on the basis of agreements entered into with provincial AATOs, of varying duration, normally twenty years. The assignment to Hera of management of the integrated water service includes all activities involving the capture, purification, distribution and sale of drinking water for civil and industrial use, and the sewerage and purification service. The agreements also provide for the operator's execution of new network design and construction activities and the building of new plants to be used in managing the service. The management of the service is assigned exclusively to Hera for the different area municipalities involving the obligation of the Municipality not to grant to third parties usage of the subsoil of its property and of the state aqueducts without the prior consent of the company.

The agreements regulate the economic aspects of the contractual relationship, the forms of management of the service, as well as service and quality standards. The unit tariffs are established annually by the AATOs on the basis of economic agreements covering periods of several years, in accordance with law.

The local authorities awarding the concession give the manager the right to use the network and plants for the provision of integrated water supplies (and this may be free of charge). In the majority of the cases concerning the areas managed by Hera, the local authorities have conferred the ownership of networks and plants to special asset companies.

At the end of the concession, Hera is obliged to return the goods used to provide the service to the asset companies, or to the municipal authorities.

Any works carried out to upgrade or expand the networks must be compensated at the end of concession with the payment of the residual value of the assets in question. Hera's relations with users are regulated by sector laws and by the provisions set out by the regional councils and environmental agencies. The duties of the operator towards service quality and resources and the users' rights are illustrated in the specific Service Charters drafted by the operator based on reference formats approved by the AATOs.

Waste management sector

Hera performs the service of municipal waste management. The purpose of agreements with the Environmental Agencies is the exclusive management of municipal waste services (waste collection, waste transport, road cleaning and waste recovery and disposal, etc.). The agreements regulate the economic aspects of the contractual relationship, the forms of organisation and management of the service, as well as levels of service quality and quantity. The amount payable to the operator for the services performed is defined annually in accordance with Italian Presidential Decree No. 158/1999, where the tariff is established. For the running of waste treatment plants, the Hera Group must obtain authorisations from the authorities of the Italian provinces.

Management of the networks, plants and equipment

The infrastructure required for the provision of services whose management has been assigned to Hera, including local gas pipelines and aqueduct and sewage systems, are partly owned by Hera and partly owned by third parties (municipalities, asset companies owned by local authorities).

In particular, the asset companies are the owners of assets instrumental in the management of services following the direct contribution of assets by the Municipalities (generally Hera shareholders) or following the assignment to the same of "assets" constituting business units which took place, in almost all cases, at the time of business combinations involving companies in the Emilia-Romagna region with Seabo Spa (then Hera Spa).

In the case of assets owned by Local Entities and asset companies, relations between the service operator and the owners are governed by service assignment agreements or business unit lease contracts, and on a residual basis, industry legislation.

As regards the economic aspect, business unit lease contracts fix the amount due from the operator to the owners for the use of networks and plants. On the basis of these contracts Hera must carry out, at its own expense, ordinary and extraordinary maintenance as well as the expansion of the networks, as provided for in the investment plans agreed with the asset companies and, where relevant, by the area plans defined by the AATOs.

Upon expiry of the lease contracts, provision is made for the return of the business units to the owner. In normal state of repair all works performed by Hera, involving expansion and extraordinary maintenance, will be similarly returned to local authorities in return for the payment to the operator of the corresponding compensation/equalisation, as a general rule, at the net book value or residual industrial value of the associated assets.

Values shown in the table as at 31 December 2011, refer to the related parties hereunder:

Group A. Non-consolidated subsidiaries:

Calorpiù Italia Scarl in liquidation
Hera Servizi Cimiteriali Srl
Consorzio Frullo in liquidation
Solhar Alfonsine Srl
Solhar Bentivoglio Srl
Solhar Faenza Srl
Solhar Ferrara Srl
Solhar Modena Srl
Solhar Piangipane Srl
Solhar Ravenna Srl
Solhar Rimini Srl

Group B. Jointly controlled associated companies:

Modena Network Spa
Aimag Spa
Natura Srl in liquidation
Tamarete Energia Srl
Adriatica Acque Srl
Estense Global Service Soc.Cons.a r.l.
So.Sel Spa
Oikothen Scrl
Service Imola Srl
Set Spa
Refri Srl
Sgr Servizi Spa
Dyna Green Srl
Feronia Srl
Sei Spa
Ghirlandina Solare Srl

Group C. Related parties with significant influence:

Municipality of Bologna
Municipality of Modena
Municipality of Ferrara
HSST - Modena Spa
Municipality of Rimini
Municipality of Ravenna
Municipality of Forlì
Municipality of Cesena
Municipality of Imola

Group D. Other related parties:

Acosea Impianti Srl
Amir - Assets
Area - Assets
Aspes Spa
Azimut - Assets
Calenia Energia Spa
Con.Ami
Energia Italiana Spa
Fiorano Gestioni Patrimoniali Srl
Formigine Patrimonio Srl
Galsi Spa
Holding Ferrara Servizi srl
Maranello Patrimonio Srl
Megas Net Spa
Ravenna Holding Spa
Rimini Holding Spa
Romagna Acque Spa
Sassuolo Gestioni Patrimoniali Srl
Serramazzone Patrimonio Srl
Sis - Assets
SIS Società Intercomunale di Servizi Spa in liquidation
Team - Assets
Unica Reti - Assets
Wimaxer Spa

2.04 Net Financial Indebt

2.04.01 Consolidated net financial debt

In accordance with the requirement under Consob notification of 28 July 2006 and in compliance with the CERS recommendation of 10 February 2005 “Recommendations for the standard implementation of European Commission rules on information prospectuses” we note that the net financial position is as follows:

millions of euro		31-dec-2011	31-dec-2010
a	Cash	415.2	538.2
b	Other current financial receivables	39.1	44.3
	Current bank payables	-48.3	-58.4
	Current portion of bank indebtedness	-57.7	-71.1
	Other current financial payables	-8.6	-16.6
	Financial leasing payables maturing within the next year	-3.7	-4.6
c	Current financial indebtedness	-118.3	-150.7
d=a+b+c	Net current financial indebtedness	336.0	431.8
e	Non-current financial receivables	10.9	10.3
	Non-current bank payables	-277.1	-345.8
	Bonds issued	-1,829.7	-1,787.3
	Other non-current financial payables	-221.9	-160.4
	Financial leasing payables maturing after one year	-5.3	-8.8
f	Non-current financial indebtedness	-2,334.0	-2,302.3
g=e+f	Net non-current financial indebtedness	-2,323.1	-2,292.0
h=d+g	Net financial indebtedness	-1,987.1	-1,860.2

2.04.02 Net financial debt - Resolution 15519 of 2006

millions of euro	31-dec-2011	of which related				31-dec-2010	of which related			
		A	B	C	D		A	B	C	D
a Cash	415.2					538.2				
b Other current financial receivables	39.1					44.3				
	<i>of which related</i>		28.1	0.4					29.3	
Current bank liabilities	-48.3					-58.4				
Current portion of bank indebtedness	-57.7					-71.1				
Other current financial payables	-8.6					-16.6				
Financial leasing payables maturing within one year	-3.7					-4.6				
c Current financial indebtedness	-118.3					-150.7				
d=a+b+c Net current financial indebtedness	336.0		28.1	0.4		431.8			29.3	
e Non-current financial receivables	10.9					10.3				
	<i>of which related</i>		10.6						10.0	
Non-current bank payables	-277.1					-345.8				
Bonds issued	-1,829.7					-1,787.3				
Other non-current financial payables	-221.9					-160.4				
Financial leasing payables maturing after one year	-5.3					-8.8				
f Non-current financial indebtedness	-2,334.0					-2,302.3				
g=e+f Net non-current financial indebtedness	-2,323.1		10.6			-2,292.0			10.0	
	<i>of which related</i>									
h=d+g Net financial indebtedness	-1,987.1					-1,860.2				
	<i>of which related</i>		38.7	0.4					39.3	
Change in related parties:										
Hera spa has granted an interest-bearing loan to Tamarete Energia Srl			26.7						23.7	
Herambiente has granted an interest-bearing loan to Refri Srl			0.2						0.2	
Herambiente has granted an interest-bearing loan to Enomondo Srl									4.1	
Acantho Spa has granted an interest-bearing loan to Modena Network Spa			0.9						0.9	
Hera Spa has granted an interest-bearing loan to Modena Network Spa			1.0						1.0	
Hera Spa has granted an interest-bearing loan to Oikothen Scral			0.3						0.3	
Hera spa has granted an interest-bearing loan to Set Spa			5.9						5.9	
Hera Spa has granted an interest-bearing loan to Sei Spa			3.3						2.8	
Hera Energie Rinnovabili Spa has granted an interest-bearing loan to Ghirlandina Solare Srl			0.2						0.4	
Acantho has granted a non interest-bearing loan to Wimaxer Spa					0.4					
Trading has granted a non interest-bearing loan to Dyna Green			0.2							
			38.7	0.4					39.3	

2.05 Equity investments

2.05.01 List of consolidated companies

Subsidiaries

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Parent Company: Hera Spa	Bologna	1,115,013,754			
Acantho Spa	Imola (Bo)	22,500,000	79.94%		79.94%
Acque Srl	Pesaro	102.700		40.64%	40.64%
Akron Spa	Imola (Bo)	1,152,940		43.13%	43.13%
ASA Scpa	Castelmaggiore (Bo)	1,820,000		38.25%	38.25%
Consorzio Akhea Fondo Consortile	Bologna	200.000		59.38%	59.38%
Eris Scrl	Ravenna	300.000		51.00%	51.00%
Famula On-line Spa	Bologna	4,364,030	100.00%		100.00%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Gal.A. Spa	Bologna	300.000		45.00%	45.00%
HeraAmbiente Spa	Bologna	271,148,000	75.00%		75.00%
Hera Comm Srl	Imola (Bo)	53,136,987	100.00%		100.00%
Hera Comm Marche Srl	Urbino (Pu)	1,977,332		69.37%	69.37%
Hera Energie Srl	Bologna	926.000		51.00%	51.00%
Hera Energie Rinnovabili Spa	Bologna	1,832,000	100.00%		100.00%
Hera Luce Srl	San Mauro Pascoli (Fc)	1,000,000		89.58%	89.58%
Hera Servizi Funerari Srl	Bologna	10.000	100.00%		100.00%
Herasocrem Srl	Bologna	100.000		51.00%	51.00%
Hera Trading Srl	Imola (Bo)	22,600,000	100.00%		100.00%
Marche Multiservizi Spa	Pesaro	13,450,012		40.64%	40.64%
Medea Spa	Sassari	4,500,000	100.00%		100.00%
MMS Ecologica Srl	Pesaro	95.000		40.64%	40.64%
Naturambiente Srl	Pesaro	50.000		40.64%	40.64%
Nuova Geovis Spa	Sant'Agata Bolognese (Bo)	2,205,000		38.25%	38.25%
Romagna Compost Srl	Cesena (Fc)	3,560,002		45.00%	45.00%
Sinergia Srl	Forlì (Ce)	579.600		59.00%	59.00%
Sotris Spa	Ravenna	2,340,000	5.00%	52.50%	57.50%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%

Jointly controlled associated companies

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Enomondo Srl	Faenza (Ra)	14,000,000		37.50%	37.50%
FlameEnergy Trading Gmbh	Vienna	3,000,000		50.00%	50.00%

Associated companies

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Aimag Spa*	Mirandola (Mo)	*	78,027,681	25.00%	25.00%
Feronia Srl	Finale Emilia (Mo)		2,430,000	30.00%	30.00%
Ghirlandina Solare Srl	Concordia Sulla Secchia (Mo)		60	33.00%	33.00%
Modena Network Spa	Modena		3,000,000	14.00% 23.98%	37.98%
Oikothen Scarl	Siracusa		1,101,730	46.10%	46.10%
Refri Srl	Reggio Emilia		6,800,000	15.00%	15.00%
Set Spa	Milano		120	39.00%	39.00%
So.Sel Spa	Modena		240	26.00%	26.00%
Sgr Servizi Spa	Rimini		5,982,262	29.61%	29.61%
Tamarete Energia Srl	Ortona (Ch)		3,600,000	32.00%	32.00%

* the company's share capital is composed of Euro 67,577,681 ordinary shares and € 10,450,000 of related shares

2.05.02 List of significant investments

Direct equity investments

ACANTHO Spa capitale sociale euro 22.500.000 i.v. partecipata da HERA Spa dal 2000		
SEDE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Soci	partecipazione in euro	partecipazione in %
Hera Spa	17.985.553	79,94%
AIMAG Spa capitale sociale euro 78.027.681 i.v. costituito da n. 67.577.681 azioni ordinarie e da n. 10.450.000 azioni correlate partecipata da HERA Spa dal 10-nov-2009		
SEDE: Via Maestri del Lavoro n. 38 - 41037 Mirandola (MO)		
Soci ordinari	partecipazione in euro	partecipazione in %
Hera Spa	16.894.420	25,00%
CALENIA ENERGIA Spa capitale sociale euro 100.000 i.v. partecipata da HERA Spa dal 23-set-2004		
SEDE: Via Antica Fiumara n. 6 - GENOVA		
Soci	partecipazione in euro	partecipazione in %
Hera Spa	15.000	15,00%
ENERGIA ITALIANA Spa capitale sociale euro 26.050.000 i.v. partecipata da HERA Spa dal 2001		
SEDE: Via V. Viviani n. 12 - 20124 MILANO		
Soci	partecipazione in euro	partecipazione in %
Hera Spa	2.865.500	11,00%
FAMULA ON-LINE Spa capitale sociale euro 4.364.030 i.v. partecipata da HERA Spa dal 2001		
SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Soci	partecipazione in euro	partecipazione in %
HERA Spa	4.364.030	100,00%
HERAMBIENTE Spa capitale sociale euro 271.148.000 i.v. partecipata da HERA Spa dall'ott-2004		
SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Soci	partecipazione in euro	partecipazione in %
HERA Spa	203.361.000	75,00%
HERA COMM Srl capitale sociale euro 53.136.987,42 i.v. partecipata da HERA Spa dal 2001		
SEDE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Soci	partecipazione in euro	partecipazione in %
HERA Spa	53.136.987,42	100,00%
HERA ENERGIE RINNOVABILI Spa capitale sociale euro 1.832.000 i.v. partecipata da HERA Spa dal 27-apr-2005		
SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Socio	partecipazione in euro	partecipazione in %
HERA Spa	1.832.000	100,00%

HERA LUCE Srl capitale sociale euro 1.000.000 i.v. partecipata da HERA Spa dal 2000

SEDE: Via Due Martiri n. 2 - 47030 S. MAURO PASCOLI (FC)

Soci	partecipazione in euro	partecipazione in %
HERA Spa	895.807	89,58%

HERA SERVIZI FUNERARI Srl capitale sociale euro 10.000 i.v. partecipata da HERA Spa dal 22-dic-2005

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Socio	partecipazione in euro	partecipazione in %
HERA Spa	10.000	100,00%

HERA SERVIZI CIMITERIALI Srl capitale sociale euro 20.000 i.v. partecipata da HERA Spa dal 22-dic-2010

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Socio	partecipazione in euro	partecipazione in %
HERA Spa	20.000	100,00%

HERASOCREM Srl capitale sociale euro 100.000 i.v. partecipata da HERA Spa dal 10-lug-2003

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERA Spa	100.000	51,00%

HERA TRADING Srl capitale sociale euro 22.600.000 i.v. partecipata da HERA Spa dal 2001

SEDE: Via Molino Rosso n. 8 40026 IMOLA (BO)

Socio	partecipazione in euro	partecipazione in %
HERA Spa	22.600.000	100,00%

MARCHE MULTISERVIZI Spa capitale sociale euro 13.450.012 i.v. partecipata da HERA Spa dal 2002

SEDE: Via dei Canonici n. 144 - 61100 PESARO (PU)

Soci	partecipazione in euro	partecipazione in %
HERA Spa	5.466.565	40,64%

MEDEA Spa capitale sociale euro 4.500.000 i.v. partecipata da HERA Spa dal 01-lug-2003

SEDE: Via Torres n. 4 - 07100 SASSARI

Socio	partecipazione in euro	partecipazione in %
HERA Spa	4.500.000	100,00%

MODENA NETWORK Spa capitale sociale euro 3.000.000 i.v. partecipata da HERA Spa dal 31-dic-2005

SEDE: Via Razzaboni n. 80 - 41100 MODENA

Soci	partecipazione in euro	partecipazione in %
HERA Spa	420.000	14,00%

OIKOTHEN Scarl capitale sociale euro 1.101.730 i.v. partecipata da HERA Spa dal 09-nov-2007

SEDE: Via Augusta n. 17 - 96100 SIRACUSA

Soci	partecipazione in euro	partecipazione in %
HERA Spa	507.892	46,10%

SEI Spa capitale sociale euro 120.000 i.v. partecipata da HERA Spa dal 09-mag-2008

SEDE: Via Uberti n. 37 - 20129 MILANO

Soci	partecipazione in euro	partecipazione in %
HERA Spa	24.000	20,00%

SERVICE IMOLA Srl capitale sociale euro 10.000 i.v. partecipata da HERA Spa dal 01-nov-2002

SEDE: Via Allende n. 39 - 40021 BORGTOSSIGNANO (BO)

Soci	partecipazione in euro	partecipazione in %
HERA Spa	4.000	40,00%

SET Spa capitale sociale euro 120.000 i.v. partecipata da HERA Spa dal 15-dic-2004

SEDE: Viale Bianca Maria n. 15 - 20122 MILANO

Soci	partecipazione in euro	partecipazione in %
HERA Spa	46.800	39,00%

TAMARETE ENERGIA Srl capitale sociale euro 3.600.000 i.v. partecipata da HERA Spa dal 16-dic-2008

SEDE: Contrada Tamarete s.n.c. - ORTONA (CH)

Soci	partecipazione in euro	partecipazione in %
HERA Spa	1.152.000	32,00%

UNIFLOTTE Srl capitale sociale euro 2.254.177 i.v. partecipata da HERA Spa dal 2001

SEDE: Viale Masini n. 42 - 40126 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERA Spa	2.186.551	97,00%

Indirect equity investments

Partecipazione di Acantho Spa:**WIMAXER Spa capitale sociale euro 500.000 i.v. partecipata da ACANTHO Spa dal 06-mag-2008**

SEDE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)

Soci	partecipazione in euro	partecipazione in %
Acantho Spa	125.000	25,00%

Partecipazione di Herambiente Spa:**A.S.A. Spca capitale sociale euro 1.820.000 i.v. partecipata da HERAMBIENTE Spa dal 01-lug-2009**

SEDE: Via Saliceto n. 43/A - 40013 CASTEL MAGGIORE (BO)

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	928.200	51,00%

AKRON Spa capitale sociale euro 1.152.940 i.v. partecipata da HERAMBIENTE Spa dal 10-lug-2009

SEDE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	662.940	57,50%

ENOMONDO Srl capitale sociale euro 14.000.000 i.v. partecipata da HERAMBIENTE Spa dal 31-dic-2010

SEDE: Via Convertite n. 12 - 48018 Faenza (RA)

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	7.000.000	50,00%

FERONIA Srl capitale sociale euro 2.430.000 i.v. partecipata da HERAMBIENTE Spa dal 01-lug-2009

SEDE: Piazza Verdi n. 6 - 41034 Finale Emilia (MO)

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	972.000	40,00%

FRULLO ENERGIA AMBIENTE Srl capitale sociale euro 17.139.100 i.v. partecipata da HERAMBIENTE Spa dal 01-lug-2009

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	8.740.941	51,00%

GAL.A Spa capitale sociale euro 300.000 i.v. partecipata da HERAMBIENTE Spa dal 01-lug-2009

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	180.000	60,00%

NUOVA GEOVIS Spa capitale sociale euro 2.205.000 i.v. partecipata da HERAMBIENTE Spa dal 01-lug-2009

SEDE: Via Romita n. 1 - 40019 Sant'Agata Bolognese (BO)

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	1.124.550	51,00%

REFRI Srl capitale sociale euro 6.800.000 i.v. partecipata da HERAMBIENTE Spa dal 01-lug-2009

SEDE: Via Meuccio Ruini n. 10 - 42100 REGGIO EMILIA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	1.360.000	20,00%

ROMAGNA COMPOST Srl capitale sociale euro 3.560.002 i.v. partecipata da HERAMBIENTE Spa dal 01-lug-2009

SEDE: Via Cesare Spinelli n. 60 - 47023 CESENA (FC)

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	2.136.004	60,00%

SOLHAR ALFONSINE Srl capitale sociale euro 10.000 i.v. partecipata da HERAMBIENTE Spa dal 30-gen-2001

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	10.000	100,00%

SOLHAR BENTIVOGLIO Srl capitale sociale euro 10.000 i.v. partecipata da HERAMBIENTE Spa dal 30-gen-2001

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	10.000	100,00%

SOLHAR FAENZA Srl capitale sociale euro 10.000 i.v. partecipata da HERAMBIENTE Spa dal 30-gen-2001

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	10.000	100,00%

SOLHAR FERRARA Srl capitale sociale euro 10.000 i.v. partecipata da HERAMBIENTE Spa dal 30-gen-2001

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	10.000	100,00%

SOLHAR MODENA Srl capitale sociale euro 10.000 i.v. partecipata da HERAMBIENTE Spa dal 30-gen-2001

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	10.000	100,00%

SOLHAR PIANGIPANE Srl capitale sociale euro 10.000 i.v. partecipata da HERAMBIENTE Spa dal 30-gen-2001

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	10.000	100,00%

SOLHAR RAVENNA Srl capitale sociale euro 10.000 i.v. partecipata da HERAMBIENTE Spa dal 30-gen-2001

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	10.000	100,00%

SOLHAR RIMINI Srl capitale sociale euro 10.000 i.v. partecipata da HERAMBIENTE Spa dal 30-gen-2001

SEDE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	10.000	100,00%

SOTRIS Spa capitale sociale euro 2.340.000 i.v. partecipata da HERAMBIENTE Spa dal 01-lug-2009

SEDE: S.S. 309 Romea Km. 2,6 n. 272 - 48100 RAVENNA

Soci	partecipazione in euro	partecipazione in %
HERAMBIENTE Spa	1.638.000	70,00%
HERA Spa	117.000	5,00%

Partecipazione di Hera Comm Srl:**ADRIATICA ACQUE Srl capitale sociale euro 89.033 i.v. partecipata da HERA COMM Srl dal 23-nov-2005**

SEDE: Via Circonvallazione Meridionale n. 56 - 47900 RIMINI

Soci	partecipazione in euro	partecipazione in %
HERA COMM Srl	19.872	22,32%
Marche Multiservizi Spa	6.838	7,68%

ERIS Scarl capitale sociale euro 300.000 i.v. partecipata da HERA COMM Srl dal 28-set-2004

SEDE: Via Romea Nord 180/182 - 48100 RAVENNA

Soci	partecipazione in euro	partecipazione in %
HERA COMM Srl	153.000	51,00%

ESTENSE GLOBAL SERVICE Scarl capitale sociale euro 10.000 i.v. partecipata da HERA COMM Srl dal 27-set-2007

SEDE: Via M.N. Plattis n. 5/c - 44100 FERRARA

Soci	partecipazione in euro	partecipazione in %
HERA COMM Srl	2.300	23,00%

HERA COMM MARCHE Srl capitale sociale euro 1.977.332 i.v. partecipata da HERA COMM Srl dal 28-lug-2008

SEDE: Via Sasso n. 120 - 61029 Urbino (PU)

Soci	partecipazione in euro	partecipazione in %
HERA COMM Srl	1.134.500	57,38%

HERA ENERGIE Srl capitale sociale euro 926.000 i.v. partecipata da HERA COMM Srl dal 30-giu-2005

SEDE: Via dell'Elettricista 2 - 40138 BOLOGNA

Soci	partecipazione in euro	partecipazione in %
HERA COMM Srl	472.260	51,00%

**SGR Servizi Spa capitale sociale euro 5.982.262 i.v. partecipata da HERA
COMM Srl dal 17-mag-2005**

SEDE: Via Chiabrera n. 34/b - 47900 RIMINI

Soci	partecipazione in euro	partecipazione in %
HERA COMM Srl	1.771.062	29,61%

**SINERGIA Srl capitale sociale euro 579.600 i.v. partecipata da HERA COMM Srl
dal 19-dic-2005**

SEDE: Via Righi n. 1 - 47100 FORLI' (FC)

Soci	partecipazione in euro	partecipazione in %
HERA COMM Srl	341.964	59,00%

**SO.SEL Spa capitale sociale euro 240.240 i.v. partecipata da HERA COMM Srl
dal 15-set-2009**

SEDE: Via Bellinzona n. 37/F - 41100 MODENA

Soci	partecipazione in euro	partecipazione in %
HERA COMM Srl	62.462,40	26,00%

Partecipazione di Hera Energie Rinnovabili Spa:

**Ghirlandina Solare Srl capitale sociale euro 60.000 i.v. partecipata da Hera
Energie Rinnovabili Spa dal 19-lug-2010**

SEDE: Via A. Grandi n. 39 - Concordia sulla Secchia (MO)

Soci	partecipazione in euro	partecipazione in %
Hera Energie Rinnovabili Spa	19.800	33,00%

Partecipazione di Hera Trading Srl:

**GALSI Spa capitale sociale euro 37.242.300 i.v. partecipata da Hera Trading Srl
dal 2003**

SEDE: Foro Buonaparte n. 31 - 20100 MILANO

Soci	partecipazione in euro	partecipazione in %
Hera Trading Srl	3.874.920	10,40%

**FlameEnergy Trading Gmbh capitale sociale euro 3.000.000 i.v. partecipata da
Hera Trading Srl dal 19-apr-2006**

SEDE: VIENNA (Austria)

Soci	partecipazione in euro	partecipazione in %
Hera Trading Srl	1.500.000	50,00%

Partecipazione di Marche Multiservizi Spa:

**ACQUE Srl capitale sociale euro 102.700 i.v. partecipata da MARCHE
MULTISERVIZI Spa dal 1996**

SEDE: Via dei Canonici n. 144 - 61100 PESARO (PU)

Soci	partecipazione in euro	partecipazione in %
MARCHE MULTISERVIZI Spa	102.700	100,00%

**MMS Ecologica Srl capitale sociale euro 95.000 i.v. partecipata da MARCHE
MULTISERVIZI Spa dal 25-nov-2009**

SEDE: Via dei Canonici n. 144 - 61100 PESARO (PU)

Soci	partecipazione in euro	partecipazione in %
MARCHE MULTISERVIZI Spa	95.000	100,00%

NATURAMBIENTE Srl capitale sociale euro 50.000 i.v. partecipata da MARCHE**MULTISERVIZI Spa dal 14-lug-2010**

SEDE: Via dei Canonici n. 144 - 61100 PESARO (PU)

Soci	partecipazione in euro	partecipazione in %
MARCHE MULTISERVIZI Spa	50.000	100,00%

Direct and indirect equity investments in liquidation**Partecipazioni di Hera Comm Srl:****CALORPIU' ITALIA Scarl capitale sociale euro 10.000 i.v. partecipata da HERA COMM Srl dal 26-set-2006**

In liquidazione dal 01-gen-2009

SEDE: Via Razzaboni n. 80 - 41100 MODENA

Soci	partecipazione in euro	partecipazione in %
HERA COMM Srl	5.100	51,00%

Partecipazioni di Hera Trading Srl:**DYNA GREEN Srl capitale sociale euro 30.000 i.v. partecipata da Hera Trading Srl dal 22-nov-2005**

In liquidazione dal 20-apr-2011

SEDE: Via Boschetti n. 6 - 20121 MILANO

Soci	partecipazione in euro	partecipazione in %
Hera Trading Srl	10.000	33,33%

Partecipazioni di Marche Multiservizi Spa:**Acquagest Srl capitale sociale euro 51.480 i.v. Partecipata da MARCHE MULTISERVIZI Spa dal 01-gen-2008**

In liquidazione

SEDE: Via degli Abeti n. 120 - 61100 PESARO (PU)

Soci	partecipazione in euro	partecipazione in %
MARCHE MULTISERVIZI Spa	10.296	20,00%

SIS Società Intercomunale di Servizi Spa capitale sociale euro 103.300 i.v. partecipata da MARCHE MULTISERVIZI Spa dal 01-nov-2002

In liquidazione dal 27-giu-2011

SEDE: Piazza Municipio n. 1 - 61020 Montecalvo in Foglia (PU)

Soci	partecipazione in euro	partecipazione in %
MARCHE MULTISERVIZI Spa	43.127,75	41,75%

NATURA Srl capitale sociale euro 10.000 i.v. partecipata da MARCHE MULTISERVIZI Spa dal 01-gen-2008

In liquidazione dal 05-ago-2010

SEDE: Via Don Minzoni n. 44 - 61043 Cagli (PU)

Soci	partecipazione in euro	partecipazione in %
MARCHE MULTISERVIZI Spa	4.600	46,00%

2.05.03 Essential financial statement data of the subsidiaries and affiliates

Subsidiaries

Subsidiaries	Fixed assets	Working assets	Share capital	Reserves	Profit + Loss	Provisions	employee leave	Payables
Acantho Spa	40,832	32,862	22,500	976	529	430	647	48,612
Akron Spa	14,949	31,584	1,153	3,562	5,549	47	467	35,755
ASA ScpA	4,087	13,194	1,820	622	0	13,815	146	878
Consorzio Akhea Fondo Consortile	0	4,861	200	0	0	0	0	4,661
Eris Srl	2,210	2,647	300	875	214	7	0	3,461
Famula On-line Spa	5,993	31,669	4,364	7,952	1,388	132	1,159	22,667
Frullo Energia Ambiente Srl	106,842	26,845	17,139	7,645	14,647	6	1,330	92,920
Gal.A. Spa	8,203	1,251	300	61	37	986	0	8,070
Hera Comm Srl	97,100	673,402	53,137	13,468	31,487	2,286	3,915	666,209
Hera Comm Marche Srl	345	37,138	1,977	891	4,515	51	164	29,885
Hera Energie Rinnovabili Spa	12,230	2,853	1,832	3	389	0	0	12,859
Hera Energie Srl	3,574	7,754	926	1,386	640	0	7	8,369
Hera Luce Srl	7,601	26,370	1,000	5,090	3,091	11,976	881	11,933
Hera Servizi Funerari Srl	154	1,349	10	2	493	0	32	966
Herasocrem Srl	13	510	100	0	60	0	127	236
Hera Trading Srl	19,018	595,930	22,600	2,701	8,881	125	196	580,445
Herambiente Spa	847,729	174,711	271,148	33,159	21,481	55,403	6,109	635,140
Marche Multiservizi Spa	97,405	55,601	13,450	7,433	3,707	23,379	7,179	97,858
Medea Spa	15,458	4,606	4,500	-1,237	119	869	166	15,647
Nuova Geovis Spa	13,778	8,250	2,205	2,511	1,346	467	240	15,259
Romagna Compost Srl	9,791	2,679	3,560	442	958	0	25	7,485
Sinergia Srl	2,357	6,606	580	2,971	1,344	0	228	3,840
Sotris Spa	9,451	12,593	2,340	3,757	1,137	10,288	87	4,435
Uniflotte Srl	2,850	15,013	2,254	388	2,100	398	2,976	9,747
Acque Srl	309	1,364	103	79	215	0	478	798
MMS Ecologica Srl	910	7,426	95	53	71	5,137	265	2,715
Naturambiente Srl	3,637	5,350	50	25	4	2,136	322	6,450

Subsidiaries	Value of production Costs of production:ial income (+) and cha /alue adj. to assetinary income (+) and cl	Tax for the year	Net profit
Acantho Spa	38,553 -36,681 -181 -	-288	-873 529
Akron Spa	49,803 -41,569 -140 -	190	-2,735 5,549
ASA ScpA	5,767 -5,927 204 -	-6	-38 -
Consorzio Akhea Fondo Consortile	4,136 -4,139 3 -	-	- -
Eris Scrl	5,079 -4,756 -34 -	37	-112 214
Famula On-line Spa	43,070 -40,733 0 -	35	-984 1,388
Frullo Energia Ambiente Srl	52,842 -24,988 -2,351 -	-1	-10,855 14,647
Gal.A. Spa	1,968 -1,736 -158 -	-	-37 37
Hera Comm Srl	2,067,313 -2,020,066 4,416 -	-	-20,176 31,487
Hera Comm Marche Srl	88,402 -80,283 228 -	23	-3,855 4,515
Hera Energie Rinnovabili Spa	1,785 -821 -365 -	6	-216 389
Hera Energie Srl	12,490 -11,488 66 -	-43	-385 640
Hera Luce Srl	41,976 -37,247 29 -	7	-1,674 3,091
Hera Servizi Funerari Srl	2,845 -2,089 0 -	-9	-254 493
Herasocrem Srl	1,219 -1,138 13 -	1	-35 60
Hera Trading Srl	1,978,954 -1,964,833 546 -	-	-5,786 8,881
Herambiente Srl	331,470 -294,800 -7,822 -	-	-7,367 21,481
Marche Multiservizi Spa	95,619 -88,526 265 -161	130	-3,620 3,707
Medea Spa	7,942 -7,340 -338 -	-	-145 119
Nuova Geovis Spa	11,937 -9,685 -155 -	5	-756 1,346
Romagna Compost Srl	5,162 -3,568 -170 -	-	-466 958
Sinergia Srl	9,410 -7,435 23 -	-	-654 1,344
Sotris Spa	11,099 -9,410 17 -	-11	-558 1,137
Uniflotte Srl	28,180 -24,899 46 -	42	-1,269 2,100
Acque Srl	2,185 -1,786 -3 -	2	-183 215
MMS Ecologica Srl	6,158 -6,042 58 -	-16	-87 71
Naturambiente Srl	5,845 -5,646 -39 - -	60 -	96 4

Jointly controlled associated companies

Subsidiaries	Fixed assets	Working assets	Share capital	Reserves	Profit + Loss	Provisions	Provision for employee leaving indemnities	Payables
Enomondo Srl	52,934	11,026	14,000 -	19	2,551	304	9	47,115
FlamEnergy Trading GmbH		5,192	3,000	552	483	0	-	1,157

Subsidiaries	Value of production	Costs of production	Financial income (+) and charges(-)	Value adj. to assets	Extraordinary income (+) and charges (-)	Tax for the year	Net profit
Enomondo Srl	21,153	-15,881 -	1,469	-	1	-1,251	2,551
FlameEnergy GmbH	17,958	-17,341	27	-	-	-161	483

Associated companies

Subsidiaries	Fixed assets	Working assets	Share	Reserves	Profit+ Loss -	Provisions	Provision for employee leaving indemnities	Payables
Aimag Spa*	180.797	46.870	78.028	39.532	7.987	19.772	4.056	78.292
Feronia Srl	7.411	1.640	2.430 -	385 -	300	0	-	7.306
Ghirlandina Solare Srl	3.097	846	60 -	5	142	0	-	3.746
Modena Network Spa	7.736	3.153	3.000 -	858 -	13	0	-	8.760
Olkothen Scral	4.322	778	1.102 -	420 -	727			5.145
Refri Srl*	8.426	1.438	6.800 -	1.016 -	46	-	8	4.118
Set Spa	218.073	61.467	120	86.538 -	136	0	108	192.910
Sosel Spa	2.790	6.900	240	1.495	571	0	1.740	5.644
Sgr Servizi Spa	5.277	81.450	5.982	19.976	7.489	0	440	52.840
Tamarete Energia Srl	77.184	3.677	3.600	7.740 -	2.592	0	-	72.113

Subsidiaries	Value of production	Costs of production	Financial income (+) and charges (-)	value adj. To assets	Extraordinary income (+)and charges (-)	tax for year	Net Profit
Aimag Spa*	73.874	-63.001	729	-	273	-3.888	7.987
Feronia Srl	-	-259 -	54	-	-	13 -	300
Ghirlandina Solare Srl	529	-262 -	54	-	-	-71	142
Modena Network Spa	1.471	-1.261 -	208	-	-	-15 -	13
Olkothen Scral		-528 -	113	-	86	-	727
Refri Srl*	502	-616	16 -	30	90	-8 -	46
Set Spa	166.583	-159.750 -	6.238	-	139	-870 -	136
Sosel Spa	12.343	-11.924	505	-	19	-334	571
Sgr Servizi Spa	166.304	-153.558	701	-	14	-5.944	7.489
Tamarete Energia Srl	-	-591 -	2.002	-	1	-	2.592

* Companies marked by an asterisk show the figures of the last approved set of financial statements (31.12.2010)

2.06 Table pursuant to Article 149 duodecies of the Issuers' Regulations

<i>thousand of euro</i>	2011
Financial statements certification service	724
Performance of other services targeted at the issuing of a certification (unbundling)	130
Other services	700
Total	1,554

2.07 Statement pursuant to Article 154-bis of Legislative Decree no. 58/98

1 – The undersigned Mr. Maurizio Chiarini in his capacity as Managing Director, and Mr. Luca Moroni in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154 bis, paragraphs 3 and 4, of the Legislative Decree no. 58 dated 24 February 1998:

- the adequacy with reference to the nature of the company; and
- the actual application of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements for 2011.

2 – We also declare that:

2.1 – the consolidated financial statements:

- a. were prepared in compliance with the applicable International Accounting Standards recognised by the European Community pursuant to Regulation 1606/2002 (EC) of the European Parliament and the Council of 19 July 2002;
- b. are consistent with the data contained in the accounting books and entries;
- c. provide a true and accurate representation of the balance sheet and income statement of the issuer and of all its consolidated companies.

2.2 – The Directors' Report includes a reliable analysis of the trend and of the operating profit, the situation of the issuer and of all of the consolidated companies, together with the description of the major risks and uncertainties to which they are exposed.

The Managing Director

Maurizio Chiarini

The Manager in charge of the corporate
accounting statements

Luca Moroni

Bologna, 22 March 2012

2.08 - Report by the Independent Auditing Firm and the Board of Statutory Auditors

2.08.01 Report by the Independent Auditing Firm


AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the Shareholders of
Hera SpA

- 1 We have audited the consolidated financial statements of Hera SpA and its subsidiaries ("Hera Group") as of 31 December 2011, which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flows statement and the related explanatory notes. The directors of Hera SpA are responsible for the preparation of these consolidated financial statements in compliance with the 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. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 7 April 2011.

- 3 In our opinion, the consolidated financial statements of the Hera Group as of 31 December 2011 comply with the 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. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, the result of operations and the cash flows of the Hera Group for the year then ended.
- 4 The directors of Hera SpA are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and on the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98, included in the report on corporate governance and ownership structure, with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard No. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations and the information provided in compliance with paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 included in the report on corporate

PricewaterhouseCoopers SpA

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governance and ownership structure are consistent with the consolidated financial statements of Hera Group as of 31 December 2011.

Bologna, 5 April 2012

PricewaterhouseCoopers SpA

Signed by
Edoardo Orlandoni
(Partner)

This report has been translated from the original, which was issued in accordance with Italian legislation, solely for the convenience of international readers. We have not examined the translation of the financial statements referred to this report

2.08.02 Report by the Board of Statutory Auditors on the Consolidated Financial Statements of the company Hera Spa (art. 41 of Legislative Decree no. 127/1991)

To the Shareholders' Meeting of the Company Hera Spa,

The consolidated financial statements of the company Hera Spa as at 31 December 2011, which are placed at your disposal as information, were delivered to us according to the law and comply with the provisions that discipline their drafting methods.

The consolidated financial statements of the company Hera Spa were submitted to legal auditing by the Independent Auditing Firm PriceWaterhouseCoopers Spa, which released its report on 05 April 2012, attached to the financial statements. The Board of Statutory Auditors points out that it results from the report of the Independent Auditing Firm that the financial statements under review were prepared in application of Regulation (EC) No. 1606/2002 of 19 July 2002, in observance of the IAS/IFRS International Accounting Standards approved by the European Commission, supplemented by the relevant interpretations (Standard Interpretations Committee - SIC and International Financial Reporting Interpretation Committee - IFRIC) issued by the International Accounting Standard Board (IASB), as well as the provisions enacted in implementing art. 9 of Legislative Decree no. 38/2005.

Specifically:

The Board of Directors illustrated the consolidated business activities of the Group and the summary of the global profit and loss trends in its consolidation report.

The Independent Auditing Firm, with which the Board of Statutory Auditors was in contact, confirmed that it ascertained the regularity and agreement of the statement of financial position and income statement deriving from consolidation with the accounting results of the company and with the information sent by the subsidiary companies included in the consolidation, and to have also ascertained that there is full correlation between the contents of the consolidated financial statements and the information and clarifications that can be drawn from the explanatory notes and Directors' Report.

As for what falls within our province, we can state the following:

- The consolidated financial statements of the Hera Group include the financial statements as at 31 December 2011 of the parent company Hera Spa and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, in such a way as to obtain benefits from the company's activity.
- Subsidiary companies whose size is insignificant, where the voting rights are subject to serious and long term restrictions are excluded from the scope of line-by-line consolidation and are valued at their cost.
- Equity investments comprising fixed assets in large-scale associated companies are valued under the equity method. Those of an insignificant size are instead carried at cost.
- Companies held exclusively for future sale were excluded from consolidation and valued at cost or fair value, whichever is the lesser. These equity investments are recorded as separate items.
- Equity investments in joint ventures, in which the Hera Group exercises joint control with other companies, are consolidated with the proportional method reporting the assets, liabilities, revenues and costs on a line-by-line basis in a measure that is proportional to the Group's investment.

- The financial statements used for the preparation of the consolidated statement of financial position and income statement schedules were those which the companies included within the scope of consolidation reclassified and adjusted (on the basis of specific instructions issued by the parent company) for the purposes of consistency with the accounting standards and principles of the Group. With regard to associated companies, adjustments to shareholders' equity values were considered in order to adapt them to IFRS principles.
- When drawing up the consolidated statement of financial position and income statement schedules, the assets and liabilities as well as the income and expenses of the consolidated companies are included on a line-by-line basis. However, the receivables and payables, income and expenses, gains and losses resulting from operations carried out between companies included in the scope of consolidation have been eliminated. The book value of the equity investments is eliminated against the corresponding portion of the subsidiary's shareholders' equity.
- On initial consolidation, the positive difference between the book value of the equity investments and the fair value of the assets and liabilities acquired, was allocated to the asset and liability items and on a residual basis to goodwill. The negative difference was immediately recorded in the income statement, as illustrated in the following section "business combinations". This negative difference is recorded in the consolidation reserve only if it related to acquisitions prior to 31 March 2004.
- The total of capital and reserves of subsidiaries pertaining to minority interests is recorded within shareholders' equity in the account "minority interests." The portion of the consolidated result relating to minority interests is recorded in the account "minority shareholders".
- Dividends recorded under financial income of the consolidated companies are eliminated during the consolidation process of the relevant companies, against the retained earnings reserves under shareholders' equity. Dividends received from companies measured with the equity method reduce the book value of the investment. Dividends declared by companies assessed at cost remained accounted for under financial income.
- The valuation of the financial statement items has been carried out on the basis of the general criteria of prudence and accruals, with a view to the business as a going-concern. For the purposes of the accounting entries, priority is given to the economic substance of the transactions rather than their legal form.
- In preparing these consolidated financial statements, the same principles and criteria were applied as in the previous year, with account taken of new accounting standards, amendments and interpretations applied as from 1 January 2011. With regard to profit and loss, the costs and revenues shown include recognitions made at the end of the year which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end dates, while account has been taken of the risks and losses even if known after said date.
- Transactions with minority shareholders are recorded as equity transactions so in the case of acquisitions of additional shares after control is reached, the difference between cost of acquisition and book value of the minority shares acquired is charged to the shareholders' equity of the Group.
- All of the information contained in the consolidated financial statements and in the relevant accompanying documents refer to calendar year 2011.

- As far as the evaluation criteria are concerned, they comply with the statutory rules and are however fully explained in the explanatory notes.
- The consolidated financial statements also state the amount of the guarantees, commitments and risks.
- The consolidated financial statements close with a profit of EUR 126,755 thousand and group shareholders' equity amounting to EUR 1,736,915 thousand.

The Shareholders' Meeting must take the consolidated financial statements and its accompanying documents into account only for information purposes as they form a document not subject to approval.

However, in our opinion these financial statements correctly express the statement of financial position and income statement of the Group for the financial period that closed on 31 December 2011 in conformity with the rules that govern the drawing up of consolidated financial statements.

Bologna, 05 April 2012

Board of Statutory Auditors

Chairman, Board of Statutory Auditors	Sergio Santi
Standing auditor	Antonio Venturini
Standing auditor	Elis Dall'Olio

A large, stylized number '3' is the central graphic of the page. It is composed of two rounded, teal-colored shapes. The top shape is a rounded rectangle with a semi-circular top edge, and the bottom shape is a rounded rectangle with a semi-circular bottom edge. They are connected by a vertical bar. The number is positioned on the left side of the page, with its right edge extending towards the center.

3

hera spa
financial
statements

to december 31 2011

3.01 Financial Statements

3.01.01 Income Statement

	note	2011	2010
Revenues	3	1,335,481,904	1,285,752,136
Change in inventories of finished products and work in progress	4	774,229	9,157,974
Other operating revenues	5	191,735,126	196,382,974
Use of raw materials and consumables	6	-229,805,701	-192,673,958
Service costs	7	-726,487,048	-747,468,400
Personnel costs	8	-241,947,150	-236,416,455
Amortisation, depreciation and provisions	9	-166,426,583	-159,193,274
Other operating costs	10	-22,662,590	-21,742,183
Capitalised costs	11	12,834,221	13,407,770
EBIT		153,496,408	147,206,584
Portion of profit (loss) pertaining to investee companies	12	57,466,029	78,464,505
<i>of which non-recurring</i>			50,146,696
Financial income	13	95,509,575	87,488,581
Financial charges	13	-188,715,133	-182,469,096
Total Financial Operations		-35,739,529	-16,516,010
Pre-tax profit		117,756,879	130,690,574
Taxes paid	14	-29,940,272	-6,633,215
<i>of which non-recurring</i>		5,509,457	25,060,690
Net profit for the year		87,816,607	124,057,359

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate balance sheet format outlined in paragraph 3.02.01 of these financial statements.

3.01.02 Statement of comprehensive income

	2011	2010
Net profit/(loss) for the year	87,816,607	124,057,359
Fair value of derivatives, change in the period	6,133,412	7,995,782
Tax effect relating to other components of the Statement of Comprehensive Income	-1,686,688	-2,198,840
Total profit/(loss) for the year	92,263,331	129,854,301

3.01.03 Statement of financial position

	note	31-Dec-2011	31-Dec-2010
ASSETS			
Non-current assets			
Tangible fixed assets	15	907,675,999	894,368,204
Intangible assets	16	1,685,910,950	1,626,190,837
Goodwill	17	187,234,466	187,084,466
Equity investments	18	524,335,096	525,143,631
Financial assets	19	240,050,447	192,592,376
Deferred tax assets	20	56,093,467	45,461,881
Financial instruments - derivatives	21	80,548,382	40,071,235
Total non-current assets		3,681,848,807	3,510,912,630
Current assets			
Inventories	22	14,033,171	13,526,278
Trade receivables	23	624,148,710	697,923,716
Contract work in progress	24	19,356,684	18,582,455
Financial assets	25	52,178,325	46,261,898
Financial instruments - derivatives	21	22,375	26,704
Current tax assets	26	2,667,377	2,129,743
Other current assets	27	111,212,760	138,478,944
Cash and cash equivalents	28	329,867,204	473,186,572
Total current assets		1,153,486,606	1,390,116,310
Non-current assets held for sale	29	10,606,230	0
TOTAL ASSETS		4,845,941,643	4,901,028,940

Cont.d

	note	31-Dec-2011	31-Dec-2010
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	30		
Share capital		1,115,013,754	1,115,013,754
-Reserve for own shares at nominal value		-9,674,222	-5,939,609
Reserves		487,915,100	459,582,697
-Reserve for own shares exceeding nominal value		-3,220,855	-3,057,748
Reserves for derivative instruments valued at fair value		-2,751,814	-7,198,537
Retained earnings (losses)		2,060,626	2,060,626
Net profit for the year		87,816,607	124,057,359
Total shareholders' equity		1,677,159,196	1,684,518,542
Non-current liabilities			
Loans - maturing beyond next year	31	2,079,119,885	1,969,754,833
Employee leaving indemnity and other benefits	32	67,886,767	70,984,252
Provisions for risks and charges	33	107,656,692	96,236,497
Deferred tax liabilities	34	55,720,576	58,697,676
Financial leasing payables – maturing beyond next year	35	1,714,472	2,617,215
Financial instruments - derivatives	21	4,192,775	31,431,531
Total non-current liabilities		2,316,291,167	2,229,722,004
Current liabilities			
Banks and other borrowings - maturing within next year	31	150,821,560	319,336,904
Financial leasing payables – maturing within next year	35	1,531,044	2,313,325
Trade payables	36	496,381,133	473,943,613
Current tax liabilities	37	24,869,566	30,086,776
Other current liabilities	38	174,175,761	161,081,081
Financial instruments - derivatives	21	4,712,216	26,695
Total current liabilities		852,491,280	986,788,394
TOTAL LIABILITIES		3,168,782,447	3,216,510,398
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,845,941,643	4,901,028,940

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate statement of financial position outlined in paragraph 3.02.02 of these consolidated financial statements.

3.01.04 Cash flow statement

thousands of Euro	31-Dec-2011	31-Dec-2010
Pre-tax profit	117,757	130,691
Adjustments to reconcile net profit to the cash flow from operating activities:		
Amortisation and impairment of tangible assets	46,845	43,031
Amortisation and impairment of intangible assets	89,814	86,978
Allocations to provisions	32,360	29,648
Dividends	(59,677)	(29,721)
Financial charges/(income)	93,620	94,981
(Capital gains)/losses and other non-monetary elements (including valuation of commodity derivatives)	42	(76,839)
Change in provisions for risks and charges	(12,863)	(8,327)
Change in provisions for employee benefits	(4,836)	(5,479)
Total cash flow before changes in net working capital	303,061	264,961
(Increase)/decrease in inventories	(1,281)	(8,078)
(Increase)/decrease in trade receivables	61,001	8,870
(Increase)/decrease in trade payables	21,505	(105,253)
(Increase)/decrease in other current assets/liabilities	26,596	(4,043)
Change in working capital	107,821	(108,505)
Dividends collected	61,411	34,311
Interest income and other financial income collected	33,725	17,904
Interest expense and other financial charges paid	(104,650)	(91,264)
Taxes paid	(38,673)	(55,201)
Liquidity generated by operations (a)	362,694	62,207
Investments in tangible fixed assets	(72,483)	(82,494)
Investments in intangible fixed assets	(148,952)	(131,340)
Investments in companies and business units net of cash and cash equivalents	809	71,242
Sale price of tangible and intangible fixed assets	1,959	20,868
Disinvestments in non-consolidated equity investments	(99)	50,147
(Increase)/decrease in other investment activities	(53,135)	(90,569)
Liquidity generated/(absorbed) by investment activities (b)	(271,901)	(162,146)
New issues of long-term loans	50,000	140,000
Repayments and other net changes in loans	(181,275)	246,460
Financial lease fees paid	(2,587)	(3,001)
Dividends distributed to Hera shareholders	(99,879)	(88,934)
Change in treasury shares in portfolio	(5,253)	(4,413)
Other minor changes	4,882	968
Liquidity generated/(absorbed) by financing activities (c)	(234,112)	291,080
Effect of change in exchange rates on liquidity (d)	0	0
(Increase)/decrease in liquidity (a+b+c+d)	(143,319)	191,141
Cash and cash equivalents at the beginning of the year	473,187	282,045
Cash and cash equivalents at the end of the year	<u>329,867</u>	<u>473,187</u>

(* In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the cash flow statements are shown in the special cash flow statements under paragraph 3.02.03 of these financial statements.

3.01.05 Statement of changes in shareholders' equity

thousands of Euro	Share capital	Reserves	Reserves for derivative instruments valued at fair value	Profit for the year	Shareholders' equity
Balance as at 31.12.09	1,112,121	494,838	-12,995	52,412	1,646,376
Profit for the year				124,057	124,057
<u>Other elements of comprehensive income as at 31.12.10:</u>					
Fair value of derivatives, change in the period			5,797		5,797
Total profit for the year	0	0	5,797	124,057	129,854
change in treasury shares in portfolio	-3,047	-1,366			-4,413
Reserve for profits/losses from combinations/mergers		1,635			1,635
<u>Appropriation of profits for 2009:</u>					
- dividends paid out		-39,410		-49,524	-88,934
- allocation to reserves		2,888		-2,888	0
Balance as at 31.12.10	1,109,074	458,585	-7,198	124,057	1,684,518

Balance as at 31.12.10	1,109,074	458,585	-7,198	124,057	1,684,518
Profit for the year				87,817	87,817
<u>Other elements of comprehensive income as at 31.12.11:</u>					
Fair value of derivatives, change in the period			4,447		4,447
Total profit for the year	0	0	4,447	87,817	92,264
change in treasury shares in portfolio	-3,735	-903			-4,638
convertible equity bond component		4,894			4,894
<u>Appropriation of profits for 2010:</u>					
- dividends paid out				-99,879	-99,879
- allocation to reserves		24,178		-24,178	0
Balance as at 31 December 2011	1,105,339	486,754	-2,751	87,817	1,677,159

3.02. Financial statements in accordance with Resolution no. 15519 of 2006 - Related parties

3.02.01 Income Statement

	note	2011	of which related parties				Total	%
			A	B	C	D		
Revenues	3	1,335,481,904	312,290,566	354,163	102,313,659	8,372,758	423,331,146	31.70%
Change in inventories of finished products and work in progress	4	774,229						
Other operating revenues	5	191,735,126	11,006,715	71,117	1,770,381	248,509	13,096,723	6.83%
Use of raw materials and consumables	6	-229,805,701	-89,724,409			-38,442,939	-128,167,348	55.77%
Service costs	7	-726,487,048	-309,701,497	-1,900,911	-11,907,651	-38,359,317	-361,869,376	49.81%
Personnel costs	8	-241,947,150	-73,622			-2,369,070	-2,442,692	1.01%
Amortisation, depreciation and provisions	9	-166,426,583						
Other operating costs	10	-22,662,590	-801,690	-147	-2,892,261	-1,104,417	-4,798,515	21.17%
Capitalised costs	11	12,834,221						
Operating profit		153,496,408	-77,003,936	-1,475,777	89,284,128	-71,654,477	-60,850,061	
Portion of profit (loss) pertaining to investee companies	12	57,466,029	58,162,031	-696,002			57,466,029	100.00%
Financial income	13	95,509,575	7,865,727	1,183,731	3	216,343	9,265,803	9.70%
Financial charges	13	-188,715,133	3,433,169		-98	-7,071	3,426,000	-1.82%
Total financial operations		-35,739,529	69,460,927	487,729	-95	209,272	70,157,832	
Pre-tax profit		117,756,879	-7,543,009	-988,048	89,284,033	-71,445,205	9,307,771	
Taxes paid	14	-29,940,272						
Net profit for the year		87,816,607	-7,543,009	-988,048	89,284,033	-71,445,205	9,307,771	

	note	2010	of which related parties				Total	%
			A	B	C	D		
Revenues	3	1,285,752,136	321,302,536	829,853	78,119,691	7,006,652	407,258,733	31.67%
Change in inventories of finished products and work in progress	4	9,157,974						
Other operating revenues	5	196,382,974	14,005,253	43,543	58,078	320,789	14,427,663	7.35%
Use of raw materials and consumables	6	-192,673,958	-79,464,461	-15,923	-54,321	-34,660,126	-114,194,832	59.27%
Service costs	7	-747,468,400	-319,572,555	-2,080,793	-6,595,014	-38,470,052	-366,718,414	49.06%
Personnel costs	8	-236,416,455	-57,295			-2,070,933	-2,128,228	0.90%
Amortisation, depreciation and provisions	9	-159,193,274						
Other operating costs	10	-21,742,183	-751,789	-445	-1,412,777	-1,628,524	-3,793,535	17.45%
Capitalised costs	11	13,407,770						
Operating profit		147,206,584	-64,538,312	-1,223,764	70,115,656	-69,502,194	-65,148,613	
Portion of profit (loss) pertaining to investee companies	12	78,464,505	78,755,879	-291,374			78,464,505	100.00%
Financial income	13	87,488,581	1,014,396	713,076		142,760	1,870,233	2.14%
Financial charges	13	-182,469,096	4,588,309		-6	-87	4,588,216	-2.51%
Total financial operations		-16,516,010	84,358,585	421,703	-6	142,673	84,922,954	
Pre-tax profit		130,690,574	19,820,273	-802,061	70,115,650	-69,359,520	19,774,341	
Taxes paid	14	-6,633,215						
Net profit for the year		124,057,359	19,820,273	-802,061	70,115,650	-69,359,520	19,774,341	

Key of headings of related parties columns:

A subsidiaries B associated companies C related companies with significant influence D other related parties

3.02.02 Statement of financial position

	note	31-Dec-2011	of which related parties				Total	%
			A	B	C	D		
ASSETS								
Non-current assets								
Tangible fixed assets	15	907,675,999						
Intangible assets	16	1,685,910,950						
Goodwill	17	187,234,466						
Equity investments	18	524,335,096	429,068,068	72,357,052		22,726,157	99.96%	
Financial assets	19	240,050,447	229,390,221	9,634,481		960,000	99.97%	
Deferred tax assets	20	56,093,467						
Financial instruments - derivatives	21	80,548,382						
Total non-current assets		3,681,848,807	658,458,289	81,991,533	0	23,686,157	764,135,978	
Current assets								
Inventories	22	14,033,171						
Trade receivables	23	624,148,710	214,328,670	3,701,124	14,274,314	14,873,831	39.60%	
Contract work in progress	24	19,356,684						
Financial assets	25	52,178,325	24,301,386	26,816,355			97.97%	
Financial instruments - derivatives	21	22,375						
Current tax assets	26	2,667,377						
Other current assets	27	111,212,760	402,947		1,789,175	14,503,863	15.01%	
Cash and cash equivalents	28	329,867,204						
Total current assets		1,153,486,606	239,033,003	30,517,479	16,063,489	29,377,694	314,991,665	
Non-current assets held for sale	29	10,606,230						
TOTAL ASSETS		4,845,941,643	897,491,292	112,509,012	16,063,489	53,063,851	1,079,127,643	

	note	31-Dec-2010	of which related parties				Total	%
			A	B	C	D		
ASSETS								
Non-current assets								
Tangible fixed assets	15	894,368,204						
Intangible assets	16	1,626,190,837						
Goodwill	17	187,084,466						
Equity investments	18	525,143,631	429,835,603	72,397,052		22,726,157	99.96%	
Financial assets	19	192,592,376	182,436,275	9,068,381		960,000	99.93%	
Deferred tax assets	20	45,461,881						
Financial instruments - derivatives	21	40,071,235						
Total non-current assets		3,510,912,630	612,271,878	81,465,433	0	23,686,157	717,423,468	
Current assets								
Inventories	22	13,526,278						
Trade receivables	23	697,923,716	324,006,117	2,777,274	6,672,873	13,968,890	49.78%	
Contract work in progress	24	18,582,455						
Financial assets	25	46,261,898	21,532,278	23,736,355			97.85%	
Financial instruments - derivatives	21	26,704						
Current tax assets	26	2,129,743						
Other current assets	27	138,478,944	15,302,035		372,957	14,508,360	21.80%	
Cash and cash equivalents	28	473,186,572						
Total current assets		1,390,116,310	360,840,430	26,513,629	7,045,830	28,477,250	422,877,139	
Non-current assets held for sale	29	0						
TOTAL ASSETS		4,901,028,940	973,112,308	107,979,062	7,045,830	52,163,407	1,140,300,606	

Key of headings of related parties columns:

A subsidiaries B associated companies C related companies with significant influence D other related parties

Cont.d

	note	31-Dec-2011	of which related parties				Total	%
			A	B	C	D		
SHAREHOLDERS' EQUITY AND LIABILITIES								
Share capital and reserves								
Share capital		1,115,013,754						
-Reserve for own shares at nominal value		-9,674,222						
Reserves		487,915,100						
-Reserve for own shares exceeding par value		-3,220,855						
Reserves for derivative instruments valued at fair value		-2,751,814						
Retained earnings (losses)		2,060,626						
Net profit for the year		87,816,607						
Total shareholders' equity		1,677,159,196	0	0	0	0	0	
Non-current liabilities								
Loans - maturing beyond next year	31	2,079,119,885						
Employee leaving indemnity and other benefits	32	67,886,767						
Provisions for risks and charges	33	107,656,692						
Deferred tax liabilities	34	55,720,576						
Financial leasing payables – maturing beyond next year	35	1,714,472						
Financial instruments - derivatives	21	4,192,775						
Total non-current liabilities		2,316,291,167	0	0	0	0	0	
Current liabilities								
Banks and other borrowings - maturing within next year	31	150,821,560	78,163,505			78,163,505	51.83%	
Financial leasing payables – maturing within next year	35	1,531,044						
Trade payables	36	496,381,133	140,489,980	941,088	10,695,119	38,244,645	190,370,832 38.35%	
Current tax liabilities	37	24,869,566						
Other current liabilities	38	174,175,761	30,312		214,017	830,596	1,074,925 0.62%	
Financial instruments - derivatives	21	4,712,216						
Total current liabilities		852,491,280	218,683,797	941,088	10,909,136	39,075,241	269,609,262	
TOTAL LIABILITIES		3,168,782,447	218,683,797	941,088	10,909,136	39,075,241	269,609,262	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,845,941,643	218,683,797	941,088	10,909,136	39,075,241	269,609,262	

	note	31-Dec-2010	of which related parties				Total	%
			A	B	C	D		
SHAREHOLDERS' EQUITY AND LIABILITIES								
Share capital and reserves								
Share capital		1,115,013,754						
-Reserve for own shares at nominal value		-5,939,609						
Reserves		459,582,697						
-Reserve for own shares exceeding par value		-3,057,748						
Reserves for derivative instruments valued at fair value		-7,198,537						
Retained earnings (losses)		2,060,626						
Net profit for the year		124,057,359						
Total shareholders' equity		1,684,518,542	0	0	0	0	0	
Non-current liabilities								
Loans - maturing beyond next year	31	1,969,754,833						
Employee leaving indemnity and other benefits	32	70,984,252						
Provisions for risks and charges	33	96,236,497						
Deferred tax liabilities	34	58,697,676						
Financial leasing payables – maturing beyond next year	35	2,617,215						
Financial instruments - derivatives	21	31,431,531						
Total non-current liabilities		2,229,722,004	0	0	0	0	0	
Current liabilities								
Banks and other borrowings - maturing within next year	31	319,336,904	247,961,021			247,961,021	77.65%	
Financial leasing payables – maturing within next year	35	2,313,325						
Trade payables	36	473,943,613	169,985,183	1,078,475	4,230,686	24,376,213	199,670,557 42.13%	
Current tax liabilities	37	30,086,776						
Other current liabilities	38	161,081,081	29,565			943,946	973,511 0.60%	
Financial instruments - derivatives	21	26,695						
Total current liabilities		986,788,394	417,975,769	1,078,475	4,230,686	25,320,159	448,605,089	
TOTAL LIABILITIES		3,216,510,398	417,975,769	1,078,475	4,230,686	25,320,159	448,605,089	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,901,028,940	417,975,769	1,078,475	4,230,686	25,320,159	448,605,089	

Key of headings of related parties columns:

A subsidiaries B associated companies C related companies with significant influence D other related parties

3.02.03 Cash flow statement

thousands of Euro	31-Dec-11	of which related parties
Pre-tax profit	117,757	
Adjustments to reconcile net profit to the cash flow from operating activities:		
Amortisation and impairment of tangible assets	46,845	
Amortisation and impairment of intangible assets	89,814	
Allocations to provisions	32,360	
Dividends	-59,677	
Financial charges/(income)	93,620	
(Capital gains)/losses and other non-monetary elements (including valuation of commodity derivatives)	42	
Change in provisions for risks and charges	-12,863	
Change in provisions for employee benefits	-4,836	
Total cash flow before changes in net working capital	303,061	
(Increase)/decrease in inventories	-1,281	
(Increase)/decrease in trade receivables	61,001	100,248
(Increase)/decrease in trade payables	21,505	-9,299
(Increase)/decrease in other current assets/liabilities	26,596	11,548
Change in working capital	107,821	
Dividends collected	61,411	61,411
Interest income and other financial income collected	33,725	-9,266
Interest expense and other financial charges paid	-104,650	3,426
Taxes paid	-38,673	
Liquidity generated by operations (a)	362,694	
Investments in tangible fixed assets	-72,483	
Investments in intangible fixed assets	-148,952	
Investments in companies and business units net of cash and cash equivalents	809	808
Sale price of tangible and intangible fixed assets	1,959	
Disinvestments in non-consolidated equity investments	-99	
(Increase)/decrease in other investment activities	-53,135	-53,370
Liquidity generated/(absorbed) by investment activities (b)	-271,901	
New issues of long-term loans	50,000	
Repayments and other net changes in loans	-181,275	-169,798
Financial lease fees paid	-2,587	
Dividends paid to Hera shareholders	-99,879	-51,796
Change in treasury shares in portfolio	-5,253	
Other minor changes	4,882	
Liquidity generated/(absorbed) by financing activities (c)	-234,112	
Effect of change in exchange rates on liquidity (d)	0	
(Increase)/decrease in liquidity (a+b+c+d)	-143,319	
Cash and cash equivalents at the beginning of the year	473,187	
Cash and cash equivalents at the end of the year	329,867	

3.03 Explanatory notes

3.03.01 Explanatory notes of Hera Spa

Hera Spa (the Company) is a joint-stock company established in Italy and enrolled in the Bologna Companies' Register. The addresses of the registered offices and the locations where its main activities are carried out are indicated in the introduction to the financial statement dossier. The Company's main activities are described in the Directors' report.

The 2011 financial statements, comprised of the income statement, statement of comprehensive income, statement of financial position, cash flow statement, statement of changes in shareholders' equity and explanatory notes, have been prepared in application of Regulation (EC) No. 1606/2002 of 19 July 2002 in observance of the IAS/IFRS International Accounting Standards (hereinafter the IFRS) approved by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee – SIC and International Financial Reporting Interpretations Committee – IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

Sufficient obligatory information to present a true and fair view of the Company's financial and equity position and of the income for the year has been provided.

Information on the Company's operations and on significant events after year end is provided in the Directors' report.

The figures in these financial statements are comparable with the same balances of the previous financial year, unless indicated otherwise in the notes commenting on the individual items.

The reclassifications shown below in these explanatory notes are not deemed to be significant for the purposes of balance sheet interpretation.

As of 1 January 2011, the Municipalities of Cesena, Ferrara, Forlì, Imola, Ravenna and Rimini were also considered related companies with significant influence. The statements and tables do not show the associated positions as at 31 December 2010, considering the difficulties related to obtaining said information. However, in view of the ongoing nature of the underlying relations, it is believed said values may reasonably be in line with the same figures as at 31 December 2011.

Non-recurring costs and revenues are indicated separately in the financial statements.

The corporate transactions that took place during the year are commented in the paragraph below.

Financial Statements

Unless indicated otherwise below in relation to the cash flow statement, the formats used are the same as those applied for the financial statements as at 31 December 2010.

A decremental format has been used for the income statement, with individual items analysed by type. We believe that this type of disclosure, which is also used by our major competitors and is in line with international practice, best represents company results.

The statement of financial position makes the distinction between assets and liabilities, current and non-current.

The cash flow statement has been prepared using the indirect method, as allowed by IAS 7. It should be noted that the cash flow statement has been amended with respect to the previous year in order to best represent the actual cash flows in the year in terms of operations and financial and investment management. Following said improvement, for the purposes of consistency, the figures from the previous year were reclassified so that the data can be directly compared.

The statement of comprehensive income is presented in a separate document from the income statement, as permitted by IAS 1 revised.

The statement of changes in shareholders' equity has been prepared as required by IAS 1 revised.

Moreover, with reference to Consob resolution no. 15519 dated 27 July 2006 on financial statements, specific supplementary formats of income statement, statement of financial position and cash flow statement have been included, while highlighting the most significant relations with related parties, in order to avoid altering the overall clarity of the financial statements.

The general principle adopted in preparing these financial statements is the cost principle, except for the financial assets and liabilities (including the derivative instruments), which were measured at fair value.

In drawing up the financial statements, management was required to use estimates; the major areas characterised by valuations and assumptions of particular significance together with those having notable effects on the situations presented are provided in the paragraph "Significant estimates and valuations".

The figures in the Balance Sheet and Income Statement are all expressed in units of Euro, whereas the figures in the explanatory notes are expressed in thousands of Euro, except when otherwise indicated.

These consolidated financial statements, drawn up according to the IAS/IFRS principles, have been audited by PricewaterhouseCoopers Spa.

These financial statements as at 31 December 2011 were drawn up by the Board of Directors and approved by the same at the meeting held on 22 March 2012.

Corporate transactions occurred during the 2011 financial year

Transfers of business units

Cimaf

Effective as of 1 June 2011, the paid transfer of Consorzio Cimaf's business unit to Hera Spa was completed, relating to the natural gas distribution service in the municipalities of Fiumalbo, Pievepelago and Rio Lunato.

Following are the equity values which comprise the business unit transferred from Cimaf to Hera Spa, effective 1 June 2011:

Assets	/000	Total
<u>Non-current assets</u>		
Intangible fixed assets		898
Goodwill		150
		1,048
<u>Current assets</u>		
Trade receivables		526
		526
Total assets		1,574
Shareholders' equity and liabilities		
<u>Current liabilities</u>		
Trade payables		933
Other current liabilities		14
		947
Total shareholders' equity and liabilities		947
Value of the business unit acquired		627

Valuation criteria and accounting principles

The valuation of the financial statement items has been carried out on the basis of the general criteria of prudence and accruals, on a going-concern basis. For the purposes of the accounting entries, priority is given to the economic substance of the transactions rather than their legal form.

These financial statements were prepared according to the same standards and policies applied in the previous accounting period, taking into account the new accounting standards illustrated in the specific section “accounting standards, amendments and interpretations applicable from 1 January 2011”. As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

The criteria and principles adopted are outlined here below.

Tangible assets - Tangible assets are recorded at acquisition or production cost, including accessory costs, or at the value based on expert appraisals of the business assets, if relating to purchased companies, net of the related accumulated depreciation and any impairment. The production cost includes the portion of the direct and indirect costs reasonably attributable to the asset (such as: personnel costs, transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notary fees, land registry expenses). Cost includes any professional fees and, for certain assets, capitalised financial charges up to the moment the asset enters into service. The cost also comprises the costs for reclamation of the site on which the tangible fixed asset exists, if complying with the provisions of IAS 37.

Ordinary maintenance costs are charged in full to the income statement. Improvement, modernisation and transformation costs that increase the value of the assets are charged to the balance sheet assets concerned.

The book value of tangible fixed assets is subject to assessment so as to identify any losses in value, particularly when events or changes in circumstances indicate that the book value cannot be recovered (for details, see the section “losses in value - impairment”).

Tangible fixed assets are stated gross of their capital contribution which is recognised in the income statement over the period necessary for correlating them to the related costs; they are represented in the statement of financial position by recording the capital contribution as deferred revenue.

Depreciation starts to be applied when the assets enter the production cycle. Work in progress includes costs relating to tangible fixed assets for which the process of economic use has not yet commenced. The tangible fixed assets are systematically depreciated in each accounting period using the economic-technical rates considered representative of the residual possible usefulness of the assets. The following tables contain the depreciation rates taken into account for the depreciation of the assets.

General services	min %	max %
Buildings	0	0
Land	1.5	3
via Razzaboni Mo property complex		
- land	0	0
- buildings	1 - 1.25	2 - 2.5
- external construction work	1.66	3.33
Light construction	5	10
Generic plant	7.5	15
Equipment	5	10
Office furniture and machinery	6	12
EDP machines	10	20
Vehicles and internal means of transport	10	20
Cars	12.5	25
Measurement and laboratory instruments	5	10
Remote control	10	20
- remote control apparatus (RTU)	5	10
- supervision centres	4.16	8.33
- data transmission network (telephone cable)	2.5	5
- data transmission network (fibre optics)	3.33	6.67
Public Lighting	4	8
- type 1 centre	2	4
- type 2 centre	1.25	2.5
- lighting unit (multiple points)	1.25	2.5
- lighting unit (single points/columns)	2	4
- flux controllers	1.25	2.5
- distribution network	1.43	2.86
- votive lighting	1.66	3.33
Electricity substations	3.5	7

Purification service	min %	max %
Land	-	-
Building civil works	1.5	3
Buildings IDAR construction sections	1.5	3
General and specific plant	7.5	15
Specific IDAR plant	5	10
Specific ITFI plant	5	10
Specific plant	5	10
- Purification plant/Civil works	1.66	3.33
- Purification plant	3.33	6.67
Lifting equipment	6	12
Laboratory equipment	5	10
Network	2.5	5
Electricity substations	3.5	7
Equipment	5	10
Furniture	6	12

Gas service	min %	max %
Land	-	-
1st stage pressure reducer stations - Abstraction		
- Buildings	2.5	5.5
- Generic plants	4	15
- Specific plants	2.33	10
2nd stage pressure reducer stations - district - specific plant- user stations	3.13	10
User transformers - Specific plant	3.13	8
Distribution network in steel	1.75	8
Distribution network in cast iron or spheroidal cast iron	1.96	8
Distribution network in PE or PVC	2.5	8
Outlets/Intakes	2.33	8
Meters	4	10
Cathodic protection	3.7	8
Electricity substations - Specific plant	3.5	7

District heating service	min %	max %
Land	-	-
- Production - Buildings	1.92	5.5
- Production - Generic plants	4.5	9
- Production - Specific plants	3.85	9
Distribution network	2.7	8
Meters	2.5	6.67
Heat exchange units	4.5	9
- Boilers	1.43	3.85
- Heat exchangers	2.5	5
- Expansion tanks	1.66	5.56
Pumping stations	-	-
- Electricity substations	2	4
- Generators	2.75	4.55
- Pumps	3.33	6.67
- Electricity substations	3.5	7
Equipment	5	10

Water service	min %	max %
Land	-	-
Buildings/Civil works	1.75	3.5
Wells		
- Buildings/Civil works	1.75	3.5
- General and specific plant	1.25	2.5
- Disinfection plant	2.5	5
- Pumps	5	10
- Building works	1.43	2.86
Abstraction - Buildings/Civil works	1.25	2.5
Lifting and fresh water stations	-	-
- Buildings/Civil works	1.75	3.5
- General plant	7.5	15
- Specific plant	6	12
- Fresh water plant	4	8
- Disinfection plant	2.5	5
- Transformers	2	4
- Pumps	3.34	6.67
- Tanks	1.25	2.5
- Filtration plant and filters	2.78	5.56
- Generators and blowers	2.28	4.55
- Building works	1.43	2.86
Tanks	2	4
- Disinfection plant	2.5	5
- Building works	1.11	2.22
Pipelines and distribution network	2.5	5
Distribution network in steel, cast iron or spheroidal cast iron	1	2
Distribution network in reinforced cement -PE-PVC	1.43	2.86
Outlets/Intakes and connections	2.22	5
Meters	4	10
Electricity substations - Specific plant	3.5	7
Road vehicles	10	20

Electricity production and distribution service	min %	max %
Land	-	-
Buildings	1.5	3
MV underground and overhead distribution network	2	4
LV underground and overhead distribution network	2.5	8
HV/MV-LV/MV transformers	2.86	7
- station transformers	2	4
- pole transformers	2.5	5
Connections	2.5	8
Meters	4	10
Tables	1.66	5
Limiting devices	1.66	5
Masonry and single-pole stations	1.66	3.57
Polyfers	1.25	2.5
Receiver stations	1.66	3.33

Waste management services	min %	max %
Land	-	-
Buildings	1.5	3
Secondary building units (warehouse)	1.5	3
General plant	7.5	15
Specific IR plant	5	10
- land	-	-
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- external building works	1.66	3.33
- electricity production plants	2	4
- general plant	2.5	5
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.5	5
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity production	2.5	5
- waste-to-energy line control systems	5	10
Specific BIOGAS plant. storage + IRE	5	10
- land	-	-
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- external building works	1.66	3.33
- electricity production plants	2.5	5
- CDR packing	2.5	5
- selection, chopping, feeding and sorting plant	2.5 - 3.33	5 - 6.67
- ventilation plant	3.33	6.67
- general plant - stabilisation plant - storage tanks	2.5	5
- control systems	5	10
- containers and bins	5 - 10	10 - 20
- internal handling equipment	4.16	8.33
Specific waste composting plant	5	10
- land	-	-
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- external building works	1.66	3.33
- general plant and lifting equipment	3.33	6.67
- pre-selection plant	2.5	5
- mixing plant	3.33 - 5	6.67-10
- palleting plant	5	10
- energy recovery plant	2.5	5
- screening an refining plant	3.33 - 4.16	6.67-8.33
- weighing plant	2.25	5
- deoxidisation/organic treatment systems	3.33	6.67
- second maturing	5	10
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10	20
Waste containers and equipment	5	10
General equipment	5	10
Snow service equipment	5	10
Sanitary equipment	5	10
Light construction	5	10
Motor vehicles	12.5	25
Controlled landfills	-	-

As required by IAS 16, the estimated useful lives of tangible fixed assets are reviewed each year so as to assess the need to revise them. In the event that the estimated useful lives no longer provide a truthful representation of the expected future economic benefits, the relative depreciation schedule must be redefined according to the new assumptions. These changes are made prospectively to the income statement.

Land is not depreciated.

Gains and losses deriving from the sale or disposal of assets are determined as the difference between the sales revenues and the net book value of the assets, and are charged to the income statement.

Leasing - Leasing agreements are classified as financial leases when the terms of the agreement are such that they essentially transfer all the risks and benefits of ownership to the lessee. The assets forming the subject matter of financial leasing agreements are recorded among tangible fixed assets and stated as assets at their fair value as at the date of acquisition, or if lower, at the current value of the minimum payments due for the leasing; they are depreciated on the basis of their estimated useful life on a consistent basis with the assets owned. The corresponding liability vis-à-vis the lessor is recorded in the statement of financial position. The payments for lease instalments are divided up into the principal portion and the interest portion and the financial charges are booked directly to the income statement for the period. All the other leases are considered to be operating leases and the related costs for the lease instalments are recorded on the basis of the conditions set forth in the agreement.

Intangible Assets - Intangible assets which are identifiable and can be monitored, and whose cost can be reliably determined based on the supposition that said assets will generate future economic benefits, are recorded in the accounts. These assets are stated at cost in accordance with the policies indicated for tangible fixed assets and, if they have a defined useful life, they are amortised systematically over the period of the estimated useful life. The amortisation commences when the asset is available for utilisation or in any case begins to produce economic benefit for the business. Work in progress includes costs relating to intangible fixed assets for which the process of economic use has not yet commenced. If the intangible fixed assets have an undefined useful life, they are not amortised but subjected to an annual impairment test, even in the absence of indicators which disclose losses in value.

Research costs are recorded in the income statement; any development costs for new products and/or processes are booked to the income statement in the year they are incurred, if they do not have multi-year use requirements.

Advertising expenses are charged directly to the income statement.

Industrial patent rights and know-how are representative of assets that are identifiable and capable of generating future economic benefits under the Company's control; these rights are amortised over the related useful lives.

Concessions and licences mainly comprise rights for the concession under management of local public services and are amortised on a straight-line basis over either the economic-technical life of the assets granted or the duration of the concession involved, whichever period is shorter. The residual value of the intangible fixed assets which corresponds with the water concessions contributed by the merged companies and/or the spun-off business segments is by contrast amortised in consideration of the average residual management duration in light of the agreements currently in force with the area agencies. The residual value of the intangible fixed assets which corresponds with the concessions for the management of the methane gas distribution networks contributed by the merged companies and/or the spun-off business segments is amortised in consideration of the residual transitory management duration anticipated by current legislation (Letta Decree and Marzano Law).

Concession arrangements in force with grantors and relating to gas distribution, electricity, integrated water cycle and public lighting assets, as envisaged under interpretation IFRIC 12 are accounted for by applying the "intangible asset model", since it was considered that the underlying concession arrangements do not guarantee the existence of an unconditional right in favour of the concessionaire to receive cash or other financial assets. The implementation of IFRIC 12 made it necessary to apply IAS 11 to the same infrastructures, since if the concessionaire constructs or improves an infrastructure that it does not control, the relative construction and improvement services carried out on behalf of the grantor are classified as construction contracts. So, considering that most works are contracted out externally and that on construction activities carried out internally the job margin cannot be identified individually from the benefits included in the remuneration for the service, these infrastructures are reported on the basis of costs actually incurred, net of any contributions paid by the entities and/or private customers.

The intangible assets recognised following a business combination are recorded separately from goodwill if their fair value can be reliably determined.

The gains and losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the book value of the assets; they are recorded in the income statement at the time of disposal.

Losses in value - Impairment - As at each balance sheet date and when events or situation changes indicate that the book value cannot be recovered, Hera Spa considers the book value of the tangible and intangible fixed assets in order to assess whether there is any indication that said assets have suffered a reduction in value. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total of the write-down. The recoverable amount is either the fair value, less sales costs or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, Hera Spa estimates the recoverable value of the unit generating the financial flows to which said assets belong. Future cash flows are discounted back at a discount rate (net of taxation) that reflects the current valuation of the market and takes into account the risks associated with the specific business activities.

If the recoverable amount of an asset (or of a cash generating unit) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value that the asset would have had if the write-down had not been made for the loss in value. The write-back of the value is charged to the income statement.

Treasury shares - In application of IAS 32, treasury shares are recognised as a reduction in shareholders' equity. Also, any differences generated by future purchase or sale transactions are recorded directly as changes in shareholders' equity, without passing via the income statement.

Equity investments - Equity investments entered in this item refer to long-term investments.

Equity investments in subsidiaries - A subsidiary is an enterprise over which the Company is able to exercise control. Control means the power to determine an entity's financial and management policies in order to obtain benefits from its activities.

Equity investments in associated companies - An associated company is a company over which the Company is able to exercise significant influence, (but not control, or joint control), by means of participation in the decisions on the financial and operating policies of the investee company.

Equity investments in subsidiary and associated companies are recorded at cost adjusted by impairments to reflect the relative recoverable value, in accordance with IAS 36 – Impairment of assets. When the impairment ceases to exist or is reduced, the book value is increased to the estimated recoverable value, which cannot however exceed the original cost. The write-back is charged to the income statement.

If the Company's interest in the losses of the investee company exceeds the book value of the equity investment, the value of the investment will be written off and the interest in the further losses will be recorded as liability provision if the Company is to be held liable.

Dividends received are recorded in the income statement, at the time the right to receive payment is established. If the investee company has distributed dividends, the following may also be considered as possible indicators of impairment:

- the book value of the equity investment in the balance sheet for the year ended exceeds the carrying amount in the consolidated balance sheet of the investee company's net assets, including the relative goodwill;
- the dividend exceeds the total of the statement of comprehensive income of the investee company in the period the dividend refers to.

Other equity investments and securities - The other equity investments and securities belong to the category anticipated by IAS 39 "financial assets available for sale" (commented on hereunder in the specific paragraph). They comprise instruments representative of shareholders' equity and are stated at fair value and booked to shareholders' equity. When the market price or fair value cannot be calculated, they are assessed at cost and can be adjusted if there are losses of value.

If the reasons for the write-down cease to exist, the investments carried at cost are revaluated within the limits of the write-downs made and the effect is booked to the income statement, or to shareholders' equity if the investments are held as assets available for sale. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations vis-à-vis the investee company or in any event cover its losses.

As more fully specified hereunder, the financial assets that the Company intends or is able to maintain until maturity are stated at cost, represented by the fair value of the initial payment made in exchange, increased by the transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method.

Receivables and financial assets – Hera Spa classifies financial assets in the following categories:

- assets valued at fair value with matching entry in the income statement;
- receivables and loans;
- financial assets held until maturity;
- financial assets available for sale.

The management determines their classification when they are first recorded.

Financial assets valued at fair value with matching entry in income statement

This category includes the financial assets acquired for short-term trading purposes, in addition to the derivatives, which are described in the specific paragraph below. The fair value of these instruments is determined by referring to the market value on the date the registration period ends. Changes in fair value of the instruments belonging to this category are immediately recorded in the income statement.

Classification under current and non-current reflects management's expectations regarding their trading: current assets include those whose trading is expected within 12 months or those identified as held for trading.

Receivables and loans

The category includes assets not represented by derivative instruments and not listed on an active market, from which fixed or determinable payments are expected. These assets are valued at amortised cost on the basis of the effective interest rate method. Should there be objective proof of indicators of impairments, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future. losses in value determined through impairment tests are recorded in the income statement. If reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from applying the amortised cost if the impairment testing had not been carried out. These assets are classified as current assets, except for the portions accruing after 12 months, which are included amongst the non-current assets.

Financial assets held to maturity

Unlike derivative instruments, these assets are those with a pre-established maturity, and for which Hera Spa plans to, and is able to, keep in the portfolio until maturity. They are classified as current assets if their contractual maturity is expected within the next 12 months. Should there be objective proof of indicators of impairments, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future. losses in value as determined through impairment testing are recorded in the income statement. If reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from applying the amortised cost if the impairment testing had not been carried out.

Financial assets available for sale

Financial assets, not represented by derivative instruments, designated expressly as falling within this item or not classified in any of the previous items are included in this category. These assets are valued at fair value, the latter determined by referring to the market prices at the balance sheet date, infra-annual situations or using financial measurement techniques and models, recording their change in value with matching entry in a specific shareholders' equity provision ("provision for assets available for sale"). This provision is recorded in the income statement only when the financial asset is actually sold or, in the case of negative changes, when the value reduction already recorded in the shareholders' equity is found to be unrecoverable. Classification as a current or non-current asset depends on management's plans and on the real negotiability of the security. Those whose sale is expected during the next 12 months are recorded as current assets.

Should there be objective proof of indicators of impairments, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future. The negative value changes previously recorded in the shareholders' equity reserve are transferred to the income statement. The impairment previously booked is restored if the circumstances that brought about its recording no longer exist.

Environmental bonds - Hera Spa is subject to the various environmental regulations issued (Directive 2003/87/EC – Emission Trading; Italian Ministerial Decree 24/05 and subsequent modifications – Green Certificates; Italian Ministerial Decree 20/07/04 – Energy Efficiency Bonds) that require that the obligations established through use of certificates or bonds be observed. Therefore, Hera Spa is obliged to meet a need in terms of grey certificates (emission trading), green certificates and white certificates (energy efficiency bonds).

Developing markets on which these bonds/certificates are handled has also made it possible to initiate a trading activity.

The bonds are valued according to the use they are assigned to.

The bonds held to meet the company's requirement are recorded as assets at cost. The environmental bonds assigned free of charge are initially recorded at a nil value. If the bonds in the portfolio prove to be insufficient to meet the need, a liability is recorded to guarantee adequate coverage when the bonds are delivered to the operator. Securities held for trading are recognized as assets and valued through recognition at fair value in the income statement.

Other non-current assets - These are stated at nominal value, and possibly adjusted for any losses in value corresponding to the "amortised cost".

Trade receivables - These refer to financial assets deriving from commercial goods and services supply transactions and are valued at amortised cost, adjusted for impairment. Furthermore, these assets are eliminated in the event of sale which transfers all risks and benefits associated with their management to third parties.

Contract work in progress - When the result of a contract can be reliably estimated, contract work in progress is valued on the basis of the contractual payments accrued with reasonable certainty, on a percentage of completion basis (cost-to-cost), so as to allocate the revenues and the economic result of the contract to the pertinent individual accounting periods, in proportion to the stage of completion of the work. The positive or negative difference between the value of the contracts and the advance payments received is recorded respectively among the statement of financial position assets or liabilities. Contract revenues, in addition to the contractual payments, include the variations, the price review and the recognition of the incentives up to the extent it is probable that they represent effective revenues which can be determined reliably.

When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred. When it is probable that the total contract costs will be greater than the contractual revenues, the expected loss is immediately stated at cost.

Inventories - Inventories are recorded at purchase cost, including directly chargeable related costs, or net estimated realizable value, whichever is the lower. Cost is determined on the basis of average cost weighted on a continual basis. The net realisable value is calculated on the basis of the current costs of the inventories at year end, less the estimated costs necessary for achieving the sale.

The value of obsolete and slow-moving stock is written down in relation to the possible use or realization, by means of the provision of a specific materials obsolescence allowance.

Inventories of work in progress and finished products are valued at weighted average manufacturing cost for the period, which comprises the raw materials, the consumables and the direct and indirect production costs excluding general expenses.

Cash and cash equivalents - The item relating to liquid funds and cash equivalents includes cash and bank current accounts and deposits repayable on demand and other short-term financial investments with high liquidity that are readily convertible into cash and are subject to an insignificant risk regarding their change in value.

Financial liabilities - This item is initially stated at cost, corresponding to the fair value of the liability net of the transaction costs which are directly attributable to the issue of said liability. Following their initial recognition, financial liabilities, with the exception of derivatives, are valued on the basis of amortised cost, using the original effective interest rate method.

Employee leaving indemnity and other employee benefits - The liabilities relating to the defined-benefits plans (such as employee leaving indemnity - TFR) are calculated net of any assets serving the plan on the basis of actuarial suppositions and on an accruals basis in line with the employment services necessary for obtaining the benefits; the valuation of the liability is checked by independent actuaries. The portion of net cumulative value of the actuarial gains and losses exceeding 10% of the current value of the obligation for benefit plans established at the end of the previous financial year is amortised on the remaining average working life of the employees (corridor method). Following the Italian Finance Bill no. 296 of 27 December 2006, companies with more than fifty employees and for quotas accrued as of 1 January 2007, the TFR is a defined benefit plan.

Provisions for risks and charges - The provisions for risks and charges comprise the amounts set aside as recorded in the financial statements on the basis of current obligations (as emerging from past events) which Hera Spa believes it probably will have to meet. The provisions are set aside on the basis of the best estimate of the costs required to meet the fulfilment, as of the balance sheet date (with the assumption that there are sufficient elements for being able to make this estimate) and are discounted back when the effect is significant and the necessary information is available. In such event, the provisions are determined by discounting back the future cash flows at a pre-taxation discount rate that reflects the current market valuation and takes into account the risk associated with the business activities.

When the discounting back is carried out, the increase in the provision due to the passing of time is recorded amongst the financial charges. If the liability is associated with a tangible asset (such as the recovery of sites), the provision is recorded as a matching entry to the asset to which it refers and the recording of the charge in the income statement takes place by means of the depreciation process of the tangible fixed asset to which the charge refers. The methods envisaged by IFRIC 1 are adopted if liabilities are recalculated.

Trade payables - These refer to commercial supply transactions and are recorded at amortised cost.

Other current liabilities - These concern sundry transactions and are stated at nominal value, corresponding to the amortised cost.

Derivative financial instruments - Hera Spa holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate and currency fluctuations.

The transactions which, in observance of the risk management policies, satisfy the requisites laid down by the accounting standards for hedge accounting treatment are classified as “hedging” (recorded in the terms indicated below), while those which, despite being entered into for hedging purposes, do not satisfy the requisites required by the standards, are classified as “trading”. In this case, the fair value changes of the derivative instruments are recorded in the income statement during the period when they take place. Fair value is determined on the basis of the market reference value.

For registration purposes, the hedging transactions are classified as “fair value hedges” if they cover the risk of fluctuation in the market value of the underlying asset or liability; or as “cash flow hedges” if they cover the risk of changes in financial flows deriving both from an existing asset or liability, or from a future transaction.

As far as derivative instruments classified as fair value hedges are concerned, which observe the conditions for the accounting treatment as hedging transactions, the gains and losses deriving from the determination of their market value are booked to the income statement. The gains and losses deriving from the adjustment to fair value of the element underlying the hedge are also booked to the income statement.

For instruments classified as cash flow hedges and that qualify as such, the fair value changes are recorded in a special shareholders' equity reserve called "cash flow hedge reserve" but only referring to the "effective" amount, through the statement of comprehensive income. This reserve is then recorded in the income statement at the time of economic manifestation of the underlying hedged object. The change in fair value referring to the ineffective portion is immediately recorded in the income statement of the period. If the underlying transaction should no longer be considered highly probable, or the hedging relationship can no longer be demonstrated, the corresponding portion of the "cash flow hedge reserve" is immediately recorded in the income statement.

If, on the other hand, the derivative instrument is sold and therefore the hedging of the risk for which the transaction was created no longer qualifies as effective, the amount of "cash flow hedge reserve" relating to it is kept until the economic effects of the underlying contract arise.

The derivatives embedded in financial assets/liabilities are separated out and valued independently at fair value, except for cases where, as provided for by IAS 39, the strike price of the derivative as at the date of activation is close to the determined value, on the basis of amortised cost, of related asset/liability. In such case, the measurement of the incorporated derivative instrument is absorbed in the measurement of the financial assets/liabilities.

Assets and liabilities held for sale - Assets and liabilities held for sale whose value will be recovered mainly through sale rather than use. Assets and liabilities are classified into said category the moment the sale of the group of assets is considered highly likely and the assets and liabilities are immediately available for sale in their current condition. Assets held for sale are valued at cost or fair value, net of sales costs, whichever is the lesser.

Grants - Capital grants are stated in the income statement over the period necessary for correlating them to the related costs; they are represented in the statement of financial position by recording the grant as deferred revenue. Operating grants, including those received from users for connection purposes, are considered to be revenues for services carried out during the accounting period and are therefore recorded on an accruals basis.

Revenue recognition - Revenues and income are stated net of returned items, discounts and rebates, and net of taxes directly related to the sales of products and services rendered. They are broken down into revenues deriving from operating activities and financial income which accrues between the sale date and the payment date.

Specifically:

- revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels),
- revenues from services rendered are recognised on the basis of services provided and in compliance with the relevant contracts,
- revenues from the sale of goods are recognised at the time Hera Spa transfers the significant risks and benefits associated with ownership of the assets to the purchaser,
- costs are stated in accordance with the accruals principle.

Financial income and charges - Financial income and charges are recognised in accordance with the accruals principle.

Dividends from investee companies are recorded in the income statement, at the time the right to receive payment is established, only if they derive from distribution of profit arising after acquisition of the investee.

Income taxes for the year - Income taxes for the year represent the sum of current and deferred taxes.

Current taxes are based on the taxable income for the year. Taxable income differs from the result recorded in the income statement, as it excludes positive and negative components which will be taxable or deductible in other years, and excludes items which will never be taxable or deductible. Current tax liabilities are calculated using current tax rates in force at the balance sheet date.

In calculating the taxes for the year, the Company duly considered the effects deriving from the IAS tax reform introduced by Italian Law No. 244 of 24 December 2007, and in particular the enhanced principle of derivation set forth under article 83 of the FCA that now envisages that “the criteria of qualification, time allocation and classification in the financial statements envisaged by the international accounting standards” apply to parties that apply the international accounting standards, also in derogation of the provisions of the FCA.

For the purposes of IRES (corporation tax) the Company has opted to use the “domestic tax consolidation” system with the major subsidiaries. To this end, a special contract has been entered into with each subsidiary by which to regulate the tax items transferred with specific reference to current taxes. Prepaid and deferred taxes calculated when determining the income of the subsidiaries are not transferred to the Parent Company Hera Spa, but remain under the individual subsidiary.

Deferred taxes are calculated having regard to the temporary differences in taxation, and are recorded under item “deferred tax liabilities”. The deferred tax assets are recorded to the extent in which their existence is considered probable in the years when their temporary differences will be reversed of a taxable income at least equal to the amount of the differences that will be offset.

Deferred and prepaid taxes are determined on the basis of the tax rates in force at the time the temporary differences are recorded. Any variations, as a result of amendments to taxes and/or to rates, will be recorded in the year in which the new provisions will come into force and will become effectively applicable. These changes are charged to the income statement, or the shareholders’ equity, depending on how the difference was originally charged.

Translation of foreign currency balances - The functional and reporting currency adopted by Hera Spa is the Euro. Foreign currency transactions are initially recorded using the exchange rate in force as of the transaction date. Foreign currency assets and liabilities, with the exception of fixed assets, are recorded using the exchange rate in force as at the period end date and the related exchange gains and losses are duly charged to the income statement; any net gain which might arise, is set aside in a specific restricted reserve until the date of realization.

Transactions with related parties - Transactions with related parties take place on an arms’-length basis, in observance of efficiency and economic criteria.

Accounting standards, amendments and interpretations applicable from 1 January 2011

Starting from 1 January 2011, the following accounting standards and interpretations shall be compulsory as they have already concluded the EU endorsement process.

Amendments to IAS 32 - Financial Instruments: disclosure (regulation 1293/2009). These changes specifically refer to the classification of rights issues (warrants, options).

Amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards” (regulation 574/2010), limited exemption from comparative disclosures for first-time adopters envisaged under IFRS 7.

IAS 24 revised - “Related Party Disclosures” (Regulation 632/2010). The amendment clarifies the definition of “related party” and simplifies the information required in the case of transactions with related parties controlled by the Government.

Amendment to IFRIC 14 “Prepayments of a minimum funding requirement” (Regulation 633/2010). The objective of the amendments is to eliminate an undesired consequence of IFRIC 14 if the entity, subject to a minimum funding requirement, prepays contributions for which under specific circumstances the entity which makes the prepayment would have to record an expense. If a defined pension plan is subject to a minimum funding requirement, the change to IFRIC 14 sets forth that this prepayment be accounted for as an asset, as for any other prepayment.

IFRIC 19 “Extinguishing financial liabilities with equity instruments” (Regulation 662/2010). The purpose of this interpretation is to provide guidance on the debtor's measurement of equity instruments issued to entirely or partially extinguish a financial liability following a renegotiation of the related conditions.

On 6 May 2010, the International Accounting Standards Board (IASB) published additional “Improvements to the International Financial Reporting Standards”, subsequently adopted by the European Union under Regulation 149/2011. These improvements mainly include amendments to the following existing international accounting standards:

- Improvement IFRS 3 “Business combinations”: this amendment clarifies that third party equity interests which do not give the holders the right to receive a proportional share of the subsidiary's shareholders' equity must be measured at fair value or as required by the applicable accounting standards. The issue of share based payments which are replaced as part of a business combination is also further clarified, with a specific guide for their accounting treatment.
- Improvement IFRS 7 “Financial instruments - supplementary disclosures”: the amendment provides clarifications on the interaction between disclosures of a qualitative and of a quantitative nature in regard to the risks inherent in financial instruments. Furthermore the requirement for disclosure of expired financial assets that have been renegotiated or written-down has been eliminated.
- Improvement IAS 1 - “Presentation of the Financial Statements”: the amendment requires that a reconciliation of the changes in the individual components of equity be presented in the notes or financial statements.
- Improvement to IAS 34 “Interim Financial Reporting”: this amendment contains clarifications about additional disclosures required for the preparation of the interim financial statements.

Accounting standards, amendments and interpretations endorsed by the European Union which are not yet applicable and have not been adopted early by the Company.

Starting from 1 January 2012, the following amendment to the accounting standards shall be applicable as it has already concluded the EU endorsement process:

Amendments to IFRS 7 “Financial instruments: supplementary disclosures”, the amendment, applicable to financial statements for years starting on or after 1 July 2011, promote transparency in the information presented in the financial statements on transfers (derecognition) of financial assets in the portfolio, improving disclosures on the risks which remain for the entity that performed the transfer and the effects on the financial position, especially if said transfers are carried out at the end of an accounting period.

It is believed that the adoption of said amendments and improvements will not significantly affect the financial statements of the Company.

Accounting standards, amendments and interpretations still not endorsed by the European Union

The following amendments to IFRSs (already approved by the IASB) and the following interpretations and amendments are in the process of being endorsed by the competent bodies of the European Union:

- **IFRS 9** “Financial Instruments”, published by the IASB on 12 November 2009 and subsequently amended on 28 October 2010. With effect from 1 January 2015, this standard is the first part of a process taking place in phases for the replacement of IAS 39 and introduces new criteria for the classification of financial assets and liabilities and for the derecognition of financial assets.
- Amendments to **IFRS 7** “Financial instruments: Supplementary disclosures”, published by the IASB on 16 December 2011 and applicable from 1 January 2013, requires more information on the effects of asset and liability offsetting on the financial position.
- Amendments to **IAS 12** “Income taxes”, published by the IASB on 20 December 2010 and applicable from 1 January 2012, clarifies the method of calculation of deferred taxes in the event of real estate investments measured at fair value based on IAS 40.
- Amendments to **IFRS 1** “First-time Adoption of International Financial Reporting Standards”, published by the IASB on 20 December 2010 and applicable from 1 July 2011.
- Amendments to **IFRS 10** “Consolidated financial statements”, published by the IASB on 12 May 2011 and applicable from 1 January 2013. The standard sets out new criteria for drafting the consolidated financial statements.
- Amendments to **IFRS 11** “Joint arrangements”, published by the IASB on 12 May 2011 and applicable from 1 January 2013, redefines the method of accounting of joint ventures in the consolidated financial statements.
- **IFRS 12** “Disclosure of interests in other entities”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013, expands the information required regarding various types of investments.
- **IFRS 13** “Fair value measurement”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013, provides a unique definition of the fair value concept, clarifying the calculation methods for financial statement purposes.
- **IAS 27** Revised “Separate financial statements”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013.
- **IAS 28** Revised “Investments in associates”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013.

- **IAS 1** “Presentation of the Financial Statements” published by the IASB on 16 June 2011 and effective as of 1 July 2012, modifies the presentation of the statement of comprehensive income, requiring a separate indication of components depending on whether said items can then be reclassified to the income statement or not.
- **IAS 19** “Employee benefits”, published by the IASB on 16 June 2011 and applicable from 1 January 2013, eliminates the possibility of applying the corridor method, requiring the recognition in the income statement of the cost of employment and financial interests and recording in the statement of comprehensive income of the entire amount of actuarial gains and losses. Furthermore, the method of calculating the interest cost was modified.
- **IFRIC 20** - “Stripping costs in the production phase of surface mines”, published by the IASB on 19 October 2011 and applicable from 1 January 2013.
- Amendments to **IAS 32** “Financial instruments: disclosure”, published by the IASB on 16 December 2011 and applicable from 1 January 2014.

Risk management

Credit risk

Hera Spa operates in business areas with low levels of credit risk given the nature of its activities and due to the fact that its credit exposure is spread over a large number of customers. The reference market is the Italian market. Assets are recognised in the financial statements net of any write-downs determined on the basis of the default risk of the counterparties, taking into account the information available on solvency and the historical data.

Liquidity risk

Liquidity risk for Hera Spa may arise from difficulties in obtaining financing to support its operations within good time. Cash flows, financing needs and the liquidity of the Company are centrally monitored or managed, under the control of the Group's Treasury Department, for the purpose of ensuring an efficient and effective management of financial resources.

The financial planning of requirements, focused on medium-term borrowings, and the availability of abundant funds in credit facilities, allow effective management of liquidity risk.

Exchange rate risk and interest rate risk

Hera Spa is not subject to exchange rate risk as it operates almost exclusively in the Italian market, both in relation to the sale of its services and the procurement of goods and services. As for interest rate risk, Hera Spa regularly assesses its exposure to the risk of interest rate fluctuations and manages this risk by means of derivative financial instruments, in accordance with its risk management guidelines. Under these guidelines, the use of derivative financial instruments is restricted to the management of exposure to interest rate fluctuations related to cash flows and balance sheet assets and liabilities. These policies do not enable speculative activities to be carried out.

Fair Value Hierarchy

IFRS 7 requires classification of financial instruments measured at fair value in a three-level hierarchy based on the way the fair value was determined, i.e., with reference to the factors used in determining the value:

- level 1, financial instruments the fair value of which is determined on the basis of quoted prices in active markets;
- level 2, financial instruments the fair value of which is determined using valuation techniques that employ parameters that are directly or indirectly observable on the market. Instruments valued on the basis of the market forward curve and short term differential contracts are classified in this category;
- level 3, financial instruments the fair value of which is determined using valuation techniques that employ parameters that cannot be observed on the market, using internal estimates exclusively. Hera Spa does not currently own any instruments that fall into this category.

Significant estimates and valuations

Use of estimates

Arrangement of the financial statements and related notes requires the use of estimates and valuations by the directors, with regard to the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below.

Specific information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

Impairment of goodwill

Hera Spa carries out an impairment test on goodwill at least once a year. This test is based on the calculation of its value in use, which requires the use of estimates, as specified in paragraph 17 of this note.

Allocations to provisions for risks

These provisions have been made by adopting the same procedures as previous years and hence by referring to the updated reports of the legal counsel and the consultants overseeing the disputes, as well as on the basis of developments in the related proceedings. The paragraph relating to provisions for risks sets out the assumptions used to estimate the provision for risks relating to INPS (Social Security) disputes.

Recognition of revenues

Revenues for the sale of electricity, gas and water are recognised and accounted for at supply and include the allocation for services rendered between the date of the last reading and the end of the financial year, but still not billed. This allocation is based on estimated of the customer's daily consumption, based on the historic profile, adjusted to reflect the weather conditions or other factors which might affect consumption under evaluation.

Deferred tax assets

Accounting for prepaid taxes takes place on the basis of expectations of taxable income in future years. The valuation of the taxable revenue expected for the purposes of accounting for prepaid taxes depends on factors that may vary over time and significantly affect the recoverability of the receivables from prepaid taxes.

Depreciation and amortisation

Amortisation and depreciation is calculated on the basis of the useful life of an asset. The useful life is determined by Management at the time the asset is recognized in the balance sheet; valuations of the duration of useful life are based on historical experience, market conditions and the expectation of future events that could affect the useful life itself, including technological changes. Therefore, it is possible that the actual useful life could differ from the estimated useful life.

Summary of reclassifications

Shown below are the effects on the statement of financial position as at 31 December 2010 generated by the reclassification of direct tax receivables and payables (IRES, IRAP and substitute tax) under the specific items “Current tax assets” and “Current tax liabilities”. These reclassifications will be analysed further in detail in the notes that follow.

	31-dec-2010 Published	2010 Reclassifications	31-Dec-2010
BALANCE SHEET			
Current assets			
Current tax assets	0	2,129,743	2,129,743
Other current assets	140,608,687	-2,129,743	138,478,944
Current liabilities			
Tax liabilities	53,287,481	-53,287,481	0
Current tax liabilities	0	30,086,776	30,086,776
Other current liabilities	137,880,376	23,200,705	161,081,081

3. Revenues

	2011	2010	Changes
Integrated Water Service	404,510	371,693	32,817
Waste collection and disposal	397,010	382,542	14,468
Distribution, measurement and marketing of gas	153,368	149,609	3,759
Services performed for third parties	93,013	122,175	(29,162)
Group services	82,200	73,128	9,072
Production and distribution of electricity	72,133	72,040	93
District heating	66,049	66,140	(91)
Public lighting	32,043	37,957	(5,914)
Sale of environmental certificates	21,737	2,566	19,171
Cemeterial and funeral services	10,301	8,458	1,843
Rent for network services and management of services	3,142	3,114	28
Sale and distribution of LNG	32	18	14
Tariff equalisation and gas distribution	10	(1,419)	1,429
Other services	178	146	32
Tariff equalisation and distribution of electricity	(245)	(2,416)	2,171
Total	1,335,482	1,285,752	49,730

Please see the Directors' Report for the analysis of sales trends by business sector and the note providing information by business area.

Revenues are achieved mainly in Italy.

The most substantial changes by comparison with the previous year are analysed below.

The revenues from the "Integrated water service" have increased mainly on account of the increase in tariffs agreed upon with the ATOs for 2011.

Their revenues from "Waste collection and disposal" have increased on account of the higher urban hygiene revenues following the tariff adjustments obtained in order to cover the higher additional services required. Please see note 7, Costs for Services, under "Waste transportation, disposal and collection services".

The "Services performed for third parties," including also the connection contributions, have decreased mainly in relation to the higher revenues finally achieved in 2010 for work carried out on the Modena, Rimini and Forlì incinerators on behalf of subsidiary Herambiente Spa.

The "Group services" have increased mainly as a result of the interventions set forth in the service contracts with subsidiaries Hera Comm Srl and Herambiente Spa.

The revenues from "Public lighting" have decreased mainly as a result of the expiration as at 31 December 2010 and 30 June 2011 of the public lighting contracts for the municipality of Bologna, Pianoro, Calderara di Reno and Novafeltria, which were not renewed.

The "Sale of environmental certificates" refers to white, grey and green certificates. Specifically:

- white certificates, Euro 5,193 thousand (Euro 1,334 thousand as at 31 December 2010);
- grey certificates, Euro 1,801 thousand;
- green certificates, Euro 14,743 thousand (Euro 1,232 thousand as at 31 December 2010).

The increase in the green certificates refers mainly to the collection by the electricity services operators of the certificates for the years 2008, 2009 and 2010 for the Ferrara WTE plant (Euro 13,699 thousand).

Reference is made to paragraph 03.03.02 for the description of the Group structure and following invoicing relations, both assets and liabilities, amongst the various companies, especially for "Group services".

Reclassifications for some 2010 items with respect to what has been published, are shown in the table below:

	2010 published	reclassified	2010 reclassified
Distribution, measurement and marketing of gas	149,627	(18)	149,609
Sale and distribution of LNG		18	18
Other services	2,712	(2,566)	146
Sale of environmental certificates		2,566	2,566

4. Change in inventories of finished products and work in progress

	2011	2010	Changes
Change in contract work in progress	774	9,158	(8,384)
Total	774	9,158	(8,384)

The decrease is mainly due to plant works for third parties and the construction work on the waste to energy plants on behalf of subsidiary Herambiente Spa. In particular, compared to 2010, we note the conclusion of the works for the Rimini WTE plant. This item is connected to note 24 "Contract work in progress".

5 Other operating revenues

	2011	2010	Changes
Long-term contracts	133,194	125,346	
White certificates	17,691	15,478	2,213
Operating grants and grants for separate waste collection	13,817	15,100	(1,283)
Rentals	3,661	3,583	78
Chargeback to Group companies for various costs incurred	3,013	5,329	(2,316)
Grey certificates	2,829	3,632	(803)
Charge backs to Group companies for costs incurred for remuneration of directors, real estate services, fleet management and administrative remuneration	2,801	3,176	(375)
Contributions to the plant account	2,641	2,727	(86)
Costs reimbursed	2,212	2,462	(250)
Insurance reimbursements	1,653	625	1,028
Sales of materials and stocks to third parties	992	677	315
Capital gains on sales of goods	566	6,055	(5,489)
Reassessment of other provisions	545	8,000	(7,455)
Other revenues	6,119	4,193	1,926
Total	191,735	196,383	(4,648)

The most substantial changes with respect to the same period of the previous year are described below.

"Long-term contracts" include revenues generated from the construction or improvement of infrastructures held under a concession arrangement, in application of IFRIC 12.

"White certificates" and "Grey certificates" show the revenues recorded for the Compensation Fund of the electricity sector, after energy goals were attained (white certificates) and for the Ministry for the Environment, for the grey certificates mainly pertaining to the cogeneration plant in Casalegno. Specifically, in relation to the latter plant, Law Decree no. 72 of 20/5/2010, later converted with Law no. 111 of 19 July 2010, established that the plants that do not receive free allocation of permits are entitled to monetary repayment.

"Operating grants and grants for separated waste collection".

The operating grants are equal to Euro 1,116 thousand (Euro 213 thousand as at 31 December 2010).

The contributions from separate waste collection, amounting to Euro 12,701 thousand in 2011, (Euro 14,887 thousand in 2010), are made up mainly of the value from packaging (cardboard, iron, plastic and glass) transferred to the consortia of the Conai chain and electrical and electronic equipment sold to Raee (electrical and electronic waste collection centre).

The decrease compared with the previous year is due to the combined effect of:

- paper and cardboard packaging sold in 2011 in the unregulated market and, therefore, recorded in revenues, saw a decrease of Euro 3,019 thousand;
- higher quantities of plastic and glass of Euro 834 thousand;
- operating grants disbursed by the Province of Forlì Cesena, Ato 8 and the Region of Emilia Romagna, amounting to Euro 902 thousand.

“Costs reimbursed” is made up mainly of repayments from companies or entities relating to seconded personnel seconded.

“Insurance reimbursements” registered an increase of Euro 1,028 thousand and relates mainly to repayments received in 2011, for:

- damages caused to the cogeneration plant in the Fossolo district in Bologna (Euro 250 thousand);
- damages caused to the Aranova Turbo-expander in Ferrara (amounting to Euro 302 thousand);
- damages caused to the Cesenatico treatment plant (Euro 140 thousand);
- reimbursements for legal cover (Euro 290 thousand);
- various minor damages incurred (Euro 46 thousand).

“Capital gains on sales of goods” mainly recorded for the disposal of resources, waste disposal bins and sundry equipment; the figure for the previous year included mainly capital gains generated by the sale of the real estate complexes in Bologna - Via Ranzani (Euro 3,234 thousand) and in Sassuolo - Via Brigata Folgore (Euro 2,343 thousand).

“Reassessment of other provisions,” in 2010 included mainly the uses of the doubtful receivables provisions in the amount of Euro 8,000 thousand.

“Other revenues”, include mainly the recovery of costs for environmental services and relating to the electricity and gas sectors.

6. Use of raw materials and consumables

	2011	2010	Changes
Electricity for industrial use	49,017	46,499	2,518
Maintenance materials net of changes in stock	40,197	46,771	(6,574)
Water	38,381	34,802	3,579
Methane for industrial use	30,316	28,020	2,296
White, grey and green certificates	21,807	11,959	9,848
Transmission of electricity	12,376	12,169	207
Fuels and lubricants	9,952	8,664	1,288
Fuel for heating	9,227	7,371	1,856
Chemical Products	8,201	9,298	(1,097)
Consumables and sundry	6,700	1,257	5,443
Charges and revenues from certificate valuation	3,629	(14,169)	17,798
Methane ready for sale and LNG net of changes in stocks	3	33	(30)
Total	229,806	192,674	37,132

Please see the Directors' report and notes showing information by business segment for the analysis of trends in the costs of raw materials and the consumables.

The most substantial changes with respect to the same period of the previous year are described below.

"Maintenance materials: management and spare parts net of changes in stocks," have decreased compared to the previous year mainly on account of a reduction in investments which are analyzed in further detail in the Directors' Report.

"White, grey and green certificates," includes the cost for the acquisition of white, gray and green certificates incurred in 2011 of Euro 21,807 thousand (Euro 11,959 thousand in 2010), in particular:

- white certificates, Euro 18,904 thousand (Euro 11,959 thousand as at 31 December 2010);
- grey certificates, Euro 2,687 thousand (no purchase as at 31 December 2010);
- green certificates, Euro 216 thousand (no purchase as at 31 December 2010);

"Charges and revenues from certificate valuation" includes the results of the fair value measurement of the following certificates:

- green, expenses of Euro 3,782 thousand (income of Euro 16,425 thousand as at 31 December 2010);
- grey, income of Euro 153 thousand (expenses of Euro 2,256 thousand as at 31 December 2010);

The significant decrease over the previous year is attributable mainly to the sale to GSE of green certificates already in the portfolio in the previous year and relating to the years 2008, 2009 and 2010 for the Ferrara WTE plant (Euro 13,699 thousand; please see note 3 "Revenues").

7 Service costs

	2011	2010	Changes
Charges for works and maintenance	249,837	271,469	(21,632)
Services to Group companies	177,922	182,912	(4,990)
Waste transportation, disposal and collection services	107,781	104,795	2,986
Fees paid to local authorities	61,395	62,481	(1,086)
IT and data processing services	30,464	27,467	2,997
Postal and telephone costs	19,722	18,658	1,064
Professional legal, tax and organisational services	13,742	15,134	(1,392)
Technical services	8,558	10,853	(2,295)
Recruitment, training and other staff costs	8,465	8,049	416
Insurance	7,011	6,093	918
Bank fees and charges	6,470	6,443	27
Rents and leases payable	6,333	5,808	525
Fees payable	6,155	6,009	146
Announcements, insertions, advertising	4,549	4,142	407
Meter reading	3,880	4,423	(543)
Cleaning and security costs	3,745	2,984	761
Utilities	3,100	2,663	437
Fees to Statutory Auditors, Directors, Area Committees	3,033	2,886	147
Laboratory analyses	2,565	2,188	377
Energy transport and storage	154	168	(14)
Other costs for services	1,607	1,843	(236)
Total	726,487	747,468	(20,981)

The most substantial changes by comparison with the previous year are described below.

"Charges for works and maintenance". This item includes the costs for the construction or improvement of licensed infrastructures pursuant to IFRIC 12. The decrease compared to the previous year is mainly due to the reduction in investments, as explained in detail in the Directors' Report.

"Services to group companies" includes the costs generated from application of service contracts concluded between Hera Spa and certain subsidiaries (Herambiente Spa, Hera Comm Srl, etc.). Please see paragraph 3.03.02 "Transactions with related parties" in relation to this. The decrease compared to the previous year is mainly due to the lower costs incurred for the wasted disposal contract concluded with Herambiente Spa.

"Waste transportation, disposal and collection services", the increase can be attributed to more waste management services provided in some Municipalities. This increase in costs was followed by an increase in revenues which were included in the tariff (TIA). Please see note 3 "Revenues" under the item "Waste collection and disposal".

The item “Fees paid to local authorities” includes the charges incurred for the use of public owned networks, fees paid to asset companies for the rent of gas, water and electricity cycle assets and the leasing of the drop-off points. The change compared with the previous year is mainly due to the combined effect of:

- lower rent paid to two Bologna Municipalities following the expiry of the relative concession contracts, totalling Euro 2,386 thousand;
- higher rent paid to the company Unica Reti, of Euro 750 thousand, of which Euro 400 thousand of a non-recurring nature following a transaction regarding the rental agreement for the gas business unit stipulated on 24 February 2003 and, Euro 350 thousand as a result of the signing of a new gas addition contract on 5 May 2011;
- higher rent paid to Con.Ami for the gas rental contract with the Municipality of Medicina, amounting to Euro 450 thousand (entered into on 1 July 2010 following the repurchase of networks sold in 2009);
- higher rent paid for various reasons, totalling Euro 100 thousand.

“IT and data processing services”, the increase is due mainly to higher costs for IT services, amounting to Euro 2,861 thousand and telecommunications services, totalling Euro 136 thousand.

“Professional legal, tax and organisational services” have decreased compared to the previous year mainly on account of costs incurred in 2010 that were related to the sale of 25% of the share capital of Herambiente Spa.

“Technical services”, the reduction is due primarily to a decrease in investments, as detailed in the comments in the Directors’ report.

“Fees to Statutory Auditors, Directors, Area Committees”, includes costs incurred for the different company bodies and for Area Committees.

8. Personnel costs

	2011	2010	Changes
Wages and salaries	170,614	165,746	4,868
Social security contributions	57,615	57,098	517
Employee leaving indemnity and other benefits	559	529	30
Other costs	13,159	13,044	115
Total	241,947	236,417	5,530

The increase in labour costs is mainly due to changes in contractual trends.

As shown below, there were no significant changes in the number of employees, both at overall level and in terms of the individual category.

The average number of employees in the period in question, analysed by category, is as follows:

	2011	2010	Changes
Managers	79	78	1
Middle managers	216	208	8
Employees	2,067	2,038	29
Workers	1,896	1,987	(91)
Average number	4,258	4,311	(53)

On the whole, the average pro-capita labour cost for 2011 was equal to Euro 57 thousand, up 3.6% compared to the figures registered in the corresponding period of the previous year.

As at 31 December 2011, the effective number of employees was 4,224 units (4,260 units as at 31 December 2010).

9 Amortisation, depreciation and provisions

	2011	2010	Changes
Depreciation of tangible assets	46,845	43,031	3,814
Depreciation of intangible assets	89,814	86,978	2,836
Provisions for doubtful receivables	13,300	12,000	1,300
Provisions for risks and charges	11,174	12,188	(1,014)
Other provisions	5,295	4,996	299
Total	166,427	159,193	7,234

As regards the breakdown of the items, please refer to the comments under “tangible fixed assets”, “intangible assets”, “trade receivables” and “provisions for risks and charges” in the statement of financial position.

10 Other operating costs

	2011	2010	Changes
	3,245	3,628	(384)
Taxation other than income taxes	5,980	5,252	728
<i>Of which rent for occupation of public spaces and areas</i>	3,103	2,773	330
Membership fees and other fees	1,281	1,341	(60)
Capital loss on sale of goods	1,354	2,853	(1,499)
Other minor charges	10,803	8,668	2,135
<i>Of which expenses for social benefits</i>	61	202	(141)
<i>Of which fines and penalties</i>	1,000	972	28
<i>Of which other deductible expenses (mainly contributions to clients)</i>	3,683	3,656	27
<i>Of which other current costs</i>	5,543	3,382	2,161
Total	22,663	21,742	921

The most substantial changes by comparison with the previous year are described below.

"Taxation other than income taxes", the increase compared to 2010 is mainly linked to:

- rent for the occupation of spaces and public areas relating to previous periods paid to the Municipality of Bologna;
- Payment of past due amounts of municipal taxes to the Municipality of Bologna on the buildings in the Viale Berti Pichat area.

"Capital loss on sale of goods" generated by the following disposals:

- electricity meters, Euro 696 thousand (Euro 1,185 thousand as at 31 December 2010);
- resources, waste disposal bins, containers and other equipment, Euro 453 thousand (Euro 287 thousand as at 31 December 2010);
- different areas in the Bologna real estate complex - Viale Berti Pichat, Euro 205 thousand relating to operations already completed during the year (Euro 1,381 thousand as at 31 December 2010).

"Other minor charges", the increase compared to the previous year is mainly due to gas distribution service continuity and safety costs.

11 Capitalised costs

During the year the following costs were capitalised in the items “Tangible fixed assets and intangible fixed assets”:

	2011	2010	Changes
Personnel costs	7,985	7,763	222
Material collected from warehouse	4,401	5,114	(713)
Use of resources	448	531	(83)
Total	12,834	13,408	(574)

This item includes the internal costs incurred for implementation of corporate investments. The decrease compared to the previous year is due to the reduction in investments. An analysis of the investments can be found in the notes to the balance sheet assets and to the Directors’ Report.

12 Portion of profits (losses) pertaining to investee companies

	2011	2010	Changes
Income from equity investments in subsidiaries	58,225	78,756	(20,531)
Income from equity investments in associated companies	1,452	1,112	340
Capital losses from the sale of equity investments in subsidiaries	(63)	-	(63)
Capital losses from the sale of equity investments in associated companies	(36)	-	(36)
Write-downs of equity investments and financial fixed assets	(2,112)	(1,403)	(709)
Total	57,466	78,465	(20,999)

The item "Income from equity investments in subsidiaries, associated companies and other companies" mainly comprised of the dividends decided upon during 2011 which relate to the results achieved in 2010.

The significant decrease in "Income from equity investments in associated companies" compared to 2010 is mainly due to the combined effect of:

- higher dividends in 2011 from equity investments in subsidiaries of Euro 29,616 thousand which relates to the subsidiaries Herambiente Spa, Hera Comm Srl and Hera Trading Srl;
- lower capital gains of Euro 50,147 thousand realised in 2010 following the sale of 25% of the share capital of Herambiente Spa to Ambiente Arancione Cooperatief U.A., a subsidiary of Eiser Global Infrastructure Fund; this was a non-recurring transaction.

"Income from equity investments in associated companies," increased compared to 2010 mainly on account of higher dividends collected from the associated company Aimag Spa.

"Capital losses from the sale of equity investments in subsidiaries and associates" refer to Ingenia Srl (Euro 63 thousand) and Italcic Srl (Euro 36 thousand) which were placed under liquidation and removed from the business registry in June and December respectively. Please see the contents of note 18 "Equity investments".

The item "Write-downs of equity investments and financial fixed assets" refers to the company Oikothen Scarl as a result of the losses actually recorded and valuations linked to the future prospects of the company. Please refer to note 33 "Provisions for risks and charges".

13 Financial income and charges

Financial income	2011	2010	Changes
Receivables from long-term loans to subsidiaries	7,654	995	6,659
Receivables from long-term loans to associated companies	1,043	549	494
Receivables from long-term loans to others	38	32	6
Income other than the above from subsidiaries	181	16	165
Income other than the above from associated companies	140	164	(24)
Customers	758	792	(34)
Interest rate derivatives	80,118	62,956	17,162
Income from valuation at fair value of financial liabilities	-	20,861	(20,861)
Banks	4,962	655	4,307
Other financial income	614	469	145
Total	95,510	87,489	8,021

Financial charges	2011	2010	Changes
Interest and other charges payable to subsidiaries	228	269	(41)
Bond loans	87,199	77,414	9,785
Mortgages	1,134	1,351	(217)
Discounting of provisions and financial leases	7,702	7,119	583
Interest rate derivatives	24,186	39,768	(15,583)
Charges from valuation at fair value of financial liabilities	56,744	46,955	9,789
Bank current account overdrafts	3,672	2,541	1,131
Other financial charges	7,850	7,052	799
Total	188,715	182,469	6,246

The change in the financial operations is described, overall, in the Directors' Report.

The most significant changes are remarked on below.

In the "Receivables from long-term loans to subsidiaries" comprising of interests receivable for loans granted, the increase compared to the previous year is mainly due to the interests for loans granted starting from the last quarter of 2010 to subsidiary Herambiente Spa. To this end, see Note 19 to the balance sheet.

In the "Receivables from long-term loans to associated companies," which consist of interest for loans granted, the increase compared to the previous year is due to additional loans granted in 2011 to the associated company Tamarete Energia Srl. To this end, see Note 25 to the balance sheet.

For the items "Income and charges from fair value measurement of financial liabilities" and "Interest rate derivatives", please see note 21 of the balance sheet.

The financial charges regarding "Bond loans" comprise:

- Euro 76,541 thousand in financial charges actually paid (Euro 62,459 thousand in 2010);
- Euro 10,658 thousand in financial charges generated by the valuation of said financial liabilities at amortised cost (Euro 14,955 thousand in 2010). With regard to the method used, please note that in the recalculation, the maximum duration of the loans was assumed, and it was also assumed that the put options would not be exercised for the duration of the same loans, within the terms set out in the contract.

The increase over the previous year is mainly due to the higher charges calculated:

- on the convertible bond for a nominal Euro 140 million issued effective as of November 2010;
- on additional disbursements of Euro 20 million relating to two "put loans", effective from November and December 2010;
- on a further disbursement of Euro 50 million relating to the convertible "put bond", effective as of October 2011.

For details on bonds subscribed by Hera Spa, please refer to note 31 "Banks and medium/long- and short-term loans".

As for "Other financial charges", the item mainly includes the charges borne for the without recourse factoring of receivables, amounting to Euro 7,463 thousand (Euro 6,286 thousand as at 31 December 2010).

The item "Discounting of provisions and financial leases" is broken down as follows:

	2011	2010	Changes
Restoration of third party assets	6,248	5,890	358
Employee leaving indemnity and other similar benefits	1,259	1,067	192
Financial leases	195	162	34
Total	7,702	7,119	583

14 Taxes for the year

This item is made up as follows:

	2011	2010	Changes
Current tax liabilities (Ires, Irap and substitute tax)	45,558	64,859	(19,301)
Deferred taxes	(2,977)	(54,899)	51,922
Prepaid taxes	(12,641)	(3,327)	(9,314)
Total	29,940	6,633	23,307

The taxes for 2011 amounted to Euro 29,940 thousand and include non-recurring positive effects of Euro 5,509 thousand, of which Euro 1,215 thousand referred to the sheltering by substitute tax of the higher values recorded on the balance sheet following extraordinary transactions already carried out in financial year 2009 pursuant and consequent to art. 176, subsection 2-ter, of the Consolidation Act on Income Taxes and Euro 4,294 thousand relating to the realignment of controlling interests pursuant to article 23, subsections 12-14, of Legislative Decree no. 98/2011 and to article 20 of Legislative Decree no. 201/2011. The increase in the tax rate for 2011 of 25.43% compared to the one for 2010 of 5.1%, is due to the lower incidence of non-recurring positive effects relating to the sheltering transactions carried out in 2011 compared to 2010 and the increase in the IRAP tax due to the 0.30% increase in the applicable rate for concessionary companies pursuant to Legislative Decree no. 98/2011, of approximately Euro 1,000 thousand.

Current taxes are broken down as follows:

Current taxes	2011	2010	Changes
Ires	21,918	22,880	(962)
Irap	18,303	16,410	1,893
Substitute tax Law 244/07 - recapture EC framework	(159)	(179)	20
Substitute tax "split perimeter"	323	323	-
Substitute tax	5,174	25,425	(20,252)
Total	45,558	64,859	(19,301)

The theoretical rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 27.50%; the reconciliation with the effective rate is shown below.

Statement of reconciliation between theoretical and effective tax rates	Income Statement value	Percentage value of tax effect
Pre-tax profit	117,757	
IRES calculation		
Ordinary rate	(32,383)	-27.50%
Dividends	15,567	13.20%
Amortisation of goodwill	937	0.80%
Other changes (increases and/or decreases)	(1,074)	-0.90%
IRAP and other current taxes		
Irap	(18,333)	-15.60%
Substitute tax	5,346	4.50%
Effective rate	(29,940)	-25.50%

The data are only provided for Ires purposes in view of the fact that the special Irap regulations render irrelevant a reconciliation between the theoretical tax charge derived from balance sheet data and the effective tax charge determined on the basis of tax regulations.

The prepaid and deferred taxes relating to the year 2011 refer to the following variations between taxable income and profit recorded in the financial statements.

Detail of the temporary differences (credits)	31-Dec-2011			31-Dec-2010		
	temporary differences	tax effect (IRES + IRAP)	acquisitions / sales	temporary differences	tax effect (IRES + IRAP)	acquisitions / sales
Prepaid taxes with an impact on the income statement:						
Provisions for doubtful receivables	30,788	8,467		24,710	6,795	
Provisions for risks and charges	51,732	9,203		50,539	9,519	
Provisions for employee benefits	2,815	774		2,995	823	
Amortisation and depreciation	80,815	23,864		72,095	21,126	
Realignment of equity investments	27,350	8,670				
Other	4,699	451		1,823	525	
Total	198,199	51,429		152,161	38,788	
Amount credited (charged) to the income statement		12,641				
Prepaid taxes with an impact on the statement of comprehensive income:						
Cash flow hedges	3,796	2,084		9,929	3,770	
Total	3,796	2,084		9,929	3,770	
Amount credited (charged) to the statement of comprehensive income		(1,687)				
Total tax effect (book value)		53,513			42,559	

Detail of temporary differences (provision)	31-Dec-2011			31-Dec-2010		
	temporary differences	tax effect (IRES + IRAP)	acquisitions / sales	temporary differences	tax effect (IRES + IRAP)	acquisitions / sales
Deferred taxes with an impact on the income statement:						
Provisions for risks and charges	41,170	12,769		46,270	14,249	
Provisions for employee benefits	12,894	3,546		12,894	3,546	
Tangible and intangible fixed assets	117,010	37,092		113,452	35,624	
Leasing	3,601	1,141		4,484	1,408	
Capital gains with installments	3,323	914		5,216	1,445	
Other	4,562	259		12,948	2,426	
Total	182,559	55,721		195,264	58,698	
Amount credited (charged) to the income statement		2,977				
Deferred taxes with an impact on the statement of comprehensive income:						
Cash flow hedges						
Total						
Amount credited (charged) to the statement of comprehensive income						
Total tax effect (book value)		55,721			58,698	

In calculating the taxes for the year, the effects deriving from the IAS tax reform introduced by Italian Law no. 244 of 24 December 2007 were duly considered, and of the associated implementing decrees, Ministerial Decree no. 48 of 1 April 2009, and Ministerial Decree of 8 June 2011, coordination of the international accounting standards with the rules of calculation of the Ires and Irap taxable base, envisaged under art. 4, subsection 7-quater, of Legislative Decree no. 38/2005; and in particular the strengthened principle of derivation set forth under art. 83 of the Consolidation Act on Income Taxes that now envisages that “the criteria of qualification, time allocation and classification in the financial statements required by the international accounting standards apply to parties that apply the international accounting standards, also in derogation of the provisions of the Consolidation Act on Income Taxes.

Information on the "tax moratorium"

In accordance with Law Decree no. 10 of 15 February 2007, subsequently converted into Law no. 46 of 6 April 2007, governing the terms for reimbursement of government aid declared illegitimate by the Ruling of the European Commission no. 2003/193 dated 5 June 2002, on 6 April 2007 Hera Spa (with respect to the position regarding the former Seabo Spa) was served the notices/orders issued by the Inland Revenue office responsible for the area, demanding the payment of a total amount of Euro 22,313 thousand for the tax periods from 1997 to 1999 involved in the recovery.

The appeals submitted to the Provincial Tax Commission of Bologna were rejected by means of rulings dated 19 April 2008, except for that relating to the tax period 2007. In this case, the commission recognised the legitimacy of the deduction of tax withheld and of the tax receivable carried over from previous years amounting to Euro 3,738 thousand; therefore, in June 2008, a total of Euro 17,400 thousand was paid.

Subsequently, on 11 September 2008, the Inland Revenue office sent an additional payment request for interest related to the suspension period, paid in December 2008, for Euro 660 thousand.

Appeals were presented on 3 October 2008, rejected by rulings filed on 29 January 2010, by the Regional Tax Commission of Emilia Romagna which, by amending the first instance rulings, derecognised the legitimacy of the deduction of tax withheld and of the tax receivable for tax periods before 2007; therefore, on 27 October 2010, an additional Euro 7,455 thousand was paid in this respect.

The appeals were submitted to the Supreme Court on 29 April 2010, which were discussed on 24 January 2012.

Please also note that, under the terms of agreements made between shareholders (and specifically reported in the IPO prospectus) at the time of the incorporation giving rise to the creation of Hera Spa, local authorities undertook “to compensate Hera Spa for any cost, loss or damage sustained by the same in relation to mandatory regulatory measures revoking tax benefits that the company and the companies taking part in the incorporation have enjoyed”. Therefore, in relation to the recovery no cost was accounted for, and as at 31 December 2011, outstanding receivables for collection, related to all payments made by Hera Spa for the position related to the former Seabo Spa, amount to Euro 1,061 thousand as at the date of these financial statements.

Law Decree no. 185/2008 and Law Decree no. 135/2009

Art. 24 of Law Decree no. 185 of 29 November 2008, converted with amendments into Law no. 2 of 28 January 2009, intervened “in order to fully implement” the repeatedly mentioned decision of the Commission on 5 June 2002. As for this provision, on 30 April 2009, the Emilia Romagna Regional Management sent three tax assessment notices on the position of the former Meta for the 1997, 1998 and 1999 tax periods, for which Euro 4,823 thousand was paid on 8 May 2009. Appeals were filed with the Provincial Tax Commission of Bologna against the aforementioned assessment notices on 7 July 2009; at the hearing on 14 February 2011, following the reunification with proceedings to deal with additional assessment notices, pending before another section of the same provincial tax commission, commented on hereunder, all proceedings were adjourned so that the parties could attempt to reach a reconciliation.

Art. 24 of the Law Decree no. 185 of 29 November 2008, was then amended by art. 19 of the Law Decree no. 135 of 25 September 2009, which added subsection 1-bis to the above-mentioned art. 24. On 2 October 2009, the Emilia Romagna Regional Management sent two assessment notices for the former company Meta Spa, regarding the 1998 and 1999 tax periods, as a "supplement" to notices already sent on 30 April 2009, in order to cancel two deductions made and previously accepted according to the opinion, shared by the Attorney General, expressed on 28 April 2009 by the Presidency of the Council of Ministers on profits, which were reissued into the public circuit due to the distribution to public bodies shareholders, and the further portion of profits made in the electricity segment. The amounts requested total Euro 22,751 thousand.

On the same date, the Emilia Romagna Regional Management sent four assessment notices for the former company Seabo Spa, regarding the 1997, 1998, 1999 tax periods, in order to acknowledge the irregularities already contained in the report on findings of 17 October 2005. These irregularities could not be taken into account when the notices and injunctions were issued on 6 April 2007, as, at that time, art. 1 of the Law Decree no. 10 of 15 February 2007 granted the Inland Revenue Office powers of "simple settlement" of the tax returns submitted by the taxpayer. The amounts required for the former company Seabo, amounted to Euro 759 thousand.

The total amounts required, by effect of the proceeding provided for by art. 19 of Law Decree no. 135/2009, amounted therefore to Euro 23,510 thousand, and were paid on 20 October 2009.

On 27 November 2009, the Company filed all appeals to the Bologna Provincial Tax Commission to cancel all assessment notices of 2 October 2009, regarding the positions of both former Seabo and former Meta. As regards the former Seabo position, discussion at the public hearing took place on 26 January 2011, in which the Board adjourned the case to attempt a reconciliation between the parties; the case was heard at the hearing on 15 February 2012 and ruling no. 29/17/12 handed down by the Provincial Tax Commission of Bologna, Section no. 17, filed on 23/02/2012, which partially upheld the company's appeal with reference to the recoveries concerning landfill post-closure provisions.

As regards the ex Meta case, discussion at the public hearing occurred on 14 February 2011, with the case adjourned for all proceedings to attempt a reconciliation between the parties. Discussion of the disputes could be set by the end of 2012.

Except for the still-outstanding disputes, aimed at recovering what has already been paid, the entire "tax moratorium" situation shall be considered concluded, since future disbursements which create financial impacts on the Group's accounts are not expected.

Report on the assessment notices issued in 2010

Seven notices were issued to Hera Spa and Hera Comm on 19 November and 22 December 2010 in their capacities of beneficiary companies of the total spin-off of the company Hera Ferrara Srl effective as at 31 December 2009. Said notices for first and second assessment levels concerning IRES and IRAP followed the tax audit on the Ferrara area operating company for tax years 2005, 2006 and 2007 that came to an end on 16 September 2010 with the report on findings of the Ferrara Tax Police Squad.

The irregularities basically concerned a mere error that took place in financial year 2005 in the intercompany costs accounting between Hera Ferrara Srl and Hera Spa, which caused a double recording of the same cost amounting to about Euro 200 thousand. Nevertheless, after said error of double recording of the same cost was discovered in the following financial year 2006, it was corrected by recording a contingent asset of the same amount, duly subject to taxation. It ensued that in force of the consolidated taxation system, the effect of the double deduction of the cost during tax year 2005 was eliminated by the recording, and subsequent taxation, of the cost as a contingent asset. On 13 January 2011, tax settlement proposals were submitted to the Emilia Romagna Regional Management, Large Taxpayers Office, pursuant to art. 6, subsection 2, of Legislative Decree no. 218 of 1997, which concluded positively for the companies, solely involving the payment of penalties reduced by one quarter.

With reference to said event, on 27 December 2011, the company was notified of a tax assessment for VAT purposes regarding the aforementioned accounting error, amounting to Euro 40 thousand; on 29 February 2010, the company submitted an appeal relating solely to tax, then settled the penalties under facilitated terms; discussions on the dispute could take place by the end of 2012.

Three assessment notices for IRES, IRAP and VAT concerning tax year 2005 were issued to Hera Spa on 29 December 2010 following the tax audit on tax year 2005 that was completed with the report on findings dated 1 October 2010, drawn up by the Financial Police, Bologna Tax Police Squad; the subject matter of the report is an irregularity regarding intercompany services (so-called management expenses regarding use of the trademark) supplied by Hera Spa in its capacity of Parent Company of the Hera Group, to the Area Operating Company subsidiary of Forlì-Cesena, Hera Forlì-Cesena Srl.

Although it found the cost split criteria initially established by the intercompany contracts legitimate, the Tax Authorities question the subsequent reduction of the recharge percentages of the management expenses, generally called management fees, following a subsequent agreement that the parties entered into which adjusted the criteria initially envisaged. In the opinion of the Tax Authorities, said adjustment reducing fees due for the services that the holding company supplied entailed tax evasion on the part of Hera Spa, since the lower recharge of management fees to Sot of Forlì-Cesena ensured said costs remained the responsibility of Hera Spa, which would have therefore "illegitimately deducted" them when calculating its IRES and IRAP tax base in the absence of the inherence principle. Likewise, the failure to charge the fee for using the "Hera Group" trademark would have brought about a lower revenue for Hera Spa compared to what was originally foreseen in the intercompany agreement, and so IRES, IRAP and VAT tax evasion allegedly occurred in this case as well in the opinion of the office. On 18 February 2011, tax settlement proposals were submitted to the Emilia Romagna Regional Management, Large Taxpayers Office, pursuant to art. 6, subsection 2, of Legislative Decree no. 218 of 1997, which concluded negatively for the company. Therefore, on 20 May 2011, the related appeals were submitted to the Provincial Tax Commission of Bologna.

Following said appeals presented by the company, the Tax Authorities, by means of act notified on 17 August 2011, partially cancelled, under the appeal process, the payment orders already issued in respect of the IRES component regarding royalties for use of the trademark, and for the entire recovery effected for VAT purposes. The company is still waiting for a date to be set for the hearing before the Provincial Tax Commission of Bologna. Pending the tax proceedings, the company was notified of a tax payment request on 4 January 2012, for the provisional recording of Euro 653 thousand, which the company paid on 29 February 2012.

The Company decided it did not have to make any allocation to the provision for risks for the assessment notices in question as it considers the alleged violations charged against the company groundless. This is based on the circumstance that the companies involved adhered to the Group taxation system for the period in question pursuant to articles 117 et seq. of the Consolidation Act on Income Taxes, according to which the tax actually due to the Tax Authorities is paid in the consolidated income tax return, based on the algebraic sum total of the taxable incomes of the individual companies adhering to the system. It is therefore believed none of the individual companies can be found to have committed tax evasion.

Information on the tax assessments communicated in the 2011 tax period

On 29 September 2011, a tax assessment commenced at the company regarding income taxes and IRAP, conducted by the Financial Police, Bologna Tax Police Squad. The inspections, still ongoing, examined, for IRES and IRAP purposes, the tax years from 2006 to 2010, with a particular focus on the company's economic-financial transactions with public service AATOs. On 24 October 2011, the report on findings solely relating to the 2006 tax year was drafted and issued to the company, limited to the alleged incorrect tax accounting of AATO running costs. According to the contents of the report on findings, the aforementioned costs, relating solely to the 2006 tax year, totalling Euro 2,581 thousand, regarding the functioning of the AATOs, would be considered, on the basis of the joint provisions of article 148, subsection 4, and article 154, subsection 1 of Legislative Decree no. 152 of 3 April 2006, non-deductible as irrelevant, pursuant to art. 109 of Consolidation Act on Income Taxes, to the company activities carried out. The company submitted its defensive arguments, following which, the Office did not follow up the assessment proposal formalised in the Financial Police's report on findings.

15 Tangible fixed assets

	31-Dec-2011	of which assets held under financial leasing agreements	31-Dec-2010	of which assets held under financial leasing agreements	Changes
Land and buildings	200,618	3,889	194,663	3,963	5,955
Generic and specific plant and machinery	560,174	-	551,703	-	8,471
Other moveable assets	69,820	7,547	72,290	9,990	(2,470)
Work in progress and advance payments	77,064	-	75,712	-	1,352
Total	907,676	11,436	894,368	13,953	13,308

Tangible fixed assets are disclosed net of accumulated amortisation. Their composition and changes in the period are as follows:

	Land and buildings	Plant and machinery	Other moveable assets	Work-in-progress and advance payments	Total tangible fixed assets
PURCHASE COST					
As at 31.12.2009	202,103	690,911	227,456	146,583	1,267,054
Increases	7,137	23,951	11,006	38,565	80,659
Disinvestments	-9,546	-1,762	-10,658	-1,582	-23,548
Reclassifications and other changes	35,860	74,840	682	-107,854	3,527
As at 31.12.2010	235,554	787,940	228,486	75,712	1,327,692
ACCUMULATED DEPRECIATION					
As at 31.12.2009	-34,140	-218,263	-150,920	-	-403,323
Increases	-4,495	-22,859	-15,677	-	-43,031
Disinvestments	2,481	498	9,633	-	12,612
Reclassifications and other changes	-4,737	4,387	769	-	419
As at 31.12.2010	-40,891	-236,237	-156,195	-	-433,323
NET VALUE	194,663	551,703	72,290	75,712	894,368
As at 31.12.2009	167,963	472,648	76,536	146,583	863,731
As at 31.12.2010	194,663	551,703	72,290	75,712	894,368

PURCHASE COST					
As at 31.12.2010	235,554	787,940	228,485	75,712	1,327,692
Increases	8,316	17,148	9,243	38,241	72,948
Disinvestments	-535	-1,518	-9,959	-236	-12,248
Reclassifications and other changes	13,854	18,973	4,233	-36,653	407
Reclassifications pursuant to IFRS 5	-12,469	-1,491	-	-	-13,960
As at 31.12.2011	244,720	821,052	232,002	77,064	1,374,839
ACCUMULATED DEPRECIATION					
As at 31.12.2010	-40,891	-236,237	-156,195	-	-433,323
Increases	-5,884	-25,800	-15,161	-	-46,845
Disinvestments	137	306	9,374	-	9,817
Reclassifications and other changes	-4	38	-200	-	-166
Reclassifications pursuant to IFRS 5	2,540	815	-	-	3,355
As at 31/12/2011	-44,102	-260,878	-162,182	-	-467,162
NET VALUE	200,618	560,174	69,820	77,064	907,676
As at 31.12.2010	194,663	551,703	72,290	75,712	894,368
As at 31.12.2011	200,618	560,174	69,820	77,064	907,676

The breakdown and main changes within each category are commented on below.

"Land and buildings", totalling Euro 200,618 thousand, consist of Euro 157,115 thousand in buildings and Euro 43,503 thousand in land. In relation to land, these are mainly company-owned properties on which the majority of the sites and production plants stand. The increases comprise the extraordinary maintenance works carried out at the company offices in Modena-Via Razzaboni and Bologna-Viale Berti Pichat (management building), execution of the building works at certain drop-off points, execution of the building works on the Cogeneration Plant in Imola. As regards "IFRS 5 reclassifications", please refer to note 29 "Non-current assets held for sale".

"Plant and machinery", amounting to Euro 560,174 thousand, is made up mainly of distribution networks and plants relating to business not falling within the scope of the concession system and, therefore, principally: district heating and electricity in the Modena area. The increase in the period mainly reflects the extension of the district heating and cogeneration networks in certain areas of Bologna, Forlì and Cesena, the completion and normalisation of drop-off points, completion of the Cogeneration Plant in Imola-Via Casalegno. The decreases also include the disposal of electricity meters and the sale of optic fibre to Acantho. As regards "IFRS 5 reclassifications", please refer to note 29 "Non-current assets held for sale".

The item "Other moveable assets", equal to Euro 69,820 thousand includes the equipment, waste disposal bins, furniture, electronic machines, motor vehicles and motor cars. As regards the increases in the year, the purchases of assets linked to the "E-Gate" initiative (concerning the separate waste collection in the Rimini area), and other equipment should be noted in particular. The disposals mainly referred to bins in the waste management sector and motor vehicles.

"Work in progress and advance payments", equal to Euro 77,064 thousand, mainly consist of investments carried out for the development of district heating, electricity distribution and extraordinary maintenance work on structural properties and waste-to-energy plants.

For a more accurate analysis of investments in the period, please see the Directors' Report, paragraph 1.03.01.

16 Intangible fixed assets

	31-Dec-11	31-Dec-10	Changes
Industrial patents and know-how	23,643	23,494	149
Concessions, licenses, trademarks and similar rights	53,398	79,922	(26,524)
Public services under concession	1,426,287	1,358,837	67,450
Work in progress and advance payments for public services under concession	149,542	133,489	16,053
Intangible assets under construction and advance payments	31,858	29,759	2,099
Other	1,183	690	493
Total	1,685,911	1,626,191	59,720

Intangible fixed assets are stated net of their accumulated amortisation and are broken down below with details of the changes during the year:

	Industrial patents and know-how	Concessions, licenses, trademarks and similar rights	Public services under concession	Intangible assets under construction and advance payments for public services under construction	Intangible assets under construction and advance payments	Other	Total intangible fixed assets
PURCHASE COST							
As at 31.12.2009	125,167	230,447	1,589,390	159,936	27,047	6,857	2,138,844
Transfer of business units	-	-	28,621	-	-	-	28,621
Increases	440	2	69,883	54,777	13,492	80	138,675
Disinvestments	-	-59	-7,399	-	-	-	-7,458
Reclassifications and other changes	5,726	-3,163	81,816	-81,224	-10,780	-	-7,626
As at 31.12.2010	131,334	227,227	1,762,310	133,489	29,759	6,937	2,291,057
ACCUMULATED DEPRECIATION							
As at 31.12.2009	-94,109	-136,067	-343,709	-	-	-5,019	-578,905
Transfer of business units	-	-	-	-	-	-	-
Increases	-13,730	-13,001	-59,020	-	-	-1,228	-86,978
Disinvestments	-	49	678	-	-	-	727
Reclassifications and other changes	-1	1,714	-1,423	-	-	-	290
As at 31.12.2010	-107,840	-147,306	-403,474	-	-	-6,247	-664,866
NET VALUE	23,494	79,922	1,358,837	133,489	29,759	690	1,626,191
As at 31.12.2009	31,058	94,380	1,245,681	159,936	27,047	1,838	1,559,939
As at 31.12.2010	23,494	79,922	1,358,837	133,489	29,759	690	1,626,191

PURCHASE COST							
As at 31.12.2010	131,334	227,227	1,762,310	133,489	29,759	6,937	2,291,057
Transfer of business units	-	-	898	-	-	-	898
Increases	247	1	68,996	63,904	15,869	322	149,339
Disinvestments	-	-	-378	-	-	-	-378
Reclassifications and other changes	13,619	-31,570	78,296	-47,851	-13,770	724	-552
As at 31.12.2011	145,200	195,658	1,910,122	149,542	31,858	7,983	2,440,364
ACCUMULATED DEPRECIATION							
As at 31.12.2010	-107,840	-147,306	-403,474	-	-	-6,247	-664,866
Transfer of business units	-	-	-	-	-	-	-
Increases	-13,717	-10,666	-64,878	-	-	-553	-89,814
Disinvestments	-	-	62	-	-	-	62
Reclassifications and other changes	-	15,711	-15,546	-	-	-	165
As at 31.12.2011	-121,557	-142,261	-483,836	-	-	-6,800	-754,453
NET VALUE	23,643	53,398	1,426,287	149,542	31,858	1,183	1,685,911
As at 31.12.2010	23,494	79,922	1,358,837	133,489	29,759	690	1,626,191
As at 31.12.2011	23,643	53,398	1,426,287	149,542	31,858	1,183	1,685,911

The breakdown and main changes within each category are commented on below.

“Industrial patents and know-how”, totalling Euro 23,643 thousand relates mainly to costs incurred for the purchase and implementation of IT systems SAP R/3 ECC6 and related applications. These costs are amortised over five years.

The item “Licences, trademarks and similar rights”, amounting to Euro 53,398 thousand, mainly includes the value of the concessions held by the Parent Company Hera Spa in relation to the gas, water and purification plants. The decrease in this item is due to the transfer from “concessions, licences, trademarks and similar rights” to “public services under concession” of assets related to the purification services in the Municipalities of Bologna and Pianoro as well as assets related to the gas service in the Municipality of Sasso Marconi, as provided under the related contracts on reaching the expiry dates of said concessions.

“Public services under concession”, equal to Euro 1,426,287 thousand, made up of the assets relating to the gas, water, purification, sewerage, and public lighting businesses throughout the entire territory managed by Hera, and the electricity distribution business in the Imola area only. The assets mainly relate to distribution grids and networks and plants. This item also includes costs for improvement to said assets, receivables due from the asset-owning companies, as well as reclassifications of amounts from the item “Concessions, licences, trademarks and similar rights” following the expiry of the concession (details of the municipalities and services are provided above). The increase of Euro 898 thousand in the transfer of business units is due to the transfer of the natural gas distribution service in the municipalities of Fiumalbo, Pievepelago and Rionulato, by the CIMAF Consortium.

“Intangible assets under construction and advance payments for public services under concession”, amounting to Euro 149,542 thousand, relate to said assets detailed above which are still to be completed as at the end of the year.

“Work in progress and advance payments”, equal to Euro 31,858 thousand, essentially comprise still incomplete IT projects.

“Other” of Euro 1,183 thousand is mainly comprised of various long-term charges.

17 Goodwill

	31-Dec-11	31-Dec-10	Changes
Goodwill	187,234	187,084	150
Total	187,234	187,084	150

The main values are as follows:

- residual goodwill from the 2002 integration resulting in the creation of Hera Spa, Euro 51,876 thousand;
- goodwill relating to the integration of Agea Spa in 2004, for Euro 21,900 thousand. Said goodwill represents the additional value of the purchase cost compared to the fair values of the assets and liabilities recorded. In particular, with regard to the fair value of Hera Spa shares issued following the increase in capital for the merger by incorporation of Agea spa, in accordance with IFRS 3 the share value was calculated as at the effective date control was taken of Agea Spa (1 January 2004);
- goodwill relating to the integration of Meta Spa, Euro 44,433 thousand. This goodwill, entered in assets and initially measured at cost, represents the additional value of the purchase cost compared to the fair value of the assets and liabilities recognised for the Group. Specifically, with regard to the current value of Hera Spa shares issued following the increase in capital to service the merger by incorporation of Meta Spa, this value was calculated as at the end of 2005, accepted as the effective date that control was taken of Meta Spa;
- goodwill relating to the merger of Geat Distribuzione Gas Spa. This goodwill of Euro 11,670 thousand represents the purchase cost surplus with respect to current value of assets and liabilities recorded as at 1 January 2006 (the date at which effective control was taken by Hera Spa);
- goodwill relating to the merger of Sat Spa. Goodwill, equal to Euro 54,085 thousand, represents the additional value of the purchase cost compared to the fair values of the assets and liabilities recorded. Specifically, with regard to the fair value of the Hera Spa shares issued following the increase in capital from the merger of by incorporation Sat Spa, this value was determined referring to 1 January 2008, date at which the transaction was actually concluded;
- goodwill relating to the merger of Gastecnica Galliera Srl. This goodwill, equal to Euro 2,140 thousand, represents the additional value of the purchase cost compared to the fair value of the assets and liabilities recognised for the Group as at 1 January 2009.
- goodwill relating to the transfer of the gas distribution service in certain Modena municipalities by the Cimaf Consortium of Euro 150 thousand (an increase compared to last year);
- goodwill, regarding other minor transactions, amounts to Euro 980 thousand.

As required by the reference accounting standards (IAS 36), goodwill – which is no longer amortised – undergoes impairment testing. The following table shows the allocation of this item to the cash generating unit or group of units in accordance with the maximum aggregation limits that may not exceed the business segment identified, as per IFRS 8.

Goodwill	
millions of Euro	
Gas	87.7
Electricity	36.2
Integrated water cycle	35.3
Environment	22.7
Other services	5.3
Total	187.2

The impairment therefore involved gas, electricity, integrated water cycle, waste management and other services. The recoverable value of the cash generating units, to which the separate goodwill was attributed, was reviewed by determining the value in use, meant as the current value of the discounted cash flows (duly discounted according to the discounted cash flow method) taken from the business plan prepared for the 2011-2015 period, approved by the Board of Directors of the Parent Company. The current value of an irredeemable debenture, calculated based on last year flows and taking account, for the water cycle only, of the gradual achievement of the full capital payment, as provided for by the current regulations, are added to said flows. In the developed hypothesis, the non-renewal of concessions was taken into consideration, in an estimated percentage of 20%. At the same time, a similar percentage was considered to determine the flow, equal to the net accounting value of assets, which will be redeemed.

While drawing up the Business Plan, which consolidates Hera Spa prospective activities, assumptions consistent with those used in previous plans were used. These assumptions were defined based on final figures, projections internally processed and compared with external sources.

The development of revenues was processed based on the evolution of tariffs for the businesses governed by business unit regulations and/or agreements with the competent Authorities. In particular, revenues from the gas distribution market are projected based on evidence arising from Resolution no. 159/08 and, as for electricity distribution, based on Resolution no. 348/07 of the Italian Authority for Electricity and Gas. Revenues on the sale of gas and electricity on the non-eligible market were projected to 2015, based on Resolutions no. 64/09 and 156/07, respectively, of the Italian Authority for Electricity and Gas. As for the water cycle, revenues were projected based on both the immobility of volumes distributed and the fees referring to agreements signed, or being signed when the Plan was drawn up, with the single local AATOs. As for urban hygiene, the assumption of full tariff coverage was formulated over the term of the plan on all local areas supplied, pursuant to law.

Changes in the prices of gas and electricity sold and purchased on the free market were processed based on business opinions expressed by internal bodies in charge of analysing these factors, and in compliance with the energy scenario set forth when the business plan was started. The latter was drawn up by a panel of institutional observers according to the best forecasts.

The development of plants for the disposal and recovery activities in the waste management cycle is consistent with estimates made in the plans in the provinces where the Hera Spa operates. The scheduling for the realisation of investments and the following start-up of the new plants is the result of the best estimate of technical structures, in compliance with each planning process.

Cost evolution was consistent with the projected inflation considered in the economic and financial Planning Document and, as regards staff, with indications contained in the various work contracts. Effectiveness and synergies were planned in compliance with operations that Hera Spa has carried out over the last few years.

The investment plan is consistent with the maintenance requirements of plant efficiency. This plan is supplemented by investment and development expectations in both initiatives which grant full economic benefit at full production within the term of the Plan, and development initiatives which will grant an economic return after the term of the Plan. The single “relevant” investments were specifically evaluated as for the economic return and strategic importance in the pertaining industrial sector.

The Plan definition, as in past years, saw huge involvement from each single company and profound interaction with management at various organisational levels, over a period of more than 5 months.

According to the aforementioned remarks, the basic assumptions that underlined the development of the impairment test, were formulated by the management, bearing in mind the remaining lifetimes of the reference concessions, on the basis of medium/long term growth rates differentiated by individual asset and expected growth in the respective generating unit sectors (2% on average).

The rate used to discount back the flows is 6.82% after taxes.

As the test results were positive, it was unnecessary to adjust the recorded values provided above. It is worth noting that the outcome of the above mentioned procedures has been specially approved by the Board of Directors of Hera Spa, as recommended by provisions set forth by Consob, Bank of Italy and ISVAP.

18 Equity investments

	31-Dec-11	31-Dec-10	Changes
Equity investments in subsidiaries	429,068	429,836	(768)
Equity investments in associated companies	72,357	72,397	(40)
Equity investments in other companies	22,910	22,911	(1)
Total	524,335	525,144	(809)

Equity investments in subsidiaries

	%	31-Dec-10	Changes during the year				31-Dec-11
			increases	disposals	reval. (wr.downs)	other movmnt	
Acantho Spa	79.94%	17,530					17,530
Famula On Line Spa	100%	11,221					11,221
Herambiente Spa	75%	226,157					226,157
Hera Comm Srl	100%	88,978					88,978
Hera Energie Rinnovabili Spa	100%	2,417					2,417
Hera Luce Srl	90%	8,864					8,864
Hera Servizi Cimiteriali Srl	100%	20					20
Hera Servizi Funerari Srl	100%	10					10
Herasocrem Srl	51%	1,131				(704)	427
Hera Trading Srl	100%	22,711					22,711
Ingenia Srl in liquidation	74%	63				(63)	-
Marche Multiservizi Spa	41%	34,538					34,538
Medea Spa	100%	11,988					11,988
Sotris Spa	5%	640					640
Uniflotte Srl	97%	3,567					3,567
Total		429,836	-	-	-	(768)	429,068

The most important movements that occurred during the year are listed below:

Herasocrem Srl

The Shareholders' Meeting of Herasocrem held on 12 April 2011 resolved to decrease the share capital to Euro 1,480,500 in order to cover losses and to transform the company from an Spa to an Srl and thereafter reduce the share capital to Euro 100,000 effective from 13 July 2011 and the relative pro quota payment to shareholders.

Ingenia Srl

The company was placed in liquidation on 18 December 2009 and was removed from the Register of Companies on 29 June 2011.

Equity investments in associated companies

	%	31-Dec-10	Changes during the year				31-Dec-11
			increases	disposals	reval. (wr.downs)	other movmnt	
Aimag Spa	25%	35,030					35,030
Consorzio Frullo	50%	2					2
Italcic Scarl in liquidation	33%	40				(40)	-
Oikothen Scarl	46%	508					508
Sei Spa	20%	702					702
Service Imola Srl	40%	4					4
Set Spa	39%	31,748					31,748
Tamarete Energia Srl	32%	4,363					4,363
Total		72,397	-	-	-	(40)	72,357

The main movement that took place during the year is the following:

Italcic Scarl

The company was placed in liquidation on 20 October 2009 and was deleted from the Register of Companies on 28 December 2011.

Equity investments in other companies

	%	31-Dec-10	Changes during the year				31-Dec-11
			increases	disposals	reval. (wr.downs)	other movmnt	
Acef Srl in liquidation	10%	1				(1)	-
Bonifica e Ambiente in liquidation	0%	2					2
Calenia Energia Spa	15%	9,073					9,073
Consorzio Ferrara Ricerche	0%	2					2
Consorzio Italiano Compostatori	3%	10					10
Consorzio Polieco	0%	1					1
Democenter Sipe Scarl	1%	41					41
Energia Italiana Spa	11%	13,233					13,233
Eticredito-Banca Etica Adriatica Spa	0%	50					50
Fondazione Flaminia	4%	3					3
Modena Formazione Srl	7%	54					54
Modena Network Spa	14%	420					420
Prog.Este Spa	0%	6					6
Torricelli Srl	2%	14					14
Valdisieve Cons.arl	0%	1					1
Total		22,911	-	-	-	(1)	22,910

The main movement that took place during the year is the following:

Acef Srl in liquidation

The company was placed in liquidation on 8 April 2010 and was removed from the Register of Companies on 30 December 2011.

As required by the reference accounting standards, the value of equity investments in subsidiaries and associated companies undergoes impairment tests, though the determination of value in use, meant as the current value of the discounted cash flows (discounted cash flow method) taken from the development plans prepared by the management of each single company. Based on this, the values were then calculated for the following years, bearing in mind the specific businesses, on the basis of medium/long growth rates according to the different assets, (1%-2% in average). The rate used to discount back the flows is 6.82% after taxes.

The test results are positive, so it was unnecessary to adjust the recorded values of equity investments provided above.

19 Financial assets

	31-Dec-11	31-Dec-10	Changes
Loan receivables from subsidiaries	229,390	182,436	46,954
Loan receivables from associated companies	9,634	9,068	566
Loan receivables from others	1,025	1,087	(62)
<i>Of which receivables for mortgages to be collected</i>	65	81	(16)
<i>Of which receivables from others</i>	960	960	-
Fixed income securities	1	1	-
Total	240,050	192,592	47,458

The most important movements that occurred during the year are listed below:

	31-Dec-10	Changes during the year				31-Dec-11
		increases	disposals	reval. (wr.downs)	other movmnt	
Loan receivables from subsidiaries						
Hera Energie Rinnovabili Spa	-	2,919	(757)		8,182	10,344
Herambiente Spa (ex Recupera Srl)	2,271		(300)		(312)	1,659
Herambiente Spa	180,165	57,300	(9,522)		(19,900)	208,043
Marche Multiservizi Spa	-	10,000			(656)	9,344
	182,436	70,219	(10,579)	-	(12,686)	229,390
Loan receivables from associated companies						
Sei Spa	2,828	520				3,348
Set Spa	5,964					5,964
Oikothen Scarl	276	46				322
	9,068	566	-	-	-	9,634
Loan receivables from others						
Modena Network Spa	960					960
Other financial receivables beyond the year	46		(46)			-
Receivables for mortgages	81		(16)			65
	1,087	-	(62)	-	-	1,025
Fixed income securities						
Fixed income securities	1					1
	1	-	-	-	-	1
Total	192,592	70,785	(10,641)	-	(12,686)	240,050

The items record non-interest-bearing loans granted to subsidiary and associated companies settled at arm's length rates.

With regard to Hera Energie Rinnovabili Spa, among the increases is the loan of Euro 2,919 thousand that Hera Spa granted to the subsidiary in 4 tranches in the latter months of 2011; the “other movements” item includes:

- the amount of the loan granted to Hera Spa in 2010 which was reclassified in 2011 among “Non-current Financial assets” since the contract which was initially to expire on 20 June 2011 was extended to 31 December 2020;
- the short term portions of both loans above, reclassified among “Current financial assets”.

Please see under note 25 “Current financial assets”.

With regard to the loan to Herambiente Spa formerly Recupera of Euro 1,659 thousand, the short term portion is shown under other movements which was reclassified in 2011 under “Current financial assets” (see note 25, “Current financial assets”).

With regard to the loan concluded on 15 October 2010 between Hera Spa and Herambiente Spa (the intercompany loan agreement) used to finance the company’s investment plan, we note the increase in 2011 of Euro 57,300 thousand; the short term portion is shown under other movements which was reclassified in 2011 under “Current financial assets” (see note 25, “Current financial assets”).

We note the loan granted to subsidiary Marche Multiservizi Spa in 2011 of Euro 10,000 thousand; the short term portion is shown under other movements which was reclassified in 2011 under current “financial assets” (see note 25, “Current financial assets”).

We note the increases in the loan receivables from associated companies relating to:

- Sei Spa, for three disbursements in January, June and November 2011 amounting to Euro 140 thousand, Euro 300 thousand and Euro 80 thousand respectively;
- Oikothen Scarl, for another disbursement in October 2011 of Euro 46 thousand.

20 Deferred tax assets

	31-Dec-11	31-Dec-10	Changes
Prepaid taxes	53,513	42,559	10,954
Substitute tax receivables	2,580	2,903	(323)
Total	56,093	45,462	10,631

“Prepaid taxes” are generated from the temporary differences between balance sheet profit and taxable income. Please refer to note 14, “Income taxes”, for a fuller explanation of this matter.

“Substitute tax receivables” relate to tax paid for the tax sheltering of 2002 goodwill, which is an advance payment of current taxes.

21 Financial instruments – derivatives

Non-current assets/liabilities thousands of Euro	Fair value hierarchy	Underlying hedged	31-Dec-11			31-Dec-10		
			Notional value	Fair Value Assets	Fair Value Liabilities	Notional value	Fair Value Assets	Fair Value Liabilities
Interest rate derivatives								
-Interest rate Swaps	2	Loans	502.3 mil	18,864		14.2 mil	169	
-Interest rate Swaps	2	Loans	152.1 mil		4,192	714.2 mil		31,431
Total interest rate derivatives				18,864	4,192		169	31,431
Exchange rate derivatives (financial transactions)								
- Cross Currency Swaps	2	Loans	20 bil JPY	61,684		20 bil JPY	39,902	
Total exchange rate derivatives (financial transactions)				61,684	0		39,902	0
Total				80,548	4,192		40,071	31,431

Current assets/liabilities thousands of Euro	Fair value hierarchy	Underlying hedged	31-Dec-11			31-Dec-10		
			Notional value	Fair Value Assets	Fair Value Liabilities	Notional value	Fair Value Assets	Fair Value Liabilities
Interest rate derivatives								
- Interest rate Swaps	2	Loans	3.9 mil	22		11.5 mil	27	
- Interest rate Swaps	2	Loans	203.9 mil		4,712	11.5 mil		27
Total interest rate derivatives				22	4,712		27	27
Total				22	4,712		27	27

Derivative financial instruments classified under non-current assets amount to Euro 80,548 thousand, (Euro 40,071 thousand as at 31 December 2010); Euro 18,864 thousand refer to interest rate derivatives, and Euro 61,684 thousand refer to exchange rate derivatives. **Derivative financial instruments classified under non-current liabilities** amount to Euro 4,192 thousand, (Euro 31,431 thousand as at 31 December 2010), and all refer to interest rate derivatives.

Financial instruments recorded under current assets and liabilities represent derivative contracts expected to be realised within the next year and refer entirely to interest rate derivatives. The financial instrument derivatives classified under current assets amount to Euro 22 thousand (Euro 27 thousand as at 31 December 2010) while the derivative financial instruments classified under current liabilities amount to Euro 4,712 thousand (Euro 27 thousand as at 31 December 2010).

With regard to the **current and non-current interest rate derivatives**, as at 31 December 2011, the net exposure of Hera Spa was positive by Euro 9,982 thousand, compared to a negative exposure of Euro 31,262 thousand as at 31 December 2010. The significantly positive change in the fair value compared to the previous year is due to a combination of various factors:

- decrease in the interest rate curve, with reference to hedging of financial liabilities at fixed rate, especially corresponding to medium-term maturities;
- realisation of cash flows, corresponding to contractual maturities, linked to derivatives with a negative fair value as at 31 December 2010;
- signing of new derivative hedging contracts with negative values as at 31 December 2011, which partly offset the changes mentioned previously.

The fair value of the **derivatives subscribed to hedge the exchange rate and the fair value of the loans denominated in foreign currency** as at 31 December 2011 was positive by Euro 61,684 thousand, compared to an also positive valuation of Euro 39,902 thousand as at 31 December 2010. The significant change in fair value is mainly due to the strengthening of the Japanese Yen against the Euro and to a significantly lesser extent the trend in the interest rate curve.

The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices; in the absence prices quoted on active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. All derivative contracts entered into by Hera Spa are with leading institutional counterparties.

Interest rate and foreign exchange derivative instruments held as at 31 December 2011, subscribed in order to hedge loans, can be classed into the following categories (figures in thousands of €):

Interest rate / exchange rate derivatives (financial transactions)	Underlying	31-Dec-11					31-Dec-10				
		Notional value	Fair Value Assets	Fair Value Liabilities	Income	Charges	Notional value	Fair Value Assets	Fair Value Liabilities	Income	Charges
- Cash Flow Hedge	Loans	200.0 mil	0	4,690	0	6,427	200.0 mil	0	10,952	0	13,560
- Fair Value Hedge	Loans	649.8 mil	80,548	4,191	79,783	17,423	649.8 mil	39,902	20,308	62,346	25,597
- Non Hedge Accounting	Loans	12.4 mil	22	23	335	335	51.4 mil	196	198	611	612
Total			80,570	8,904	80,118	24,186		40,098	31,458	62,956	39,768

Interest rate derivatives identified as cash flow hedges show a residual notional amount of Euro 200 million (unchanged compared to 31 December 2010) against variable rate loans of the same amount.

Income and charges associated to said class of derivatives predominantly refer to cash flows realised, or to the recording of shares of future flows, which shall have a financial impact in the following period.

As at 31 December 2011 the breakdown of net charges relating to derivatives classified as cash flow hedges, amounting to Euro 6,427 thousand, is as follows:

Cash Flow Hedges thousands of Euro	31-Dec-11 Income / (Charges)	31-Dec-10 Income / (Charges)
- Cash Flows realised	-6,556	-14,149
- Accrued Interest	129	842
- Ineffective portion	0	-253
Total	-6,427	-13,560

The considerable reduction in net financial charges compared with the same period in the previous year (see Note 13 “Financial income and charges”) is predominantly due to the trend (in the context of hedges entered into) in interest rates. In fact, the growth trend in the short-term Euribor rates continued in the first half of 2011 in particular, generating a positive effect on fixed rate hedges entered into.

All the hedging relationships between the aforementioned derivatives contracts and the related underlying liabilities are qualified as “Cash Flow Hedges” and involved the recording in Hera Spa’s shareholders’ equity, of a specific negative reserve, amounting to Euro 2,752 thousand, net of the related tax effect.

Interest rate and foreign exchange derivatives identified as fair value hedges of liabilities recorded in the income statement show a residual notional amount of Euro 649.8 million (unchanged compared to 31 December 2010), against loans of the same amount. In the case of loans denominated in foreign currency, the notional amount of the derivative expressed in Euro is the translation to the original exchange rate hedged. Specifically, the financial liabilities hedged comprise a bond loan in Japanese Yen with a residual notional amount of JPY 20 billion and a ten-year fixed rate bond of Euro 500 million. These derivatives required the recognition of Euro 79,783 thousand in financial income and financial charges of Euro 17,423 thousand; it is hereby noted that concurrently the underlying loans were measured at fair value which resulted in financial charges of Euro 56,744 thousand.

As at 31 December 2011 the breakdown of income and charges relating to derivatives classified as fair value hedges and the related underlying liabilities valued at fair value was as follows:

Fair Value Hedges thousands of Euro	31-Dec-11			31-Dec-10		
	Income	Charges	Total	Income	Charges	Total
- Valuation of derivatives	60,935	-4,191	56,744	46,955	-20,861	26,094
- Accrued Interest	19	0	19	1,937	0	1,937
- Cash Flows realised	18,829	-13,232	5,597	13,454	-4,736	8,718
- Ineffective portion	0	0	0	0	0	0
Total economic effect of derivatives	79,783	-17,423	62,360	62,346	-25,597	36,749

Underlying hedged thousands of Euro	31-Dec-11			31-Dec-10		
	Income	Charges	Total	Income	Charges	Total
Valuation of financial liabilities	0	-56,744	-56,744	20,861	-46,955	-26,094
Total	0	-56,744	-56,744	20,861	-46,955	-26,094

The reduction in net financial income and charges associated with this type of hedges, compared to the previous year, reflects the changes in the fair value of the financial instruments illustrated above, specifically with reference to the decrease in the interest rate curve and change in the fair values of foreign exchange derivatives, in addition to negative final cash flows.

The remaining **interest rate derivatives not recorded under hedge accounting** have a notional residual value of Euro 12.4 million (Euro 51.4 million as at 31 December 2010); all of these contracts are the result of mirroring transactions carried out in previous years as part of a restructuring of the derivatives portfolio.

As for embedded derivatives, reference should be made to note 31.

Interest rate risk and currency risk on financing transactions

The financial requirements of Hera Spa are also met by turning to outside resources in the form of debt. The cost of the various forms of borrowing can be affected by market interest rate fluctuations, with a consequent impact on the amount of the net financial charges. Equally, interest rate fluctuations also influence the market value of financial liabilities. In the case of loans denominated in foreign currency, the cost may also be affected by exchange rate fluctuations with an additional effect on net financial charges. To mitigate interest rate volatility risk and, at the same time, guarantee the correct balance between fixed rate indebtedness and variable rate indebtedness, Hera Spa has stipulated derivatives on interest rates (Cash Flow Hedges and Fair Value Hedges) against part of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, Hera Spa has stipulated foreign exchange derivatives (Fair Value Hedges) to fully hedge loans in foreign currency.

Sensitivity Analysis - Financial transactions

In conjecturing an instant shift of -50 basis points in the interest rate curve with respect to the interest rates effectively applied for the assessments as at 31 December 2011, at like-for-like exchange rates, the potential increase in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly Euro 23.6 million. Likewise, conjecturing an instant shift of +50 basis points in the interest rate curve, there would be a potential decrease in fair value of about Euro 22.6 million.

These fair value changes would have no effect on the income statement if it were not for the potential ineffective portion of the hedge, as they refer to financial derivative instruments classified under hedge accounting. As for the effects on the statement of comprehensive income, in the event of a negative shift in the curve, the change in Cash Flow Hedge reserve would be negative for Euro 0.4 million, net of tax, while in the event of a positive shift, the change would be positive for Euro 0.4 million, net of tax.

As for derivatives designated as fair value hedges, these fair value changes would have no effect on the income statement, except for that limited to the ineffective portion of the hedge, since they are offset by a change in the fair value of the underlying liabilities being hedged, in the opposite sign.

There would be no effects on the income statement from changes in the fair value of instruments not included in hedge accounting, as the latter have originated entirely from mirroring transactions.

In conjecturing an instant rise of 10% in the EUR/JPY exchange rate, with no change in interest rates, the potential decrease in the fair value of derivative financial instruments held as at 31 December 2011 would amount to approximately Euro 23.7 million. Likewise, an instant fall in the same amount would bring about a potential increase in the fair value of the instruments of approximately Euro 28.9 million. As these are exchange rate derivatives regarding financing transactions, fully designated as fair value hedges, these changes would have no effect on the income statement, except for that of the potentially ineffective portion of the hedge, since they are offset by a change in the fair value of the underlying liability being hedged, in the opposite sign.

22 Inventories

	31-Dec-11	31-Dec-10	Changes
Raw materials and stocks	14,033	13,526	507
Total	14,033	13,526	507

Inventories, stated net of an obsolescence provision amounting to Euro 573 thousand (Euro 561 thousand as at 31 December 2010) are mainly comprised of raw materials and stocks. Specifically, these are mainly spare parts and equipment used for the maintenance and running of operating plants. They are valued on the basis of the average cost.

The changes occurring in the provision during the year are provided below:

	31-Dec-10	Provisions	Uses	Other changes	31-Dec-11
Slow moving inventory reserve	561	15	(3)	-	573
Total	561	15	(3)	-	573

23 Trade receivables

The table below provides a breakdown of trade receivables.

	31-Dec-11	31-Dec-10	Changes
a Trade receivables	376,968	350,497	26,471
Of which invoices issued	224,189	205,679	18,510
Of which invoices to be issued	152,469	144,508	7,961
Of which other receivables	311	311	-
b Receivables from related parties	247,178	347,425	(100,247)
From subsidiaries	214,329	324,006	(109,677)
Of which invoices issued	91,774	124,265	(32,491)
Of which invoices to be issued	80,471	85,828	(5,357)
Of which other receivables	42,083	113,912	(71,829)
From associated companies	3,701	2,777	924
Of which invoices issued	3,293	2,314	978
Of which invoices to be issued	15	60	(45)
Of which other receivables	393	403	(10)
From related companies with significant influence	14,274	6,673	7,601
Of which invoices issued	9,869	4,615	5,254
Of which invoices to be issued	4,375	1,310	3,065
Of which other receivables	31	748	(717)
From other related parties	14,874	13,969	905
Of which invoices issued	5,322	3,271	2,051
Of which invoices to be issued	1,275	2,616	(1,341)
Of which other receivables	8,277	8,082	195
c Receivables from others	2	2	-
Of which invoices to be issued	2	2	-
a+b+c Total	624,149	697,924	(73,775)

Trade receivables as at 31 December 2011 amounted to Euro 376,968 thousand (Euro 350,497 thousand as at 31 December 31 2010) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2011. The balances are stated net of the provisions for doubtful receivables amounting to Euro 34,149 thousand (Euro 28,047 thousand as at 31 December 2010) which is considered to be fair and prudent in relation to the estimated realizable value of said receivables.

The changes occurring in the provision during the year are provided below:

	31-Dec-10	Provisions	Uses	Other changes	31-Dec-11
Provisions for doubtful receivables	28,047	13,300	(7,198)	-	34,149
Total	28,047	13,300	(7,198)	-	34,149

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on historic analyses of the receivables regarding the general body of the customers (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the following paragraph "credit risk".

The table below gives a detailed view of the breakdown of *receivables due from subsidiaries*:

Receivables from subsidiaries	31-Dec-11	31-Dec-10	Changes
Acantho Spa	25,500	28,296	(2,795)
A.S.A. Scpa	18	16	2
Akron Spa	869	1,045	(176)
Calorpiù Italia Scarl in liquidation	28	28	-
Consorzio Akhea	9	-	9
Consorzio Energia Servizi Bologna in liquidation	-	17	(17)
Eris Scarl	1,060	864	196
Famula On-Line Spa	(239)	2,023	(2,262)
Frullo Energia Ambiente Srl	4,856	4,526	329
Gal.A. Spa	12	18	(6)
Herambiente Spa	28,119	35,172	(7,053)
Hera Comm Marche Srl	1,484	2,297	(813)
Hera Comm Srl	127,675	144,355	(16,680)
Hera Energie Rinnovabili Spa	(215)	(646)	431
Hera Energie Srl	286	35	251
Hera Luce Srl	1,626	135	1,491
Herasocrem Srl	16	14	2
Hera Servizi Cimiteriali Srl	4	-	4
Hera Servizi Funerari Srl	833	833	-
Hera Trading Srl	16,525	99,816	(83,291)
Ingenia Srl in liquidation	-	5	(5)
Marche Multiservizi Spa	2,063	2,134	(72)
Medea Spa	2,476	1,636	840
Nuova Geovis Spa	1	3	(1)
Romagna Compost Srl	31	42	(11)
Sinergia Srl	44	12	31
Sotris Spa	85	65	20
Uniflotte Srl	1,164	1,264	(100)
Total	214,329	324,006	(109,677)

The receivables from subsidiaries of Euro 214,329 thousand (Euro 324,006 thousand as at 31 December 2010) refer to trade receivables and are all due within next year; they originate from the services that Hera Spa charges back to the companies based on specific service contracts.

The table below gives a detailed view of the breakdown of receivables due from associated companies:

Receivables from associated companies	31-Dec-11	31-Dec-10	Changes
Aimag Spa	65	87	(21)
Consorzio Frullo	5	4	1
Italcic Scarl in liquidation	-	17	(17)
Oikothen Scarl	18	12	6
Sei Spa	232	146	86
Set Spa	2,106	1,804	302
Tamarete Energia Srl	1,275	707	568
Total	3,701	2,777	924

The table below gives a detailed view of the breakdown of receivables due from related companies with significant influence:

Receivables from related companies with significant influence	31-Dec-11	31-Dec-10	Changes
Municipality of Bologna	717	1,764	(1,047)
Municipality of Cesena	1,799	-	1,799
Municipality of Ferrara	1,094	-	1,094
Municipality of Forlì	2,728	-	2,728
Municipality of Imola	1,009	-	1,009
Municipality of Modena	3,394	4,908	(1,515)
Municipality of Ravenna	2,292	-	2,292
Municipality of Rimini	1,241	-	1,241
Total	14,274	6,673	7,601

With regard to the table above, please refer to paragraph 3.03.01 "Explanatory Notes of Hera Spa".

The tables below give a detailed view of the breakdown of receivables due from other related companies:

Receivables from other related companies	31-Dec-11	31-Dec-10	Changes
Acosea Impianti Srl	2,909	2,873	36
Adriatica Acque Srl	46	46	-
Amir - asset	415	419	(4)
Area - asset	6	6	-
Azimut Spa	20	42	(22)
Con.Ami	4,259	5,398	(1,139)
Dyna Green Srl in liquidation	2	5	(4)
Enomondo Srl	4	-	4
Estense Global Service Soc. Cons. a rl	1,655	203	1,451
Feronia Srl	136	118	19
Fiorano Gestioni Patrimoniali Srl	8	4	4
Formigine Patrimonio Srl	184	112	72
Maranello Patrimonio Srl	8	-	8
Modena Network S.p.A	209	196	13
Romagna Acque Spa	3,963	3,168	795
Sassuolo Gestioni Patrimoniali Srl	241	415	(174)
Serramazzone Patrimonio Srl	4	2	3
Sgr Servizi Spa	(5)	22	(27)
Società Italiana Servizi Spa - SIS Spa Asset	64	41	23
So.Sel Spa	2	(1)	3
Team - asset	337	492	(155)
Unica reti - asset	407	407	-
Total	14,874	13,969	905

Credit risk

The book value of the trade receivables shown in the financial statements is the maximum theoretical exposure to credit risk as at 31 December 2011. Even if not standardised, there is a procedure for providing credit to customers that provides for individual evaluations to be made. These operations make it possible to reduce the concentration and exposure to credit risk posed by both business and private customers. Analyses are periodically made of the credit standings still open so as to single out any critical issues. Should individual positions turn out to be entirely or partially uncollectible, an adequate write-down is provided. With regard to the receivables that do not undergo individual write-downs, allocations are made to the provision for doubtful receivables, on the basis of historic analysis (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the creditor).

Trade receivables, mainly achieved in Italy, can be broken down into the following classes:

31-Dec-11	Institutions	Businesses	Mass Market	Total
Amount	51,563	17,935	154,690	224,189
Incidence	23%	8%	69%	100%
31-Dec-10	Institutions	Businesses	Mass Market	Total
Amount	59,647	16,454	129,578	205,679
Incidence	29%	8%	63%	100%

24 Contract work in progress

	31-Dec-11	31-Dec-10	Changes
Contract work in progress	19,357	18,582	775
Total	19,357	18,582	775

The contract work in progress as at 31 December 2011 refers to long-term orders for plant works and the development of the WTEs on behalf of Herambiente Spa (mainly work related to specific facilities for gas, electricity, environmental services and the Modena WTE).

25 Financial assets

	31-Dec-11	31-Dec-10	Changes
Receivables from subsidiaries during the year	24,301	21,532	2,769
Receivables from associated companies during the year	26,816	23,736	3,080
Receivables from others during the year	1,059	992	67
<i>Of which mortgages to be collected</i>	154	373	(219)
<i>Of which for others</i>	905	619	286
Other securities	2	2	-
Total	52,178	46,262	5,916

The table below provides a breakdown of the changes in current receivables due from subsidiaries:

	31-Dec-10	Changes during the year				31-Dec-11
		increases	(refunds)	reval.(wr.downs)	other mov.	
Akron Spa	1,325		(1,325)			-
Hera Energie Rinnovabili Spa	9,104	396	(396)		(8,182)	922
Medea Spa	492					492
Herambiente Spa (ex Recupera Srl)	-				312	312
Herambiente Spa	-				19,900	19,900
Marche Multiservizi Spa	-	1,760			656	2,416
Acque Srl	-	260				260
Receivables from Group companies, through centralised treasury	10,612		(10,612)			-
Total	21,532	2,416	(12,333)	-	12,686	24,301

The residual receivable from Akron Spa for the sale of the equity investment in Ecosfera Spa, was collected in January 2011.

With regard to the loans granted to Hera Energie Rinnovabili Spa and Herambiente Spa, please see note 19 “Non-current financial assets”.

The financial receivables from Marche Multiservizi Spa and Acque Srl refer to advances paid for acquisitions of business units for the managements of the water and waste services in certain Rimini municipalities (effective from 1 January 2012). The other movements item refers to the short term portion of the existing loans (please see note 19 “Non-current financial assets”.

The decrease in the “Receivables from Group companies, through centralised treasury” refers to the financial relationship with a company belonging to the Group which, at 31 December 2011, has a negative balance (and is therefore classified as a liability under “Banks and loans within the next year”.

The table below provides a breakdown of the changes in current receivables due from associated companies.

	31-Dec-10	Changes during the year				31-Dec-11
		increases	(refunds)	reval.(wr.downs)	other mov.	
Tamarete Energia Srl	23,736	3,080				26,816
Total	23,736	3,080	-	-	-	26,816

We note the additional loan granted in 2011 to Tamarete Energia Srl of Euro 3,080 thousand.

26 Current tax assets

	31-Dec-11	31-Dec-10	Changes
Ires receivable	2,667	-	2,667
Irap receivable	-	2,130	(2,130)
Total	2,667	2,130	537

The “Current tax assets” which refer to the excess of the advances paid for direct taxes in 2011 as compared to the actual amount due for the period, amount to Euro 2,667 thousand for IRES receivable (Euro 2,130 thousand as at 31 December 2010 for the IRAP receivable).

In 2010, the values relating to “Current tax assets” were reclassified under “Other current assets”; please refer to the section “Summary of reclassifications” in the explanatory notes.

27 Other current assets

	31-Dec-11	31-Dec-10	Changes
Energy efficiency bonds and emissions trading	60,890	60,195	695
Guarantee deposits	14,110	14,207	(97)
Sundry tax receivables	6,354	6,284	70
Equalisation fund for the electricity and gas sectors for standardisation and continuity income	5,566	14,353	(8,787)
Grants	4,487	5,149	(662)
Costs advanced for leases and rentals	3,799	3,905	(105)
Advances to suppliers/employees	2,014	1,587	427
Insurance costs	1,840	2,256	(416)
Suspended costs for outsourced services and work	1,767	1,976	(209)
Receivables due from asset owning companies	1,711	1,711	-
Receivables from municipalities for tax moratorium	1,061	2,029	(968)
Costs advanced for energy efficiency certificates	900	505	395
AMI consortium	789	789	-
Receivables from Federambiente and Federgasacqua	688	650	38
VAT, excise and additional taxes	515	801	(286)
Advance costs for the purchase of raw materials	429	669	(240)
Receivables from group companies for the tax consolidation	385	12,716	(12,331)
Suspended costs for the “door to door” campaign	367	734	(367)
Receivables from social security institutions	305	468	(164)
Rent liabilities and rent for network services under concession	144	268	(124)
Suspended costs for taxes and duties	69	123	(54)
Receivables from sales of equity interests	54	54	-
Costs advanced for expenses, bank fees and guarantee expenses	36	44	(8)
Receivables from dividends	-	1,734	(1,734)
Other receivables	2,934	5,272	(2,339)
Total	111,213	138,479	(27,266)

The breakdown and changes in the main items are described compared with 31 December 2010.

“Energy efficiency bonds and emissions trading”, include:

- green certificates, Euro 35,699 thousand (Euro 38,633 thousand as at 31 December 2010);
- white certificates, Euro 17,691 thousand (Euro 15,478 thousand as at 31 December 2010);
- grey certificates, Euro 7,500 thousand (Euro 6,084 thousand as at 31 December 2010).

As regards green certificates, it should be recalled that Hera Spa is holder of the trading right and manages operations on behalf of Herambiente Spa, owner of the plants that benefit from the certificates. It should be noted that, in December 2011, certificates relating to the years 2008, 2009 and 2010 for the waste-to-energy plant in Ferrara were sold to GSE (Energy Services Operator). Hera Spa accounted for the green certificates regarding the WTE plant in Ferrara, for a total amount accrued for years 2008, 2009 and 2010, equal to Euro 18,117 thousand, based on provisions envisaged by art. 1, subsections 1117 and 1118 of Law no. 296/2006 (2007 Finance Act). On 10 March 2011, GSE gave official communication that the conditions were satisfied for obtaining 100% of said certificates.

In this table, the Administration body recognises the incentives in favour of electricity power plants from renewable sources and sources assimilated to renewable sources, without making any distinction between organic and inorganic portion of waste, safeguarding the purchase right of plants, as the one located in Ferrara which, at the date of entry into operation of the financial bill itself (1 January 2007), met all the conditions required by the aforementioned law and in particular: a) signature of the appropriate agreement with GSE, b) almost completed plant and c) necessary authorisations.

In this regard, it should be noted that, during the phase of recognition of green certificates of the WTE plant in Ferrara, GSE identified all the consumption of said incineration plant with the auxiliary services, without taking into due consideration the unique features and objectives of a waste-to-energy plant. In respect of said dispute, Hera Spa, based on in-house technical analyses and having consulted its legal advisors, reviewed its credit positions recorded for the years 2008, 2009 and 2010 relating to the Forlì and Modena plants, and promoted all the initiatives necessary, not least the appeal before the competent administrative offices, in order to obtain payment of the amount held to be due.

“Guarantee deposits” of Euro 14,110 thousand (Euro 14,207 thousand as at 31 December 2010) consisting mainly of the deposit for Acosea Impianti Srl (Euro 12,000 thousand) and advance deposits to various public entities and companies.

The item “Sundry tax receivables”, equal to Euro 6,354 thousand (Euro 6,284 thousand as at 31 December 2010) mainly comprises tax receivables on district heating.

The item "Equalisation fund for the electricity and gas sectors for standardisation and continuity income" shows a balance of Euro 5,566 thousand (Euro 14,353 thousand as at 31 December 2010). The decrease compared to the previous year relates to the amount collected in 2011 in relation to the gas and electricity standardisation and the components of the Ug2 and Gs system of the gas sector. In this regard please refer to note 38 “Other current liabilities”, in the item “Equalisation Fund for the Electricity Sector”.

The item “Contributions”, amounting to Euro 4,487 thousand (Euro 5,149 thousand as at 31 December 2010), chiefly relates to receivables for payments to a sinking fund by various Entities, but still to be collected.

As regards “Receivables from municipal authorities for tax moratorium”, please refer to note 14.

“VAT, excise and additional taxes,” of Euro 515 thousand consists mainly of tax receivables from value added taxes.

The “Receivables from group companies for the tax consolidation” of Euro 385 thousand (Euro 12,716 thousand at 31 December 2010).

The “Receivables from dividends” as at 31 December 2010 were collected in February 2011.

“Other receivables” of Euro 2,934 thousand have decreased as compared to the previous year relating to the collection of Euro 2,875 thousand following the redemption of the deposit with the Electricity Market Operator (GME) for the purchase of white certificates on the market.

Some reclassifications made in the corresponding items as at 31 December 2010 are provided below:

	31-Dec-10 published	reclassified	31-Dec-10 reclassified
Equalisation fund for the electricity and gas sectors for standardisation and continuity income	13,924	429	14,353
Other receivables	5,701	(429)	5,272

Item “Receivables due from subsidiaries” in the other current assets relates to sundry advances and tax-related receivables (receivables/payables for tax consolidation): the balance is classified under “Other current assets or liabilities” depending on the total net balance of the companies participating in the tax consolidation.

A breakdown by company is provided below:

Other current assets-subsidiaries	31-Dec-11	31-Dec-10	Changes
Famula On-Line Spa	284	(67)	351
Frullo Energia Ambiente Srl	-	1,734	(1,734)
Herambiente Spa	(5,896)	5,401	(11,298)
Hera Comm Srl	10,993	2,662	8,331
Hera Energie Rinnovabili Spa	71	27	44
Hera Luce Srl	(233)	(164)	(69)
Hera Servizi Funerari Srl	10	89	(78)
Hera Trading Srl	(5,727)	5,048	(10,776)
Herasocrem Srl	22	(114)	137
Medea Spa	31	529	(499)
Sinergia Srl	113	(148)	261
Sotris Spa	133	51	82
Uniflotte Srl	603	253	350
Total	403	15,302	(14,899)

“Receivables due from other related parties” in the other current assets are:

Other current assets - Associated companies	31-Dec-11	31-Dec-10	Changes
Acosea Impianti Srl	12,000	12,000	-
Con.Ami	789	789	-
Maranello Patrimonio Srl	4	-	4
Modena Network Spa	-	8	(8)
Società Italiana Servizi Spa - SIS Spa - asset	1,576	1,576	-
Unica reti - assets	135	135	-
Total	14,504	14,508	(5)

Other current assets - Related companies with significant influence	31-Dec-11	31-Dec-10	Changes
Municipality of Bologna	27	27	-
Municipality of Cesena	14	-	14
Municipality of Ferrara	438	-	438
Municipality of Imola	500	-	500
Municipality of Modena	810	346	463
Total	1,789	373	1,416

With regard to the table above, please refer to paragraph 3.03.01 "Explanatory Notes of Hera Spa".

Geographical distribution of receivables:

All receivables due to the company are owed by Italian customers and investee companies.

28 Cash and cash equivalents

	31-Dec-11	31-Dec-10	Changes
Bank and post deposits	329,786	473,101	(143,315)
Cheques	17	18	(1)
Cash and cash equivalents	64	68	(4)
Total	329,867	473,187	(143,320)

As at 31 December 2011, cash and cash equivalents totalled Euro 329,867 thousand (Euro 473,187 thousand as at 31 December 2010) and include cash, cash equivalents, and bank cheques and drafts held in centralised and decentralised accounts. They also include bank and financial institution deposits in general, available for current transactions and post office accounts. To get a better grasp of the financial trends in 2011, please refer to the cash flow statement and the comments shown in the Directors' report.

29 Non-current assets held for sale

	31-Dec-11	31-Dec-10	Changes
Land and buildings	9,930	-	9,930
General and specific plants	676	-	676
Total	10,606	-	10,606

Non-current assets held for sale, reclassified from the item Tangible fixed assets in application of IFRS 5, amount to Euro 10,606 thousand and refer to:

- the portion of the property complex in Berti Pichat area known as Area P1, amounting to Euro 8,003 thousand (preliminary sale agreement of 30 November 2011). In this regard, it should be noted that the area in question is to be redeveloped which will involve the construction, by a third party construction firm, of a new management building and urbanisation of the surrounding spaces; the agreement signed with the construction firm envisages that part of said building will then be leased to Hera Spa;
- the property in Via Dozza no. 8 in Bologna, amounting to Euro 2,603 thousand (preliminary sale agreement of 21 July 2011).

Furthermore, the amortisation/depreciation relating to said assets involve an insignificant amount.

Classification of financial assets and liabilities pursuant to IFRS 7

The following table illustrates the composition of Company assets by measurement class. The fair value of derivatives is instead itemised in Note 21.

31-Dec-11	Fair value recog. in income	Receivables and loans	Held to maturity	Available for sale	Total
Non-current assets		240,049		1	240,050
Financial assets measured at fair value				1	1
Non current receivables from related parties		239,984			239,984
Receivables		65			65
Current assets	60,890	726,648		2	787,540
Trade receivables		624,149			624,149
Financial assets measured at fair value				2	2
Financial receivables		52,176			52,176
Other assets	60,890	50,323			111,213

31-Dec-10	Fair value recog. in income	Receivables and loans	Held to maturity	Available for sale	Total
Non-current assets		192,591		1	192,592
Financial assets measured at fair value				1	1
Non current receivables from related parties		192,510			192,510
Receivables		81			81
Current assets	60,195	822,468		2	882,665
Trade receivables		697,924			697,924
Financial assets measured at fair value				2	2
Financial receivables		46,260			46,260
Other assets	60,195	78,284			138,479

With regard to "non-current assets", please see the details in Note 19.

With regard to "current assets", please see the itemisation in Notes 23, 25 and 27.

The following table illustrates the composition of Company liabilities by measurement class. The fair value of derivatives is instead itemised in Note 21.

31-Dec-11	Fair value recognised in the income statement	Hedged elements (fair value hedge)	Amortised cost	Total
Non-current liabilities		719,115	1,361,719	2,080,834
Loans		719,115	1,360,005	2,079,120
Amounts due for financial leases			1,714	1,714
Current liabilities	2,417		820,493	822,910
Loans			150,822	150,822
Amounts due for financial leases			1,531	1,531
Trade payables			496,381	496,381
Other liabilities	2,417		171,759	174,176

31-Dec-10	Fair value recognised in the income statement	Hedged elements (fair value hedge)	Amortised cost	Total
Non-current liabilities		662,370	1,310,002	1,972,372
Loans		662,370	1,307,385	1,969,755
Amounts due for financial leases			2,617	2,617
Current liabilities	3,135		953,540	956,675
Loans			319,337	319,337
Amounts due for financial leases			2,313	2,313
Trade payables			473,944	473,944
Other liabilities	3,135		157,946	161,081

With regard to "non-current liabilities", please see the details in Notes 31 and 35.

With regard to "current liabilities", please see the itemization in Notes 31, 35, 36 and 38.

30 Share capital and reserves

The statement of changes in shareholders' equity is shown in paragraph 3.01.05 of these financial statements.

The information to be provided pursuant to article 2427, no. 7-bis, which prescribes that the individual items making up shareholders' equity be analysed, setting forth their specification of availability, origin and utilisation in previous years, is stated below.

	Amount	Possibility of use	Available portion
CAPITAL	1,115,014		
Reserve for treasury shares at nominal value	(9,674)		
CAPITAL RESERVES:			
Share premium reserve	15,269	A,B	15,269
Revaluation reserve	2,885	A,B,C	2,885
Reserve for capital account payments	5,400	A,B,C	5,400
Reserve for the difference between the acquisition value and the nominal value of treasury shares	(3,220)		
Share swap surplus reserve	42,408	A,B,C	42,408
Capital contribution reserve	48	A,B,C	48
TOTAL CAPITAL RESERVES	62,790		
RESERVES FOR PROFITS:			
Legal reserve	31,751	B	
Extraordinary reserve	31,048	A,B,C	31,048
Retained earnings reserve	2,061	A,B,C	2,061
Reserves for treasury share profits	997	A,B,C	997
TOTAL PROFIT RESERVES	65,857		
IAS / IFRS RESERVES:			
Reserve pursuant to art. 7, sub. 6 Leg. Decree 38/2005	27,038	not available	
Reserve pursuant to art. 6, sub. 1 Leg. Decree 38/2005	2,826	not available	
Reserve pursuant to art. 7, sub. 7 Leg. Decree 38/2005	30,111	not available	
Reserve pursuant to art. 7, sub. 7 Leg. Decree 38/2005	12,477	A,B,C	12,477
Reserve pursuant to art. 6, sub. 2 Leg. Decree 38/2005	15,850	not available	
IFRS 3 Reserve	227,008	available	227,008
Reserve for surplus from spin-off, merger and business combination subject to joint control	40,045	available	40,045
TOTAL IAS / IFRS RESERVES	355,355		
COMPREHENSIVE TOTAL	1,589,342		379,646
NON-DISTRIBUTABLE AMOUNT			15,269
RESIDUAL DISTRIBUTABLE AMOUNT			364,377

Key:

A: for share capital increase; B: to cover losses; C: to shareholders

Share capital

The share capital as at 31 December 2011 was Euro 1,115,013,754, fully paid-up, and represented by 1,115,013,754 ordinary shares with a nominal value of Euro 1 each.

Reserves for treasury shares

The “Reserve for treasury shares” has a negative value of Euro 9,674 thousand; it reflects the number of treasury shares in the portfolio as at 31 December 2011 and is considered a reduction of share capital. The items “Reserve for gains/losses on sale of treasury shares” and “Reserve for treasury shares exceeding nominal value” are recorded among the shareholders’ equity reserves for a negative value of Euro 787 thousand and a negative value of Euro 3,221 thousand, respectively. These reserves, established in compliance with the accounting standards of reference, reflect the treasury shares transactions carried out as at 31 December 2011. The change during the year generated losses amounting to Euro 740 thousand.

Reserves

The item “Reserves”, equal to Euro 487,915 thousand, includes the following reserves:

- “legal” for Euro 31,751 thousand,
- “extraordinary” for Euro 31,047 thousand,
- “revaluation” for Euro 2,885 thousand,
- “share premium reserve” for Euro 15,269 thousand,
- “capital account payments” for Euro 5,400 thousand,
- “others” for Euro 49 thousand
- “share swap surplus” for Euro 42,408 thousand,
- IAS/IFRS reserve for Euro 27,134 thousand, generated after adoption of international accounting standards,
- “provision for gains on sales of treasury shares”, negative by Euro 787 thousand,
- “IFRS3 reserve” for Euro 227,008 thousand, deriving from the integrations of Agea Spa, Meta Spa, Geat Distribuzione Gas Spa, Sat Spa, and from transfer of assets by Agea Reti Srl, Con.Ami and Area Asset Spa,
- “reserve that cannot be disposed of” according to art. 6, subsection 2, Leg. Decree no. 38/05”, for Euro 64,708 thousand,
- “reserve for dividends received on treasury shares”, for Euro 997 thousand,
- “reserve for surplus from spin-off, merger and business combination subject to joint control”, for Euro 40,046 thousand.

The latter is composed of:

- reserve for surplus from spin-off, equal to Euro 17,975 thousand, resulting from the spin-off of territorial operative companies;
- reserve for surplus from merger, negative by Euro 5,253 thousand, resulting from mergers of Gastecnica Galliera Srl, Hera Rete Modena Srl, Pri.Ge.A.S Srl.;
- reserve for business combinations subject to joint control, amounting to Euro 27,324 thousand; in particular, this reserve includes capital gains made from the sale of equity investments in Akron and Ecosfera, to Herambiente and Akron, respectively.

Cash Flow-Hedge Reserve

As at 31 December 2011, this reserve had a negative balance of Euro 2,751 thousand following changes generated through fair value valuation of reference derivatives.

Retained profit

The item totals Euro 2,061 thousand.

31 Payables to banks and medium/long- and short-term financing

As at 31 December 2011, medium/long-term loans amounted to Euro 2,079,120 thousand (Euro 1,969,755 thousand as at 31 December 2010) and mainly comprise bond loan (Euro 2,066,080 thousand), mortgages and loans stipulated (Euro 13,040 thousand).

The table below shows the bonds and loans as at 31 December 2011, stated at their residual nominal value (millions of Euro), with an indication of the portion expiring within and after 5 years:

Type	Residual amount 31 Dec. 11	Portion due within one year	Portion due within 5 years	Portion due after 5 years
Bond	1,250	-	500	750
Convertible bond	140	-	140	-
Puttable Bond/Loan	590	-	-	590
Amortizing	16	3	11	2
Total	1,996	3	651	1,342

The main terms and conditions of the puttable bonds and loans are shown below:

Bond and puttable loans		Durataion (years)	Maturity	Nominal value	Coupon	Annual rate
<i>Bond Convertibile</i>	Luxembourg Stock Exchange	3	01/10/13	140	Fixed, half-yearly	1.75%
<i>Eurobond</i>	Luxembourg Stock Exchange	10	15/02/16	500	Fixed, annual	4.13%
<i>Eurobond</i>	Luxembourg Stock Exchange	10	03/12/19	500	Fixed, annual	4.50%
<i>Bond (ex put bond)</i>	Listed on EuroTLX Markets	13	17/11/20	100	For the first 3 years, 3-month Euribor minus 29 cents. For the next 10 years, fixed rate of 4.593% plus 10-year credit spread. Quarterly coupon.	4.593%+CS
<i>Put Loan</i>	From 2010 the holder has the option every two years of requesting redemption at par	13	22/11/20	70	For the first 3 years, 3-month Euribor minus 45 cents. For the next 10 years, fixed rate of 4.41% plus a 2-year credit spread. Quarterly coupon.	4.41%+CS
<i>Put Loan</i>	From 2010 the holder has the option every two years of requesting redemption at par	13	06/12/20	70	For the first 3 years, 3-month Euribor minus 46 cents. For the next 10 years, fixed rate of 4.44% plus a 2-year credit spread. Quarterly coupon.	4.44%+CS
<i>Bond</i>	Cross Currency Swap 150 €mln	15	05/08/24	20.000 JPY	Fixed, half-yearly	2.93%
<i>Put Bond</i>	From 2012 the holder has the option every two years of requesting redemption at par	23	10/10/31	250	For the first 3 years, fixed rate 4.20%. From 10/10/2011 fixed rate 4.65% + 1-year CS. From 10/10/2012 until expiry, fixed rate of 4.65% plus 5-year credit spread. Quarterly coupon.	4.65% +CS
<i>Put Bond</i>	From 2011 the holder has the option every two years of requesting redemption at par	27	08/08/34	200	For the first 5 years, 3-month Euribor less 45 cents. From 08/08/2012 until 08/08/2016 fixed rate 3.15% plus 2-year credit spread. From 08/08/2016 until expiry, fixed rate of 4.85% plus 2-year credit spread. Quarterly coupon.	Euribor-3 m - 0.45%

We note that in October 2011, as contractually stipulated, a further Euro 50 million in put bonds were granted, maturing in 2031. No financial covenants are provided on the debts except for, on some loans, a corporate rating limitation of a rating by even one Rating Agency beneath Investment Grade (BBB).

Short term loans amounted to Euro 150,822 thousand (Euro 319,337 thousand as at 31 December 2010) and include payables to banks and “other lenders” (including some Group companies through the centralised treasury).

Liquidity risk

Liquidity risk consists of the impossibility to cope with the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs. Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done with the centralised management of incoming and outgoing flows (centralised treasury service); in the prospective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.

Current cash, cash equivalents, and credit facilities, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. As at the balance sheet date, there are unused credit lines totalling approximately Euro 884 million.

32 Employee leaving indemnity and other benefits

This includes provisions for employee leaving indemnities and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations. The calculation is made using actuarial techniques and discounting future liabilities to the balance sheet date. These liabilities comprise the matured receivables of the employee at the presumed date of leaving the company.

The item "Gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed from January 1997, and its quarterly movements regard settlement of payments made to entitled retirees only. In both cases, recalculations have been made using the same actuarial methods implemented for the employee leaving indemnities. The item "tariff reduction provision" was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

The table below shows the changes in the above provisions during the year:

	31-Dec-10	Changes during the year			31-Dec-11
		Provisions	Financial charges	Uses and other movements	
Employee leaving indemnity	63,538		1,081	(3,866)	60,753
Gas discount	2,073	37	39	(256)	1,893
Premungas fund	2,033	185	54	(385)	1,887
Provision for tariff reduction	3,340	258	85	(330)	3,353
Total	70,984	480	1,259	(4,837)	67,886

The item "Uses and other movements" mainly includes the amounts paid to employees.

The main assumptions used in the actuarial estimate of the employee benefits are as follows:

	31-Dec-11	31-Dec-10
Annual technical rate of discounting	4.78%	4.65%
Annual rate of inflation	1.70%	1.50%
Average rate of increase in total salaries	3.50%	3.50%
Annual rate of increase in employee leaving indemnity	2.78%	2.63%
Annual frequency of leaving employment due to causes other than death	1.30%	1.30%
Average annual frequency of use of the provision for employee leaving indemnities	1.30%	1.30%

In interpreting said assumptions, account is taken of the following:

1. for probabilities of death, those relating to Istat SIMF 2006 tables;
2. for probabilities of disability, those, distinguished by gender, adopted in the Inps model for 2010 projections;
3. as regards the pension age, the new effective dates were considered for pension treatment envisaged by 'Manovra Bis' (Law Decree no. 138 of 13 August 2011, introducing "additional urgent measures for financial stabilisation and development") and changes introduced by Law no. 122 of 30 July 2010, in terms of social security and pension windows and linking the pensionable age to an increase the human life expectancy.

33 Provisions for risks and charges

	31-Dec-10	Changes during the year			31-Dec-11
		Provisions	Financial charges	Uses and other movements	
Provision for restoration of third party assets	72,312	5,295	6,248	(3)	83,852
Provision for legal cases and disputes brought by personnel	16,784	6,507	-	(7,106)	16,185
Other provisions for risks and charges	7,140	4,667	-	(4,187)	7,620
Total	96,236	16,469	6,248	(11,296)	107,657

The **provision for the restoration of third party assets**, equal to Euro 83,852 thousand, includes the provisions made in relation to the legal and contractual restrictions encumbering Hera Spa in its capacity as leaseholder of the distribution networks owned by the asset companies. The allocations are made on the basis of economic-technical amortisation rates held to be representative of the residual possibility of use of the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. Pursuant to IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The **provision for legal cases and disputes brought by personnel** amounting to Euro 16,185 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees. The provision includes Euro 7.9 million relating to ongoing litigation with the INPS over the payment of contributions on social security benefits (CIG, CIGS, Mobility) and on the reduction of contribution rates for family allowances (CUAF) and for the maternity contribution with regard to employees governed by the electricity sector collective labour agreement in the Modena area.

In relation to the contributions on CIG, CIGS and mobility, Hera Spa deems that said contribution is not due, not only based on legal rules but also on the fundamental consideration that these social shock absorbers are effectively unusable since Hera Spa runs essential services, which must be constantly insured. By contrast, INPS believes that the transformation into a joint-stock company and the transfer to private parties of even just a portion of the share capital, support the belief that the contributory obligation is enforceable. With its message no. 18089 of 10 July 2007, INPS ordered that, according to the principles stated in circular no. 63/2005, the contribution obligation for CIG, CIGS and mobility was to go into effect on the very date the circular was issued, i.e. May 2005. This is in compliance with the Council of State opinion expressed (opinion no. 65 of 8 February 2006 referring to Enel Spa) regarding the non-retroactivity of the contribution obligations referred to in the circular. Actually, despite the fact that the literal tone of the message seems to undoubtedly regard the industrial companies of the public institutions (former municipal enterprises) as well, INPS - in latching on to circular no. 63/2005 - maintained that the message takes on its area of application, thereby referring only to Enel Spa, and asserts this in court. On 5 February 2008, the Employment Ministry intervened with a message addressed to the INPS General Management. It stated that the conclusions the Council of State reached regarding the non-retroactivity prior to May 2005 of the contribution obligation for CIG, CIGS and Mobility by necessity are general and unequivocal in order to protect the unavoidable principle of "par condicio" amongst market operators. Therefore, they also apply to the industrial companies of the public institutions (which Hera Spa also is part of).

Following a declaratory action brought in 2000 by Amir Spa, Hera Spa submitted an appeal to the Supreme Court, which was concluded with ruling 14847/09 rejecting the appeal for CIG contributions. The Supreme Court could, however, review the opinion, also following appeals we filed against other negative second instance rulings. At the very least, it should confirm the waiver of contributions to the redundancy fund (CIG) for periods prior to May 2005, according to the specific opinion of the Council of State.

In addition, it should also be noted that the INPS shall not file any new claims regarding CIG, CIGS and Mobility following the new classification in the Service sector, from 2010, of nearly all the Group companies (the contribution in question shall only apply to the Industrial sector).

Regarding the contribution for family allowances (Cuaf) and the maternity contribution, this type of litigation only concerns the INPDAP personnel regulated by the electricity sector collective labour agreement, and is based on the interpretation of article 41 of Law 488/1999 (Finance Act 2000). In particular, this contribution relates to the area of Modena only, as it results from the former Meta Spa. Following consultation at the time with the Modena INPS Positions Management Office, the former Meta Spa applied reduced rates starting in 2001, at the same time it requested reimbursement of the greater contributions it had paid in, but which were not due, regarding financial year 2000 (reimbursement that then was actually made between 2001 and 2002).

As from November 2003, however, INPS served notices requesting payment of the contributions at the full rate, completely amending the interpretative position previously adopted, deeming that the reduction of the CUAF and maternity rates owed by the electricity sector was not applicable for the workers enrolled with INPDAP. Meanwhile, this reduction was applied without objection in the case of the Enel Spa Group companies. The CUAF and maternity contribution differential that service companies have to pay for personnel registered with INPDAP until 31/12/2008 is equivalent to a total of 4.29% more than what has to be paid for INPS personnel; from 1/1/2009, with the equalisation of the maternity rate, the CUAF differential of 3.72% continues to exist, however.

This higher rate penalises the "former municipal enterprises" severely by comparison with other market operators. Confservizi has brought this failed contribution harmonisation consequent to Law 335/1995 to the attention of the Employment Ministry several times, which in turn has consulted the Council of State. The Council deemed a special legislative initiative necessary (circular no. 88 of 31 May 2004), which rules out the possibility of an administrative solution. In spite of Confservizi's efforts to push through this legislative initiative, as of today no result is yet to be seen.

Finally, a note on the evolution of the regulatory framework for unemployment and sickness contributions. art. 20 of Law Decree 112/2008 has forfeited any past INPS claims relating to Unemployment and Sickness contribution. The portion of contributions contained in these filings for such purposes is no longer considered a risk. In addition, there may be no new INPS claims as all Hera Group companies have regularly paid the Sickness contribution since 2005 and the Unemployment contribution since 2009.

In view of the information reported above, and particularly the uncertainty of the outcome of the CIG, CIGS and Mobility cases, an allocation of Euro 7.9 million was made for liabilities deriving from filings received up until the present day and still suspended, amounting to approximately Euro 18.3 million. This amount refers to the contributions contained in the filings by way of CIG, CIGS, Mobility, CUAF and Maternity, excluding however the portion by way of Unemployment and Sickness contributions for the above reasons. This fund, set up using prudential criteria, is deemed to be appropriate, in view of both the likely development of the litigation and the opinions of the appointed legal advisors.

The **other provisions for risks and charges**, amounting to Euro 7,620 thousand, comprises provisions made against sundry risks. The main items are summarised below:

- Euro 1,642 thousand for the “MIS quota, charges for electrical service continuity and equal distribution”;
- Euro 2,175 thousand in spending on restoration of goods reverting freely, relating to the water supply system of the river Rosola, held under concession and other provisions for risks of very modest amounts connected with environmental problems;
- Euro 470 thousand relates to the provision made in relation to customer compensation for water service leaks;
- Euro 2,112 thousand, relating to the provision set up to cover losses actually recorded and the future prospects of Oikothen Scarl;
- Euro 1,221 thousand related to further provisions of various kind, all with a substantially modest amount.

34 Deferred tax liabilities

	31-Dec-11	31-Dec-10	Changes
Deferred tax payables	55,721	58,698	(2,977)
Total	55,721	58,698	(2,977)

Deferred tax liabilities are generated by temporary differences between the balance sheet profit and taxable income, commented on in note 14 "Taxes for the year".

35 Financial leasing payables

	31-Dec-11	31-Dec-10	Changes
Financial leasing payables due within one year	1,531	2,313	(782)
Financial leasing payables due after one year	1,714	2,617	(903)
Total	3,245	4,930	(1,685)

This item represents the recording of payables arising from the accounting of leasing transactions using the financial method. The net change compared to the same period last year is due to the payment of rents that became due in the year.

Details of financial leasing payables, broken down by asset category, are shown below.

Financial leasing payables	31-Dec-10			
	Payables due within 12 months	m/l payables due between 1 and 5 years	m/l payables due after 5 years	Rent falling due
Land and buildings	494	795	-	1,332
Other movable assets	1,819	1,822	-	3,911
Total financial leasing payables	2,313	2,617	-	5,243

Financial leasing payables	31-Dec-11			
	Payables due within 12 months	m/l payables due between 1 and 5 years	m/l payables due after 5 years	Rent falling due
Land and buildings	830	-	-	841
Other movable assets	701	1,714	-	2,660
Total financial leasing payables	1,531	1,714	-	3,500

The net value of assets recorded in the financial statements is shown below (please refer to the values indicated in note 15 "Tangible fixed assets"):

Net value of assets recorded in the financial statements	31-Dec-10	Assets held under financial leasing agreements		31-Dec-11
		Increases	Decreases	
		Land and buildings	3,963	
Other moveable assets	9,990	640	(3,083)	7,547
Total assets held under financial leasing agreements	13,953	707	(3,223)	11,436

36 Trade payables

	31-Dec-11	31-Dec-10	Changes
a Advance paymentss	506	1,003	(497)
b Trade payables	305,242	271,866	33,376
of which invoices received	170,352	166,517	3,835
of which invoices to be received	134,698	105,158	29,541
of which other payables	192	192	-
c Payables to related parties	190,371	199,671	(9,300)
Payables to subsidiaries	140,490	169,985	(29,495)
of which invoices received	79,321	94,142	(14,821)
of which invoices to be received	57,039	52,261	4,778
of which other payables	4,129	23,581	(19,452)
Payables to associated companies	941	1,078	(137)
of which invoices received	733	785	(52)
of which invoices to be received	208	293	(85)
To related companies with significant influence	10,695	4,231	6,464
of which invoices received	4,577	2,350	2,227
of which invoices to be received	5,413	1,875	3,538
of which other payables	705	5	700
From other related parties	38,245	24,376	13,868
of which invoices received	27,077	13,424	13,653
of which invoices to be received	10,750	10,651	100
of which other payables	417	302	115
d Payables to others	262	1,404	(1,142)
of which invoices received	105	991	(886)
of which invoices to be received	157	413	(256)
a+b+c+d Total	496,381	473,944	22,437

The “Advance payments” of Euro 506 thousand (Euro 1,003 thousand as at 31 December 2010) refer to advances received from customers for work to be performed.

“Trade payables”, all of a commercial nature and included in amounts provisioned to cover invoices due, total Euro 305,242 thousand (Euro 271,866 thousand as at 31 December 2010). Item “Payables to suppliers” also include payables to European suppliers, amounting to Euro 651 thousand (Euro 2,630 thousand as at 31 December 2010). Payables to suppliers must all be paid by next year.

“Payables to related parties”, equal to Euro 190,371 thousand, (Euro 199,671 thousand as at 31 December 2010) mainly regard application of the infragroup service contracts (waste disposal, IT services, telephony, equipped premises, fleets, etc).

Following are the *payables to subsidiaries*:

Payables to subsidiaries	31-Dec-11	31-Dec-10	Changes
Acantho Spa	6,356	5,938	418
Acque Srl	205	226	(21)
A.S.A. Scpa	36	-	36
Akron Spa	262	304	(42)
Calorpiù Italia Scarl in liquidation	(3)	15	(18)
Consorzio Akhea	2,706	-	2,706
Eris Scarl	916	978	(62)
Famula On-Line Spa	27,400	36,833	(9,433)
Frullo Energia Ambiente Srl	530	340	190
Herambiente Spa	51,586	64,385	(12,799)
Hera Comm Srl	29,408	38,561	(9,153)
Hera Energie Srl	291	385	(94)
Hera Luce Srl	8,588	8,871	(283)
Hera Servizi Funerari Srl	17	27	(10)
Herasocrem Srl	443	151	292
Hera Trading Srl	1,346	3,703	(2,357)
Ingenia Srl in liquidation	-	51	(51)
Nuova Geovis Spa	1	1	-
Sinergia Srl	3,395	3,233	162
Sotris Spa	(88)	(88)	-
Uniflotte Srl	7,093	6,072	1,021
Total	140,490	169,985	(29,495)

Following are the *payables to associated companies*, all settled at arm's length.

Payables to associated companies	31-Dec-11	31-Dec-10	Changes
Aimag Spa	48	83	(35)
Service Imola Srl	893	995	(102)
Total	941	1,078	(137)

Following are the *payables to related companies with significant influence*:

Payables to related companies with significant influence	31-Dec-11	31-Dec-10	Changes
Municipality of Bologna	1,703	1,371	332
Municipality of Cesena	621	-	621
Municipality of Ferrara	2,578	-	2,578
Municipality of Forlì	1,241	-	1,241
Municipality of Imola	425	-	425
Municipality of Modena	2,635	2,859	(224)
Municipality of Ravenna	245	-	245
Municipality of Rimini	1,249	-	1,249
Total	10,695	4,231	6,464

With regard to the table above, please refer to paragraph 3.03.01 “Explanatory Notes of Hera Spa”.

Following are the *payables to other related companies*:

Payables to other related companies	31-Dec-11	31-Dec-10	Changes
Acosea Impianti Srl	-	814	(814)
Adriatica Acque Srl	34	19	15
Amir - asset	858	751	107
Area - asset	226	76	150
Azimut Spa	122	79	43
Con.Ami	822	687	135
Estense Global Service Soc. Cons. a rl	2,145	540	1,605
Fiorano Gestioni Patrimoniali Srl	336	340	(4)
Formigine Patrimonio Srl	365	266	99
Maranello Patrimonio Srl	140	178	(38)
Romagna Acque Spa	26,191	12,553	13,638
Sassuolo Gestioni Patrimoniali Srl	1,885	3,335	(1,450)
Serramazzone Patrimonio Srl	95	93	2
Sgr Servizi Spa	(1)	(2)	1
So.sel Spa	1,161	1,325	(164)
Team - asset	715	591	124
Unica reti - asset	3,133	2,712	421
BoD Members	18	20	(2)
Total	38,245	24,376	13,868

The payables to Romagna Acque Spa refer to the supplies received for the water service.

37 Current tax liabilities

	31-Dec-11	31-Dec-10	Changes
IRES payables	-	4,661	(4,661)
IRAP payables	1,892	-	1,892
Payables for substitute tax	22,977	25,425	(2,448)
Total	24,869	30,086	(5,217)

With regard to IRES please refer to note 26 “Current tax assets,” which shows an excess of advance payments made in 2011 as compared to the amount due for 2011.

The IRAP position represents the balance payable, net of the advances paid in 2011.

Please see note 14 “Taxes for the year” under “Payables for substitute tax”.

In 2010, the values relating to “Current tax liabilities” were classified under “Tax payables”; please refer to the section “Summary of reclassifications” in the explanatory notes.

38 Other current liabilities

	31-Dec-2011	31-Dec-2010	Changes
Capital grants	56,431	56,864	(433)
Guarantee deposits	22,232	22,324	(92)
VAT	16,411	9,272	7,140
Personnel	15,490	16,033	(543)
Equalisation fund for the electricity and gas sectors	11,663	4,845	6,819
Payables to social security institutions Inps, Inpdap, Inail	9,776	9,455	322
Employee withholdings	7,177	6,796	381
Payable to other social security institutions	5,540	5,732	(192)
Third party project and study work	4,478	4,804	(326)
Other work and services	4,088	3,697	391
Excise taxes and surcharges	3,395	3,097	298
Insurance and deductibles	3,047	2,911	135
Energy efficiency bonds and emissions trading	2,417	3,135	(718)
Contributions to inlets/outlets	742	625	118
Sewerage fees	577	570	6
Customers	343	193	150
Municipalities for "environmental inconvenience" and guarantees	319	328	(9)
Other tax payables	188	186	2
Directors, Statutory Auditors and Area Committees	87	21	66
Payables to shareholders for dividends	-	1,288	(1,288)
Other payables	9,776	8,906	870
Total	174,176	161,081	13,095

Comments are provided below on the most significant items and the associated changes as at 31 December 2010.

"Capital grants" refer to investments in the water and waste management sector. This item will decrease in proportion to the amount of depreciation calculated on the reference assets.

"Guarantee deposits" reflect the sums paid by customers for water agreements.

"VAT"; the significant increase over the previous year relates to the lower payment on account made in December 2011 (in application of the effective payment method), with respect to 31 December 2010 when the advance payment was calculated using the historical method.

The item "Personnel" relates to holidays accrued but not yet taken as at 31 December 2011, productivity bonus and accrued salaries recorded.

"Equalisation Fund for the Electricity and Gas Sectors", reflects the debt positions for equalisation on the gas distribution/measurement, some components of the gas service system and equalisation of the electricity service. The increase compared to the previous year relates to payables for electricity equalisation and gas distribution (receivables due in the previous year). In this regard, see Note 27 "Other current assets".

“Payables to social security institutions” relate to contributions due to these institutions for the month of December.

“Energy efficiency bonds and emission trading”, relating to grey certificates (Euro 1,517 thousand) and green certificates (Euro 900 thousand). These figures were Euro 3,083 thousand for grey certificates and Euro 52 thousand for green certificates as at 31 December 2010. This entry reflects the obligation to redeliver the certificates to the competent authorities based on applicable legislation.

Said liabilities must be paid by next year.

Following are the *payables to subsidiaries*:

Other current liabilities - subsidiaries	31-Dec-2011	31-Dec-2010	Changes
Hera Trading Srl	30	30	-
Total	30	30	-

Following are the *payables to other related companies*:

Other current liabilities - related companies	31-Dec-2011	31-Dec-2010	Changes
Con.Ami	654	826	(172)
Modena Network Spa	90	97	(7)
Members of the BoD and Board of Statutory Auditors	87	21	66
Total	831	944	(113)

Following are the *payables to related companies with significant influence*:

Other current liabilities - related companies with significant influence	31-Dec-2011	31-Dec-2010	Changes
Municipality of Ferrara	98	-	98
Municipality of Imola	64	-	64
Municipality of Rimini	52	-	52
Total	214	-	214

With regard to the table above, please refer to paragraph 3.03.01 "Explanatory Notes of Hera Spa".

Guarantees provided

	31-Dec-11	31-Dec-10	Changes
Sureties and guarantees granted to	123,004	148,943	(25,939)
-various individuals	123,004	148,943	(25,939)
Other personal guarantees granted to:	1,125,216	932,778	192,438
-subsidiaries	1,120,341	924,237	196,104
-associated companies	4,875	8,541	(3,666)
Total	1,248,220	1,081,721	166,499

Guarantees granted to various individuals: Euro 123,004 thousand, with a negative change, compared to the previous year, of Euro 25,939 thousand.

The value as at 31 December 2011 includes:

- Euro 70,528 thousand for the bank and insurance guarantees issued to Municipalities and Entities in guarantee of the execution of work, public utility works and the correct management of waste management services.
- Euro 3,053 for the guarantee issued on behalf of Acantho Spa, for the loan granted by Banca Infrastrutture Innovazione e Sviluppo Spa;
- Euro 40,950 thousand for the guarantee issued to Set Spa, to guarantee a loan granted to the same by Banca Infrastrutture Innovazione e Sviluppo Spa;
- Euro 3,000 thousand for the guarantee issued on behalf of FlameEnergy Trading to Unicredit Bank Austria Ag for financial contracts;
- Euro 2,364 thousand for the guarantee issued on behalf of Feronia Srl on behalf of the province of Modena for the management of the landfills;
- Euro 2,152 thousand for the surety issued to Diocleziano Srl on behalf of Herambiente Spa in guarantee of a loan;
- Euro 580 thousand issued to Oikothen Scarl in guarantee of correct construction and management of the multifunctional platform for special and hazardous waste;
- Euro 377 thousand for the guarantee issued on behalf of Modena Network Spa, for a loan supplied by Unicredit Banca.

Other personal guarantees granted to subsidiaries: Euro 1,120,341 thousand, with a positive change, compared to the previous year, amounting to Euro 196,104 thousand.

The value as at 31 December includes the following:

- Letters of patronage issued to guarantee loans, amounting to Euro 37,786 thousand, issued on behalf of:
 - Gal.A Spa, Euro 7,616 thousand;
 - Medea Spa, Euro 10,819 thousand;
 - Herambiente Spa, Euro 19,351 thousand;
- guarantees for commodity swap finance contracts, for Euro 201,000 thousand, on behalf of Hera Trading Srl;
- guarantees for contract obligations, for Euro 881,555 thousand, on behalf of:
 - Hera Trading Srl; Euro 530,224 thousand regarding the supply, transportation and despatching of electricity, as well as gas transportation and storage;
 - Hera Comm Srl; Euro 134,755 thousand, regarding electricity supply and despatching;
 - Herambiente Srl; Euro 182,792 thousand, for guarantees issued to Public Entities, within the activities related to waste treatment;
 - Sotris Spa, Euro 13,660 thousand in guarantee of sureties issued to public entities for the management of landfills;
 - A.S.A. Scpa; Euro 12,886 thousand, for guarantees issued by A.S.A. on behalf of the province of Bologna for the post-closure of landfills;
 - Hera Luce Srl; Euro 3,669 thousand, for guarantees issued to entities to assign lightning services for public administration bodies;
 - Medea Spa, Euro 3,500 thousand in guarantee of sureties issued as part of the supply of raw materials;
 - Hera Energie Rinnovabili Srl, Euro 53 thousand mainly to guarantee sureties issued for the stipulation of contracts relating to the leasing of instrumental assets;
 - Hera Servizi Funerari Srl, Euro 16 thousand mainly to guarantee sureties issued for the stipulation of contracts relating to the leasing of instrumental assets;

Other personal guarantees granted to associated companies, amount to Euro 4,875 thousand with a positive change compared to the previous year of Euro 3,666 thousand. The amount is constituted solely of patronage letters issued to Set Spa in guarantee of contracts for the provision of gas concluded with Edison Spa.

With regard to the other commitments, we note the following:

	31-Dec-11	31-Dec-10	Changes
Commitments			
Third party assets in use by the company	1,143,315	1,114,170	29,145
Others	4,856	6,063	(1,207)
Total	1,148,171	1,120,233	27,938

The **third party assets** used by Hera Spa. Of note we report:

- water and energy cycle assets received under license from the local authorities;
- leased assets of the asset companies relating to the water and energy sectors (gas, electricity and district heating).

The positive change compared to the previous year of Euro 29,145 thousand is mainly due to the increase in the third party assets managed by Hera Spa, in particular within the water sector we note the acquisition, by Romagna Acque, of the Bacciolino purification plant and the Montecastello collector; with regard to the electricity sector, we note the acquisition by Con.Ami of the cable duct extensions on the Imola territory.

The **Others** item, equal to Euro 4,856 thousand, includes the disposals of one fifth of the salary and small loans to employees, totalling Euro 4,228 thousand, with a negative change of Euro 1,207 thousand as well as bills sent for collection, amounting to Euro 628 thousand.

3.03.02 Explanatory notes - related parties

Management of the services

The Hera Group, through Parent Company Hera Spa, holds concessions of local public services of economic interest (distribution of natural gas via local gas pipelines, integrated water service and waste management services, including sweeping, collection, transport and waste recovery and disposal) in a large amount of its territory of competence and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini). The electricity distribution service has been carried out in the Imola district, in the municipality of Modena and in some municipalities of the province of Modena. Other public utility services (including district heating systems, heat management and public lighting) are provided under market conditions, i.e. through special agreements with local authorities. Through special agreements with local authorities, Hera Spa is responsible for the waste treatment and disposal service, excluded from the regulatory activity carried out by the environmental authorities (AATO), but subject to control by the Regional Authority for water services and urban waste management.

The AATO are responsible, under regional and national legislation governing the sector, for controlling and regulating tariffs for integrated water and urban cleaning services, which were formerly managed by the concession-granting municipal authorities. However, these authorities are represented at meetings of the AATO. In observance of the provisions of said regional law and related national legislation (specifically article 113 of the Consolidated Local Authority Act and the sector regulations regarding the assignment of services on an exclusive basis), the Hera Group entered into special agreements with the AATOs, which establish the entry into effect of the technical and tariff planning.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, implementing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the Directors' Report. Hera Spa has longer residual terms than those set out for managing entities that have promoted partial privatisations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing.

The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. The gas distribution tariffs are set in accordance with the regulations in force and with the deliberations adopted from time to time by the Italian Authority for Electricity Energy and Gas. The territory in which Hera carries out the gas distribution services consists of "tariff areas" in which a distribution tariff is uniformly applied to the various categories of customers.

In the case of electricity, the purpose of the concessions (30 years in duration and renewable according to current regulations) is energy distribution activity, including, amongst other things, management of the distribution networks and operation of connected plants, ordinary and extraordinary maintenance and programming and identification of development initiatives and measurement. A suspension or expiry of the concession may be ordered by the authority regulating the sector if the concession holder is found to be inadequate or to be in breach of regulations in force, in such a way as to prejudice provision of the electricity distribution service in a serious and far-reaching manner.

The concession holder is obliged to apply the tariffs set by regulations in force and resolutions adopted by the Italian Authority for Electricity and Gas to the consumers. The tariff regulation in force when the financial statements for the year were approved (to which this report is attached) was resolution ARG/elt no. 199/2011 of the Italian Authority for Electricity and Gas and subsequent amendments and additions (“Provisions of the Italian Authority for Electricity and Gas for carrying out electricity transmission, distribution and measurement services for the regulatory period 2012-2015 and provisions regarding the economic conditions regulating the provision of the connection service”), which replaced the previous resolution no. 348/2007 applicable up to 31/12/2011 (“Integrated law of provisions for the supply of electricity transmission, distribution and measurement services for the regulatory period 2008-2011 and provisions regarding the economic conditions regulating the provision of the connection service”).

Water sector

The water service managed by Hera in its area of competence is carried out on the basis of agreements entered into with provincial AATOs, of varying duration, normally twenty years. The assignment to Hera of management of the integrated water service includes all activities involving the capture, purification, distribution and sale of drinking water for civil and industrial use, and the sewerage and purification service. The agreements also provide for the operator’s execution of new network design and construction activities and the building of new plants to be used in managing the service. The management of the service is assigned exclusively to Hera for the different area municipalities involving the obligation of the Municipality not to grant to third parties usage of the subsoil of its property and of the state aqueducts without the prior consent of the company.

The agreements regulate the economic aspects of the contractual relationship, the forms of management of the service, as well as service and quality standards. The unit tariffs are established annually by the AATOs on the basis of economic agreements covering periods of several years, in accordance with law.

The local authorities awarding the concession give the manager the right to use the network and plants for the provision of integrated water supplies (and this may be free of charge). In the majority of the cases concerning the areas managed by Hera, the local authorities have conferred the ownership of networks and plants to special asset companies. At the end of the concession, Hera is obliged to return the goods used to provide the service to the asset companies, or to the municipal authorities.

Any works carried out to upgrade or expand the networks must be compensated at the end of concession with the payment of the residual value of the assets in question. Hera’s relations with users are regulated by sector laws and by the provisions set out by the regional councils and environmental agencies. The duties of the operator towards service quality and resources and the users’ rights are illustrated in the specific Service Charters drafted by the operator based on reference formats approved by the AATOs.

Waste management sector

Hera performs the service of municipal waste management; the agreements drawn up between Hera and the AATOs is the

exclusive management of waste management services, street sweeping and washing, initial recycling and waste disposal, etc. The agreements with the AATOs regulate the economic aspects of the contractual relationship, the forms of organisation and management of the service, as well as levels of service quality and quantity. The amount payable to the operator for the services performed is defined annually in accordance with Italian Presidential Decree No. 158/1999, where the tariff is established. For the running of waste treatment plants, the Hera Group must obtain authorisations from the authorities of the Italian provinces.

Management of the networks, plants and equipment

The infrastructure required for the provision of services whose management has been assigned to Hera, including local gas pipelines and aqueduct and sewage systems, are partly owned by Hera and partly owned by third parties (municipalities, asset companies owned by local authorities).

In particular, the asset companies are the owners of assets instrumental in the management of services following the direct contribution of assets by the Municipalities (generally Hera shareholders) or following the assignment to the same of "assets" constituting business units which took place, in almost all cases, at the time of business combinations involving companies in the Emilia-Romagna region with Seabo Spa (then Hera Spa).

In the case of assets owned by Local Entities and asset companies, relations between the service operator and the owners are governed by service assignment agreements or business unit lease contracts, and on a residual basis, industry legislation.

As regards the economic aspect, business unit lease contracts fix the amount due from the operator to the owners for the use of networks and plants. On the basis of these contracts Hera must carry out, at its own expense, ordinary and extraordinary maintenance as well as the expansion of the networks, as provided for in the investment plans agreed with the asset companies and, where relevant, by the area plans defined by the AATOs.

Upon expiry of the lease contracts, provision is made for the return of the business units to the owner, in a normal state of repair. All works performed by Hera, involving expansion and extraordinary maintenance, will be similarly returned to local authorities in return for the payment to the operator of the corresponding compensation/equalisation, as a general rule, at the net book value or residual industrial value of the associated assets.

The values shown in the table for 2011, item 3.02 Financial Statements, Consob resolution no. 15519 dated 27 July 2006, refer to the related parties hereunder:

Related parties - Subsidiaries:	
A.S.A Scpa	Herasocrem Srl
Acantho Spa	Marche Multiservizi Spa ex Aspes Multiservizi Spa
Acque Srl	Medea Spa
Akron Spa	MMS Ecologica Srl
Calorpiù Italia Scarl in liquidation	Naturambiente Srl
Consorzio Akhea	Nuova Geovis Spa
Eris Scarl	Romagna Compost Srl
Famula On-Line Spa	Sinergia Srl
Frullo Energia Ambiente Srl	SolHAr Alfonsine Srl
Gal.A. Spa	SolHAr Bentivoglio Srl
Hera Comm Marche Srl ex Megastrade	SolHAr Faenza Srl
Hera Comm Srl	SolHAr Ferrara Srl
Hera Energie Rinnovabili Spa ex Hera Gas Tre Spa	SolHAr Modena Srl
Hera Energie Srl ex Hera Energie Bologna Srl	SolHAr Piangipane Srl
Hera Luce Srl	SolHAr Ravenna Srl
Hera Servizi Cimiteriali Srl	SolHAr Rimini Srl
Hera Servizi Funerari Srl	Sotris Spa
Hera Trading Srl	Uniflotte Srl
Herambiente Spa	

Related parties - Associated companies:	
Aimag Spa	Service Imola Srl
Consorzio Frullo	Set Spa
Oikothen Scarl	Tamarete Energia Srl
Sei Spa	

Related parties with significant influence:	
Municipality of Bologna	Municipality of Ravenna
Municipality of Cesena	Municipality of Rimini
Municipality of Ferrara	Holding Ferrara Servizi srl
Municipality of Forlì	HSST - Modena Spa
Municipality of Imola	Ravenna Holding Spa
Municipality of Modena	Rimini Holding Spa

Other related parties:	
Acosea Impianti Srl	Ghirlandina Solare Srl
Adriatica Acque Srl	Maranello Patrimonio Srl
Amir - asset	Megas Net Spa
Area - asset	Modena Network Spa
Aspes Spa	Natura Srl in liquidation
Azimut Spa	Refri Srl
Calenia Energia Spa	Romagna Acque Spa
Con.Ami	Sassuolo Gestioni Patrimoniali Srl
Dyna Green Srl in liquidation	Serramazzone Patrimonio Srl
Energia Italiana Spa	Sgr Servizi Spa
Enomondo Srl	So.Sel Spa
Estense Global Service Soc.Cons. a rl	Società Intercomunale di Servizi Spa - SIS Spa in liquidation
Feronia Srl	Società Italiana Servizi Spa - SIS Spa - asset
Fiorano Gestioni Patrimoniali Srl	Team - asset
FlameEnergy Trading GmbH	Unica Reti - asset
Formigine Patrimonio Srl	Winmaxer Spa
Galsi Spa	
Other related third parties:	
Bonifica e Ambiente in liquidation	Fondazione Flaminia
Consorzio Ferrara Ricerche	Modena Formazione Srl
Consorzio Italiano Compostatori	Prog.Este Spa
Consorzio Polieco	Torricelli Srl
Democenter Sipe Scarl	Valdisieve Cons.a rl
Eticredito – Banca Etica Adriatica Spa	

The values shown in the table for 2010, item 3.02 Financial Statements, Consob resolution no. 15519 dated 27 July 2006, refer to the related parties hereunder:

Related parties - Subsidiaries:	
A.S.A Scpa	Hera Luce Srl
Acantho Spa	Hera Servizi Cimiteriali Srl
Acque Srl	Hera Servizi Funerari Srl
Akron Spa	Hera Trading Srl
Calorpiù Italia Scarl in liquidation	Herambiente Spa
Consorzio Akhea	Herasocrem Spa
Consorzio Energia Servizi Bologna in liquidation	Ingenia Srl in liquidation
Eris Scarl	Marche Multiservizi Spa ex Aspes Multiservizi Spa
Famula On-line Spa	Medea Spa
Frullo Energia Ambiente Srl	MMS Ecologica Srl
Gal.A. Spa	Naturambiente Srl
Hera Comm Marche Srl ex Megastrade	Nuova Geovis Spa
Hera Comm Mediterranea Srl ex Cales Srl	Romagna Compost Srl
Hera Comm Srl	Sinergia Srl
Hera Energie Rinnovabili Spa ex Hera Gas Tre Spa	Sotris Spa
Hera Energie Srl ex Hera Energie Bologna Srl	Uniflotte Srl
Related parties - Associated companies:	
Aimag Spa	Sei Spa
Consorzio Frullo	Service Imola Srl
Italcic Scarl in liquidation	Set Spa
Oikothen Scarl	Tamarete Energia Srl
Related parties with significant influence:	
Municipality of Bologna	Municipality of Modena

Other related parties:	
Acosea Impianti Srl	Ghirlandina Solare Srl
Adriatica Acque Srl	Maranello Patrimonio Srl
Amir - asset	Megas Net Spa
Area - asset	Modena Network Spa
Aspes Spa	Natura Srl in liquidation
Azimut Spa	Refri Srl
Calenia Energia Spa	Romagna Acque Spa
Con.Ami	Sassuolo Gestioni Patrimoniali Srl
Dyna Green Srl	Serramazzone Patrimonio Srl
Energia Italiana Spa	Sgr Servizi Spa
Enomondo Srl	So.Sel Spa
Estense Global Service Soc.Cons. a rl	Società Intercomunale di Servizi Spa - SIS Spa
Feronia Srl	Società Italiana Servizi Spa - SIS Spa - asset
Fiorano Gestioni Patrimoniali Srl	Team - asset
FlameEnergy Trading GmbH	Unica Reti - asset
Formigine Patrimonio Srl	Winmaxer Spa
Galsi Spa	

Related third parties:	
Acef Srl	Eticredito – Banca Etica Adriatica Spa
Bonifica e Ambiente in liquidation	Fondazione Flaminia
Consorzio Ferrara Ricerche	Modena Formazione Srl
Consorzio Italiano Compostatori	Prog.Este Spa
Consorzio Polieco	Torricelli Srl
Democenter Sipe Scarl	Valdisieve Cons.a rl

3.04. Net financial indebtedness

3.04.01 Net financial indebtedness of Hera Spa

In accordance with the requirement under Consob notification of 28 July 2006 and in compliance with the CERS recommendation of 10 February 2005 “Recommendations for the standard implementation of European Commission rules on information prospectuses” we note that the net financial position is as follows:

millions of Euro		31-Dec-2011	31-Dec-2010
a	Cash	329.8	473.2
b	Other current financial receivables	51.1	45.3
	Current bank payables	-41.7	-40.5
	Current portion of non-current bank indebtedness	-27.4	-27.1
	Other current financial payables	-80.6	-250.8
	Financial leasing payables maturing within one year	-1.5	-2.3
c	Current financial indebtedness	-151.2	-320.7
d=a+b+c	Net current financial indebtedness	229.7	197.8
e	Non-current financial receivables	239.9	192.5
	Non-current bank payables (long term portion of loans)	-1.3	-1.9
	Bonds issued	-1,829.7	-1,787.4
	Other non-current financial payables	-171.6	-160.8
	Financial leasing payables maturing after one year	-1.7	-2.6
f	Non-current financial indebtedness	-2,004.3	-1,952.7
g=e+f	Net non-current financial indebtedness	-1,764.4	-1,760.2
h=d+g	Net financial indebtedness	-1,534.7	-1,562.4

3.04.02 Net financial indebtedness with related parties, pursuant to Consob Resolution no. 15519 of 2006

millions of Euro	31-Dec-11	of which related parties				Total	%
		A	B	C	D		
a	Cash and cash equivalents	329.8				-	
b	Other current financial receivables	51.1	24.3	26.8		51.1	100.00%
	Current bank indebtedness	-41.7				-	
	Current portion of non current bank indebtedness	-27.4				-	
	Other current financial payables	-80.6	-78.1			-78.1	96.90%
	Financial leasing payables – maturing within next year	-1.5				-	
c	Current financial indebtedness	-151.2	-78.1	-	-	-78.1	
d=a+b+c	Net current financial indebtedness	229.7	-53.8	26.8	-	-27.0	
e	Non-current financial receivables	239.9	229.4	9.6		240.0	100.04%
	Non-current bank payables (long term portion of loans)	-1.3				-	
	Bonds issued	-1,829.7				-	
	Other non-current financial payables	-171.6				-	
	Financial leasing payables – maturing beyond next year	-1.7				-	
f	Non-current financial indebtedness	-2,004.3	-	-	-	-	
g=e+f	Net non-current financial indebtedness	-1,764.4	229.4	9.6	-	240.0	
h=d+g	Net financial indebtedness	-1,534.7	175.6	36.4	-	213.0	

millions of Euro	31-Dec-10	of which related parties				Total	%
		A	B	C	D		
a	Cash and cash equivalents	473.2				-	
b	Other current financial receivables	45.3	21.5	23.7		45.2	99.78%
	Current bank indebtedness	-40.5				-	
	Current portion of non current bank indebtedness	-27.1				-	
	Other current financial payables	-250.8	-247.9			-247.9	98.84%
	Financial leasing payables – maturing within next year	-2.3				-	
c	Current financial indebtedness	-320.7	-247.9	-	-	-247.9	
d=a+b+c	Net current financial indebtedness	197.8	-226.4	23.7	-	-202.7	
e	Non-current financial receivables	192.5	182.4	9.1		192.5	100.00%
	Non-current bank payables (long term portion of loans)	-1.9				-	
	Bonds issued	-1,787.4				-	
	Other non-current financial payables	-160.8				-	
	Financial leasing payables – maturing beyond next year	-2.6				-	
f	Non-current financial indebtedness	-1,952.7	-	-	-	-	
g=e+f	Net non-current financial indebtedness	-1,760.2	182.4	9.1	-	192.5	
h=d+g	Net financial indebtedness	-1,562.4	-44.0	32.8	-	-10.2	

Key of headings of related parties columns:

A subsidiaries B associated companies C related companies with significant influence D other related parties

3.05 Statement of equity investments

thousand of Euro	Share capital	Shareholders' equity excluded profit for 2011	Profit/loss for 2011	Total shareholders' equity	% held	Shareholders' equity attributable to the company	Book value as at 31 12 2011	Difference with equity value
Subsidiaries								
Acantho Spa	22,500	23,476	529	24,005	79.94	19,189	17,530	1,658
Famula On Line Spa	4,364	12,316	1,388	13,704	100	13,704	11,221	2,483
Herambiente Spa	271,148	304,307	21,481	325,788	75	244,341	226,157	18,184
Hera Comm Srl	53,137	66,605	31,487	98,092	100	98,092	88,978	9,114
Hera Energie Rinnovabili Spa	1,832	1,835	389	2,224	100	2,224	2,417	-193
Hera Luce Srl	1,000	6,090	3,091	9,181	90	8,224	8,864	-640
Hera Servizi Cimiteriali Srl	20	20	-2	18	100	18	20	-2
Hera Servizi Funerari Srl	10	12	493	505	100	505	10	495
Herasocrem Srl	100	100	60	160	51	82	427	-346
Hera Trading Srl	22,600	25,301	8,881	34,182	100	34,182	22,711	11,471
Marche Multiservizi Spa	13,450	20,883	3,707	24,590	41	10,082	34,538	-24,457
Medea Spa	4,500	3,263	119	3,382	100	3,382	11,988	-8,606
Sotris Spa	2,340	6,097	1,137	7,234	5	362	640	-278
Uniflotte Srl	2,254	2,642	2,100	4,742	97	4,600	3,567	1,033
Total subsidiaries	399,255	472,947	74,860	547,807		438,987	429,068	
Associated companies								
Aimag Spa (*)	78,028	117,560	7,987	125,547	25	31,387	35,030	-3,643
Consorzio Frullo (*)	1	3	-1	2	50	1	2	-1
Oikothén Scarl	1,102	682	-727	-45	46	-21	508	-529
Sei Spa (*)	120	687	-35	652	20	130	702	-571
Service Imola Srl	10	51	265	316	40	126	4	122
Set Spa	120	86,658	-136	86,522	39	33,744	31,748	1,995
Tamarete Energia Srl	3,600	11,340	-2,592	8,748	32	2,799	4,363	-1,564
Total associated companies	82,981	216,981	4,761	221,742		68,166	72,357	

* Data on share capital, shareholders' equity and profit/loss on the last financial statements available

3.06 Art. 149 duodecies of the Issuers' Regulations – table

thousands of Euro	2011
Financial statement certification	306
Other services for the issuing of a certificate (unbundling)	68
Other services	500
Total	874

3.07 Declaration for the financial statements in accordance with art. 154 bis of Legislative Decree no. 58/98

1 – The undersigned Mr. Maurizio Chiarini in his capacity as Managing Director, and Mr. Luca Moroni in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154 bis, subsections 3 and 4, of the Legislative Decree no. 58 dated 24 February 1998:

- the adequacy with reference to the nature of the company;
- and the actual application of the administrative and accounting procedures for the preparation of the financial statements for 2011.

2 – We also declare that:

2.1 – the financial statements:

- a. were prepared in compliance with the applicable International Accounting Standards recognised by the European Community pursuant to Regulation 1606/2002 (EC) of the European Parliament and the Council of 19 July 2002;
- b. are consistent with the data contained in the accounting books and entries;
- c. provide a true and accurate representation of the balance sheet, income statement and financial position of the issuer.

2.2 – The Directors' Report includes a reliable analysis of the trend and of the operating profit, the situation of the issuer, together with the description of the major risks and uncertainties to which it is exposed.

The Managing Director

Maurizio Chiarini

The Manager in charge of the corporate
accounting statements

Luca Moroni

Bologna, 22 March 2012

3.08 Report by the Independent Auditing Firm and the Board of Statutory Auditors

3.08.01 Report by the Independent Auditing Firm



AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the Shareholders of
Hera SpA

- 1 We have audited the financial statements of Hera SpA as of 31 December 2011, which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flows statement and the related explanatory notes. The directors of Hera SpA are responsible for the preparation of these financial statements in compliance with the 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. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 7 April 2011.

- 3 In our opinion, the financial statements of the Hera SpA as of 31 December 2011 comply with the 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. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, the result of operations and the cash flows of Hera SpA for the year then ended.
- 4 The directors of Hera SpA are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and on the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98, included in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard No. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations and the information provided in compliance with paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis

PricewaterhouseCoopers SpA

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of Legislative Decree No. 58/98 included in the report on corporate governance and ownership structure are consistent with the financial statements of Hera SpA as of 31 December 2011.

Bologna, 5 April 2012

PricewaterhouseCoopers SpA

Signed by
Edoardo Orlandoni
(Partner)

This report has been translated from the original, which was issued in accordance with Italian legislation, solely for the convenience of international readers. We have not examined the translation of the financial statements referred to this report

3.08.02 Report by the Board of Statutory Auditors

Reg. of Companies 04245520376

Hera Spa

Registered office in viale C. Berti Pichat 2/4 - 40100 Bologna (Bo) - Italy - Share Capital EUR 1,115,013,754.00 fully paid-in

Report of the Board of Statutory Auditors to the Shareholders' Meeting
pursuant to art. 2429, subsection 2 of the Italian Civil Code

Dear Shareholders of Hera Spa,

During the financial period that closed on 31 December 2011, our activity was guided by the Rules of Conduct of the Board of Statutory Auditors recommended by the Italian accounting profession.

Specifically, pursuant to the provisions of art. 2429 of the Italian Civil Code, art. 153 of Legislative Decree no. 58/1998 and in compliance with Consob communication DEM/6037577 of 28 April 2006, we report the following:

We ensured that the law and the articles of association were observed and that the principles of correct administration were followed.

During the year we attended 11 meetings of the Board of Directors, 5 meetings of the Executive Committee and 2 Shareholders' Meetings, which were held in observance of the statutory, legislative and statutory rules that govern their running and for which we can reasonably assure you that the actions resolved are compliant with the law and the articles of association, and that they are not openly imprudent, risky, in potential conflict of interest or such as to jeopardise the integrity of the company's assets.

We obtained information from the Directors on the overall results of operations and on the business outlook, in addition to the most significant operations in terms of size or characteristics carried out by the company and its subsidiaries during the meetings held. We can reasonably assure you that the actions implemented comply with the law and the articles of association and are not openly imprudent, risky, in potential conflict of interest or in conflict with the resolutions passed by the shareholders' meeting or such as to jeopardise the integrity of the company's assets. In particular, the most significant economic and financial operations carried out by the company during the year, in observance of the law and the articles of association, are the following:

- Enomondo Srl: on 16 February 2011, Herambiente Spa purchased from Caviro Società Cooperativa Agricola a further 10% of the share capital of Enomondo Srl, a company that operates in the waste to energy area, thus increasing its ownership in this company to 50%; Acantho Spa: on 7 March 2011, the transferral of the shares representing 17.50% of the share capital of Acantho S.p.A., a company that operates in the telecommunications field, from Infracom Italia Spa to Hera Spa was made official;
- Herasocrem Srl: on 12 April 2011, the extraordinary shareholders' meeting of Herasocrem Spa, a company that operates in the cremation sector and provides funeral services, resolved to transform the company from an Spa to an Srl, with a consequential reduction of the share capital to Euro 100,000, with effect from 13 July 2011. Moreover, the sale of the equity investment is anticipated;
- Hera Comm Marche Srl / Sadori Gas Srl: on 27 April 2011, Hera Comm Srl acquired from Walter Sadori Srl 50% of the share capital of Sadori Gas Srl, a company that sells gas in the Marche region. Effective from 1 July 2011, the merger by incorporation of Sadori Gas Srl into Hera Comm Marche Srl was concluded; it is 60% owned by

Hera Comm and the remaining 40% is owned by Marche Multiservizi Spa. This transaction resulted in a share capital increase for Hera Comm Marche Srl from Euro 1,458,332 to Euro 1,977,332 from the merger. Following the aforementioned transaction, 57.38% of the share capital of Hera Comm Marche Srl is owned by Hera Comm Srl, 29.50% by Marche Multiservizi Spa and 13.12% by Walter Sadori Srl;

- Hera Comm Mediterranea Srl / Hera Comm Srl: effective from 1 December 2011 and with tax effects from 1 January 2011, Hera Comm Mediterranea Srl, 100% owned by Hera Comm Srl, was merged into the latter by incorporation;

We held meetings with the party appointed to carry out the accounting control, and significant data and information to be included in this report did not emerge.

We became acquainted with and supervised the suitability of the organisational structure of the company, also by collecting information from the function managers, and to this regard we have no particular comments to make.

We evaluated and supervised the suitability of the administrative and accounting system, as well as the reliability of the latter in correctly representing the operational transactions, by obtaining information from the function managers and the party appointed to carry out the legal audit, and by examining the company documents. We have no particular comments to make to this regard.

Claims pursuant to art. 2408 of the Italian Civil Code did not arrive.

During the year no opinions required by the law were issued by the Board of Statutory Auditors.

The company complies with the Code of Conduct prepared by the Corporate Governance Committee of listed companies; the Board of Directors resolved enactment of the recommendations drawn up by the Code of Conduct of the listed companies. As for the Board of Statutory Auditors, we report that its powers regard: (i) the task of supervising the independence of the Independent Auditing Firm, (ii) the right to ask Audit to make verifications, (iii) the prompt exchange of information with the Internal Control Committee on significant information and (iv) verification that the criteria and assessment procedures adopted by the Board of Directors to evaluate the independence of its members are correctly applied and the evaluation of the independence of the its members based on the criteria used for the Directors. On this latter point, the Board verified that the non-executive Directors have the requisites of independence.

We did not encounter atypical and/or unusual transactions, including those carried out with related or infra-group parties.

With reference to Legislative Decree no. 231 of 8 June 2001, the company adopted an organisational and management model whose contents are consistent with the structure of the company.

The Board of Statutory Auditors did not receive complaints.

The Company assigned the legal audit of the accounts pursuant to articles 155 et seq. of Legislative Decree 58/1998 (articles amended by art. 40 of Legislative Decree no. 39/2010) to the Independent Auditing Firm PriceWaterhouseCoopers Spa, entered in the register set up at the Ministry of Justice, which on 05 April 2012 issued its report on the financial statements as at 31/12/2011.

Your company appointed the following non-auditing activities to the Independent Auditing Firm during the financial period that ended on 31 December 2011:

☒ Financial and Tax Due Diligence and project management office for ACAM;

☒☒ Opinion of the TLS on the deductibility of environmental certificates;

☒☒ Development activities through Herambiente partnerships and activities involving unbundling disclosures.

We examined the financial statements as at 31 December 2011, concerning which we report the following.

As we were not assigned the analytical monitoring of substance on the contents of the financial statements, we monitored the general set-up it was given, its overall compliance with the law as far as its drawing up and structure are concerned, and to this regard we have no particular comments to report.

As far as we know, the Directors did not depart from the rules of law pursuant to art. 2423, subsection 4, of the Italian Civil Code in drawing up the financial statements.

We checked that the financial statements correspond with the events and information we are aware of after executing our duties, and we have no comments in this connection.

Also considering the results of the activity carried out by the party assigned the legal audit, PriceWaterhouseCoopers Spa, the results of which are included in its report accompanying the financial statements, we propose that the Shareholders' Meeting approves the financial statements as at 31 December 2011 as drawn up by the Directors.

Bologna, 05 April 2012

Board of Statutory Auditors

Chairman, Board of Statutory Auditors Sergio Santi

Standing auditor Antonio Venturini

Standing auditor Elis Dall'Olio

The background is a solid teal color. A large, stylized number '4' is formed by a white negative space shape. The top-left part of the '4' is a triangle pointing towards the top-left corner. The rest of the '4' is a vertical bar on the right side of the triangle's base. The text is positioned within the white space of the '4'.

4
Report
on corporate
governance
and ownership
structures and
remuneration
report

4.01 Report on corporate governance and ownership structure

1. Issuer profile

The Hera Group was born in 2002 out of the integration of 11 Emilia-Romagna public service companies, and in the subsequent years continued its territorial growth in order to expand its core business.

This growth was made possible by the organisational structure, based around a Parent Company and territorial operating structures, which constituted a highly innovative development model.

Hera is one of the leading Italian multi-utilities in the waste management, water, gas and electricity business, with more than 6,000 employees.

The Company, the majority of whose share capital is owned by the State, has been listed on the Mercato Telematico of Borsa Italiana S.p.A. since 26 June 2003 and operates mainly in the territories of Bologna, Ravenna, Rimini, Forlì, Cesena, Ferrara, Modena, Imola and Pesaro-Urbino.

Hera's goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates, while respecting the local environment.

As early as 2003, Hera included Corporate Social Responsibility in its strategy, regarding this as an effective tool for increasing competitiveness and a key factor for achieving sustainable development. Mission and Values set out the corporate behaviour guidelines expressed in the Code of Ethics and provide information about all the Group's actions and relations. Mission, values and behaviours represent the strategic and cultural framework within which the business plan is formulated, results are reported transparently through the Sustainability Report, and economic planning is defined on an annual basis.

2. Information on ownership structure (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Finance Act (TUF)) as at 22 March 2012

a) Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the TUF)

The share capital is €1,115,013,754.00, fully subscribed and paid-up, and consists of 1,115,013,754 ordinary shares with a par value of €1 each.

Share Capital Structure

Type of share	Number of shares	% of share capital	Listed	Rights and obligations
Ordinary shares	1,115,013,754	1	MTA of Borsa Italiana S.p.A.	Ordinary shares give holders dividend and voting rights provided for by law.

The following bond was issued on 10 November 2010:

Type	Listed	Duration (years)	Maturity	Nominal value	Coupon	Annual rate
Convertible Bond	Luxembourg Stock Exchange	3	01/10/13	140	Fixed, half-yearly	1.75%

b) Restrictions on the transfer of securities (pursuant to Article 123-bis, paragraph 1, letter b) of the TUF)

Article 7 of Hera's Articles of Association stipulates that at least 51% of the Company's share capital must be held by Municipalities, Provinces or Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000, or by consortiums or joint-stock companies in which Municipalities, Provinces or Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000 hold a majority of the share capital.

Any transfer of shares will be regarded as ineffective vis-à-vis the Company if it would result in a public shareholding of less than 51%, and it is prohibited for any share transfer carried out in breach of this provision to be recorded in the shareholders' register.

Article 8.1 of the Articles of Association prohibits the holding of more than 5% of the company's share capital by any shareholder other than those indicated above.

c) Significant equity interests (pursuant to Article 123-bis, paragraph 1, letter c) of the TUF)

Declaring party	Direct shareholder	% of share capital
Municipality of Bologna	Municipality of Bologna	13.672%
Municipality of Modena	HSST-Mo S.p.A.	12.521%
Municipality of Imola	CON.AMI	8.767%
Municipality of Ravenna	Ravenna Holding S.p.A.	4.820%
Municipality of Ravenna	Area Asset S.p.A.	2.971%
Municipality of Rimini	Rimini Holding S.p.A.	2.160%
Municipality of Ferrara	Holding Ferrara Servizi S.r.l.	2.136%
Municipality of Cesena	Municipality of Cesena	2.086%

d) Restrictions on voting rights (pursuant to Article 123-bis, paragraph 1, letter f) of the TUF)

Article 8.6 of the Articles of Association stipulates that the voting rights of parties other than public authorities who hold more than 5% of the share capital will be limited to an overall maximum of 5%.

e) Shareholder agreements (pursuant to Article 123-bis, paragraph 1, letter g) of the TUF)

Pursuant to Article 122 of the TUF, there is a Voting Trust and Share Transfer Rules Agreement in existence between 113 public shareholders concerning procedures for the exercise of voting rights and the transfer of Hera shares held by the signatories. This agreement was signed on 21 December 2011 and is effective from 1 January 2012.

There is also a Voting Trust Agreement in existence between 68 public shareholders concerning procedures for the exercise of voting rights and the transfer of Hera shares held by the signatories. This agreement was signed on 21 December 2011 and is effective from 1 January 2012.

There is also a Consultation Agreement in existence, signed on 23 February 2010 by five minority shareholders of Hera S.p.A., concerning procedures for the exercise of voting rights and the appointment of members of the Board of Directors and of the Board of Statutory Auditors.

f) Authorisation to purchase treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the TUF)

The Shareholders' Meeting of 29 April 2011 gave authorisation, subject to the limits established by Article 2357 of the Italian Civil Code, to purchase, within 18 months of the date of the resolution, on one or more occasions, up to a revolving maximum of 25,000,000 ordinary Hera shares with a par value of €1 each, in accordance with the following conditions:

- i) purchase price not lower than the par value and not more than 10% higher than the reference price recorded on the stock-market trading day preceding each individual purchase, with a total purchase price not exceeding €60,000,000;
- ii) use of the purchased treasury shares within the scope of transactions representing investment opportunities or other transactions involving the allocation or disposal of treasury shares;
- iii) sale, on one or more occasions, at a price that does not entail negative financial impacts for the Company.

It is also stated that the number of treasury shares in the portfolio at the close of the 2011 financial year was 9,674,222.

3. Compliance (pursuant to Article 123-bis, paragraph 1, letter a) of the TUF)

Hera abides by the provisions of the Corporate Governance Code (hereinafter referred to as the "Code"), which contains a detailed series of recommendations concerning principles and rules for the management and control of listed companies, in order to increase the clarity and concreteness of persons and roles, particularly with regard to the independent directors and the internal committees of the Board of Directors.

Although adoption of the principles contained in the Code is not demanded by any legal obligation, the Company agreed to the principles of the new Code so as to reassure investors that a clear and well-defined organisational model exists within the company, with appropriate divisions of responsibility and powers and a correct balance between management and control, as an effective tool for enhancing and protecting the value of its shareholders' investment.

The full text of the Corporate Governance Code is available to the public on the Borsa Italiana website at www.borsaitaliana.it.

Before the end of the 2012 financial year, the Company will apply the changes made to the Code by the Corporate Governance Committee in December 2011, and will provide information to the market in the corporate governance report to be published during the course of the following financial year.

4. Board of Directors

a) Appointment and replacement (pursuant to Article 123-bis, paragraph 1, letter l) of the TUF)

The current Board of Directors, appointed by the Shareholders' Meeting of 29 April 2011, will remain in office until the approval of the financial statements for the 2013 financial year.

As provided for by Article 17 of the current Articles of Association, this appointment was made on the basis of the list voting system, which ensures that at least 1/5 of the directors are appointed from the minority list in compliance with the provisions of Article 4 of Decree-Law no. 332 of 31 May 1994, converted by Law no. 474 of 30 July 1994.

Under the list voting system, 14 (fourteen) members of the Board of Directors are drawn from the list obtaining the greatest number of votes. The remaining 4 (four) members are drawn from the minority list obtaining the greatest number of votes and must not be connected in any way, even indirectly, with the shareholders proposing the majority list.

Additionally, Article 17 of the Articles of Association stipulates that the lists, which must include at least two candidates satisfying the independence requirements established for the statutory auditors by Article 148, paragraph 3 of Legislative Decree no. 58/1998 and by the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A., may be submitted by shareholders who represent at least 1% of shares with voting rights and must be filed at the registered offices at least 25 days prior to the date of the Shareholders' Meeting, together with the candidates' CVs, the declaration of the individual candidates stating that they accept the office and certifying the non-existence of any ineligibility and/or incompatibility provided by law, as well as the satisfaction of the requirements of integrity, and any applicable declaration of satisfaction of the independence requirements established for the statutory auditors by Article 148, paragraph 3 of the TUF and by the Code.

These lists may be obtained by members of the public from the registered offices, the stock exchange operator or the website www.gruppohera.it, at least 21 days prior to the date of the Shareholders' Meeting.

In accordance with Article 17.10 of the Articles of Association, if one or more directors appointed on the basis of the list voting system should leave office during the course of the financial year, their places will be filled by means of the co-opting, pursuant to Article 2386 of the Italian Civil Code, of the first unelected candidates from the list to which the departing directors belonged who have not yet been members of the Board of Directors. If, for any reason, no candidates are available, the Board, again pursuant to Article 2386 of the Italian Civil Code, will carry out the co-opting. The directors thus appointed will remain in office until the next Shareholders' Meeting, which will deliberate in accordance with the procedures established for the appointment.

There is a Voting Trust and Share Transfer Rules Agreement in existence between the local authority shareholders which governs the procedures for drawing up the majority list.

There is also a Consultation Agreement in existence, signed on 23 February 2010 by five minority shareholders of Hera S.p.A., which provides for the appointment of members of the Board of Directors.

b) Role of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)

The Board of Directors is the central administrative body of the Company. In conformity with the recommendations of the Code, whereby the Board of Directors must meet on a regular basis, the Company's Articles of Association require the Board to meet at least every three months and whenever the Chairman considers necessary or when requested by at least one-third of its members or by the Board of Statutory Auditors. In addition, in conformity with the recommendations of the Code, which require the Board to be organised and to operate in such a way as to guarantee the effective and efficient performance of its duties, thereby ensuring the creation of value for shareholders, the Company's Articles of Association provide that the Board of Directors is vested with the widest powers for the ordinary and extraordinary management of the Company without any limitations, with the power to carry out all acts considered necessary or appropriate for the pursuit of the corporate purpose, excluding only those which, by law or by virtue of the Articles of Association, are strictly reserved to the Shareholders' Meeting.

In particular, in accordance with the provisions of the Articles of Association, and in addition to the definition of the structure of the Group, deliberations on the following matters fall to the exclusive competence of the Board:

- I. appointment and/or removal of the Group Chairman and Vice Chairman;
- II. appointment and/or removal of the Group CEO and/or the General Managers;
- III. formation and composition of the Executive Committee, appointment and/or removal of the members of the Executive Committee;
- IV. determination of the powers delegated to the Group Chairman, the Group CEO and/or the General Managers and/or the Executive Committee, and modification of those powers;
- V. approval and modification of any long-term plans or business plans;
- VI. approval and modification of Group regulations, if adopted;
- VII. recruitment and/or appointment, on the proposal of the Group CEO, of the managers responsible for each departmental area;
- VIII. proposal to place on the agenda of the Shareholders' Meeting the modification of Article 7 (Public majority shareholding), Article 8 (Limits on shareholdings), Article 14 (Validity of Shareholders' Meetings and rights of veto) and Article 17 (Appointment of the Board of Directors) of the Articles of Association;
- IX. the acquisition and disposal of equity investments with a value exceeding €500,000 (five hundred thousand);
- X. purchase and/or sale of properties with a value exceeding €500,000 (five hundred thousand);
- XI. provision of sureties, liens and/or other real guarantees with a value exceeding €500,000 (five hundred thousand);
- XII. purchase and/or sale of companies and/or business units;
- XIII. appointment of directors of subsidiaries and affiliates;
- XIV. participation in tenders and/or public procedures involving the assumption of contractual obligations exceeding €25,000,000.

The Board of Directors has assessed the appropriateness of the organisational, administrative and general accounting arrangements of the Company, with particular reference to the internal control system.

The Board of Directors, in conformity with the provisions of Article 23 of the Articles of Association and Article 150 of Legislative Decree no. 58/98, reports regularly to the Board of Statutory Auditors, at least every three months, normally during the meetings of the Board of Directors or even directly through a written memorandum sent to the Chairman of the Board of Statutory Auditors, on the activities carried out and on the most important economic and financial operations implemented by the Company or its subsidiaries, as well as on the operations in which the directors have an interest, on their own behalf or that of third parties, or which are influenced by the party that exercises the activity of direction and coordination. Each director, pursuant to Article 2391 of the Italian Civil Code, informs the other directors and the Board of Statutory Auditors of any interest which, on his own account or that of third parties, he has in a given operation of the Company, indicating the nature, terms, origin and extent of that interest; if the director concerned is the Group CEO, he must refrain from carrying out the operation and entrust it to the Board.

The Board of Directors met on 11 occasions in 2011. All the directors took part in three of these meetings, while almost all of them took part in the other eight; all the statutory auditors took part in ten of the meetings, while almost all of them took part in the other one. The average length of the meetings of the Board of Directors was approximately two hours.

The Head of Operations General and the Head of Development & Market General, who are invited to take part in the meetings of the Board of Directors, attended all 11 meetings in 2011.

The Head of Legal and Corporate Affairs, in his capacity as Secretary of the Board of Directors, attended all the meetings of the Board of Directors.

With regard to the current financial year, as at 22 March 2012 there have been three meetings of the Board of Directors. All of the directors attended one of the meetings and almost all of them attended the other two; as far as the Board of Statutory Auditors is concerned, all of the statutory auditors attended two of the meetings and almost all of them attended the other meeting. As at 22 March 2012, eight meetings of the Board of Directors have been scheduled for the rest of the year.

Transactions with Related Parties

At its meeting of 10 October 2006, the Board of Directors of Hera S.p.A. approved, in compliance with Articles 1 and 9 of the new Corporate Governance Code, the guidelines for significant transactions, transactions with related parties and transactions in which a director has an interest ("Guidelines"), in order to ensure that these transactions are conducted transparently and in conformity with the criteria of substantive and procedural correctness.

Subsequently, the Board of Directors of Hera S.p.A. approved the new procedure for transactions with Related Parties ("Procedure") in compliance with the provisions of the Consob Regulation adopted by virtue of Resolution no. 17221 of 12 March 2010 and subsequent amendments and integrations thereto ("Consob Regulation").

The Procedure cancels and completely replaces the rules on transactions with Related Parties contained in the Guidelines, but there is no change to the existing rules set out in the Guidelines concerning significant transactions and transactions in which a director has an interest.

In the Procedure, the Board of Directors fully adopted the definitions of "Related Parties" and "Transactions with Related Parties", as well as all the directly associated definitions, contained in the Consob Regulation and its annexes.

In particular, the following were identified:

1. the types of transactions with Related Parties to which the Procedure applies:
 - "Transactions of Major Importance", or transactions in which at least one of the indices of importance determined by the Consob Regulation exceeds the threshold of 5%;
 - "Transactions of Minor Importance", or transactions with Related Parties that are neither of Major Importance nor of Negligible Amount;
 - "Ordinary Transactions", or transactions which (a) fall within the ordinary conduct of the company's operating activities or associated financial activities; and (b) are carried out under conditions: (i) similar to those normally applied to unrelated parties for transactions of a comparable nature, scale and risk, (ii) based on regularly applied tariffs or established prices, or (iii) comparable with those applied to parties with whom the company is legally obliged to deal for a determined consideration;
 - "Transactions of Negligible Amount", or transactions for which the maximum foreseeable amount of the consideration or of the value of the service does not exceed, for each transaction, the sum of €1,000,000.00;
 - "Transactions with Related Parties carried out by Subsidiaries".

2. the approval process for Transactions of Major and Minor Importance, depending on whether they involve:
 - Transactions of Minor Importance falling within the competence of the Board of Directors, which are approved by the Board of Directors after hearing the reasoned but non-binding opinion of the Internal Control Committee (hereinafter referred to as the “Committee”) regarding the interest, appropriateness and substantive correctness of the transaction;
 - Transactions of Major importance falling with the competence of the Board of Directors, in which the Committee must be involved in the negotiation and investigation phases and in which the transaction may be approved following the receipt of a reasoned favourable opinion from the Committee regarding the interest, appropriateness and substantive correctness of the transaction and following a vote in favour by a majority of the independent directors;
 - Transactions of Minor and Major Importance falling with the competence of the Shareholders’ Meeting, for which the proposals must follow the same procedure as that for transactions falling with the competence of the Board of Directors, as described in the previous two points, and which must in any event receive a favourable opinion from the Committee.

The Procedure provides that the Committee charged with guaranteeing, by issuing specific opinions, the substantive correctness of dealings with Related Parties, must be in agreement with the Internal Control Committee.

The Procedure also identifies the cases to which the Procedure does not apply, as well as governing the procedures for communication with the public on the transactions carried out.

c) Composition of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)

The Company’s Articles of Association stipulate that the Board of Directors comprises 18 members.

In conformity with the provisions of Article 1.C.1, letter g) of the Code, the Board of Directors has evaluated the size, composition and functioning of the Board and its committees, and confirms its positive opinion with regard to the functioning of the Board.

The table below shows the current composition of the Board of Directors. The personal and professional details of each director are available on the website www.gruppohera.it.

First and last names	Post	Description
Tomaso Tommasi di Vignano	Chairman	Executive Director
Maurizio Chiarini	Chief Executive Officer	Executive Director
Giorgio Razzoli	Vice Chairman	Non-Executive Independent Director
Mara Bernardini	Director	Non-Executive Independent Director
Filippo Brandolini	Director	Non-Executive Independent Director
Marco Cammelli	Director	Non-Executive Independent Director
Luigi Castagna	Director	Non-Executive Independent Director
Pier Giuseppe Dolcini	Director	Non-Executive Independent Director
Valeriano Fantini	Director	Non-Executive Independent Director
Enrico Giovannetti	Director	Non-Executive Independent Director
Fabio Giuliani	Director	Non-Executive Independent Director
Luca Mandrioli	Director	Non-Executive Independent Director
Nicodemo Montanari	Director	Non-Executive Independent Director
Mauro Roda	Director	Non-Executive Independent Director
Roberto Sacchetti	Director	Non-Executive Independent Director
Rossella Saoncella	Director	Non-Executive Independent Director
Bruno Tani	Director	Non-Executive Independent Director
Giancarlo Tonelli	Director	Non-Executive Independent Director

Accumulation of positions in other companies.

In a resolution dated 10 October 2006, the Board of Directors placed a limit of one on the maximum number of posts of director or statutory auditor in listed companies that can be regarded as compatible with the role of executive director, and a limit of two on the maximum number of posts of director or statutory auditor in listed companies that can be regarded as compatible with the role of non-executive director.

d) Delegated bodies

Chairman of the Board of Directors

The Board of Directors, at its meeting of 2 May 2011, passed a resolution to grant the following powers to the Chairman:

1. to chair and direct the Shareholders' Meetings;
2. to establish the agenda of the meetings of the Board of Directors, taking into account the proposals of the Group CEO;
3. to oversee the deliberations of the Company's administrative bodies, including on the basis of the reports presented periodically by the Internal Auditing Department;
4. to represent the Company before third parties and in legal proceedings, with the power to appoint attorneys and lawyers;
5. in cases of urgency, in association with the CEO, to take any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
6. in association with the Group CEO, to propose to the Board of Directors the appointment of Company representatives on the administrative and control bodies of affiliate companies;
7. to represent the company in relations with the shareholding public authorities;
8. to propose to the Board the candidates for membership of the Committees that the Board may decide to establish in compliance with the Stock Exchange regulations which the Company is obliged to observe, or that it intends to establish;
9. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
10. to supervise the Company's performance for the purposes of achieving the corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
11. to be responsible for the organisation of the services and offices under his authority, as well as for the employees working under him;
12. to supervise the operations of the Company and its subsidiaries, reporting each month to the Board of Directors;
13. to draw up the Long-term Plans and Business Plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of the directives established by the Board, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
14. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
15. to represent the Company in the shareholders' meetings of companies, associations, entities and bodies that do not constitute joint-stock companies, of which the Company is a member, with the power to issue special proxies;
16. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
17. to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, Stock Exchanges, the National Commission for Listed Companies and the Stock Exchange (Consob), the Ministry for Foreign Trade, and the Italian Exchange Office, and any other Public Administration or Authority; by way of example:
 - a. to sign notices, including notices to the General Register of Shares and to Consob, and to fulfil the corporate obligations provided by law and regulations;
 - b. to submit reports, motions and appeals, and to apply for licences and authorisations;

18. to represent the Company in all active and passive lawsuits, in all degrees of civil and administrative proceedings, before arbitration boards, with the widest powers to:
 - a. bring conservative, restraining and executive actions, request summary judgments and seizures of property and oppose the same, enter civil proceedings, file motions and appeals;
 - b. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;
19. to stipulate and sign contracts and deeds of constitution of companies, associations and consortiums with a value not exceeding €500,000.00 (five hundred thousand) for each transaction;
20. to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of €100,000.00 (one hundred thousand) for each transaction;
21. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
22. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate purpose – including those relating to know-how, trademarks and patents – including in association with other companies, up to a limit of €2,000,000.00 (two million) for each transaction;
23. to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
24. to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international level, including those eligible for State grants or aid, for the awarding of works, supplies of plant, including "turn-key", and/or of goods and/or studies and/or research and/or services in general for any national, EU or international public or private entity; submit applications for participation as from the prequalification stage; submit bids up to an amount of €25,000,000.00 (twenty-five million) for each transaction – in cases of urgency, the decision concerning amounts exceeding €25,000,000.00 (twenty-five million) will be taken in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
25. to take part, as far as his authority permits, in any type of public or private auction or invitation to bid in Italy and abroad;
26. to take out, modify and cancel insurance policies, with the cost limit referring to the annual premium, including for surety policies, up to the value of €500,000.00 (five hundred thousand) for each transaction (this limit will not apply to transactions connected with participation in tenders);
27. to rent or let out properties under leases or subleases and stipulate, amend and terminate the relative contracts;
28. to deliberate the cancellation, reduction or restriction of mortgages or liens registered in favour of the Company, as well as subrogations in favour of third parties, where the aforesaid cancellations and waivers are requested further or subordinate to the full discharge of the credit;

29. to establish, register and renew mortgages and liens on the account of third parties and to the benefit of the Company; permit mortgage cancellations and limitations on the account of third parties and to the benefit of the Company for return and reduction of obligations; waive mortgages and mortgage subrogations, including those of a legal nature, and effect any other mortgage transaction, always on the account of third parties and to the benefit of the Company, and therefore receivable, exonerating the competent property registrars from each and any responsibility;
30. to appoint lawyers and attorneys for dispute proceedings of any judicial degree; conclude transactions up to a maximum of €5,000,000.00 (five million) for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
31. to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
32. to decide the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than €100,000.00 (one hundred thousand);
33. The Chairman, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is responsible for supervising the functioning of the Internal Control System. To this end, as far as his authority permits, he:
 - a. ensures that the Risk Committee identifies the main business risks, taking account of the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors,
 - b. implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control System, constantly checking its overall appropriateness, effectiveness and efficiency, and also ensuring that the System is suited to the dynamics of the operating conditions and of the legislative and regulatory context,
 - c. proposes to the Board of Directors, in association with the CEO, the appointment, removal and remuneration of the Internal Control Officer.

In relation to the powers listed above, and in conformity with Article 2 of the Code, it is noted that the Board of Directors has granted management authority to the Chairman due to the organisational complexity of the Hera Group and for the purposes of a more efficient achievement of the company's business and strategies.

Chief Executive Officer

During the same meeting, the Board of Directors passed a resolution to vest the Group CEO with the following powers:

1. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
2. in cases of urgency, in association with the Chairman, to take any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
3. to implement corporate and Group strategies, within the context of the directives established by the Board, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
4. to propose to the Board of Directors any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
5. to draw up the annual budget to be submitted to the Board of Directors;

6. to be responsible for the organisation of the services and offices under his authority, as well as for the employees working under him;
7. to define the functional structures of the Company and its subsidiaries, within the framework of the general organisation guidelines established by the Board, specify the criteria for personnel recruitment and management in compliance with the annual budget; propose the engagement of directors to the Board of Directors; engage, appoint and dismiss personnel up to and excluding the rank of General Manager, in accordance with the provisions contained in the annual budgets; adopt and implement disciplinary sanctions, dismissals and any other measure in respect of manual workers, clerical workers, assistants and auxiliary staff;
8. to stipulate, amend and terminate agreements concerning lines of credit or loans of any type and duration involving a cost commitment of up to €1,000,000.00 (one million) for each individual transaction; request the use of tranches of financing, up to the amount of €3,000,000.00 (three million) for each agreement;
9. to open and close current accounts with banks and credit institutions, withdraw sums from the accounts held in the Company's name, issuing for this purpose the relative cheques or equivalent credit documents, and order transfers utilising available funds or lines of current account credit;
10. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
11. to draw bills on customers, endorse also for discount promissory notes, bills and drafts, as well as cheques of any kind, and effect any consequential transaction;
12. to grant credit on behalf of the Company, with and/or without recourse, up to a maximum amount of €250,000,000.00 (two hundred and fifty million) for each individual transaction, and to work with factoring companies and institutions, signing all related deeds;
13. to actively and passively represent the Company before the Tax Authorities and Commissions of any nature and rank, as well as before the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, Post and Telegraphic Offices; by way of example:
 - a. to sign tax and VAT returns and to fulfil any tax-related obligation;
 - b. to submit reports, motions and appeals, to apply for licences and authorisations;
 - c. to issue receipts, in particular for payment orders in relation to credits subject to factoring operations;
 - d. to perform any transaction at the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, Post and Telegraphic Offices for the shipment, deposit, clearance and collection of goods, credit instruments, parcels and packages, registered and insured letters, issuing receipts for the same;
14. to represent the Company in all lawsuits pertaining to labour law, including the power to:
 - a. settle individual labour disputes concerning the categories of officers, clerical workers, assistants and auxiliaries;
 - b. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;
15. to represent the Company before Social Security and Welfare offices and entities for the settlement of issues relating to employees of the Company, and also before Trade Unions in negotiations for contracts, agreements and labour disputes, with the power to sign the related documents;

16. to issue guarantees and grant loans, and sign bank surety agreements up to the value of €500,000.00 (five hundred thousand) for each transaction; this limit shall not apply to transactions relating to participation in tenders; issue, accept and endorse credit instruments;
17. to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the related mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
18. to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international level, including those eligible for State grants or aid, for the awarding of works, supplies of plant, including "turn-key", and/or of goods and/or studies and/or research and/or services in general for any national, EU or international public or private entity; submit applications for participation as from the prequalification stage; submit bids up to an amount of €25,000,000.00 (twenty-five million) for each individual transaction – in cases of urgency, the decision concerning amounts exceeding €25,000,000.00 (twenty-five million) will be taken in association with the Chairman, informing the Board of Directors accordingly at its next meeting; in the case of awarding, sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
19. to take part, as far as his authority permits, in any type of public or private auction or invitation to bid in Italy and abroad;
20. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
21. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate purpose – including those referring to know-how, trademarks and patents – including in association with other companies, up to an amount of €2,000,000.00 (two million) for each transaction;
22. to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of €100,000.00 (one hundred thousand) for each transaction;
23. to conclude transactions up to an amount of €5,000,000.00 (five million) for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
24. to provide for the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:
 - a. works and supplies necessary for the transformation and maintenance of properties and plant up to an amount of €15,000,000.00 (fifteen million) for each individual investment;
 - b. purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, up to an amount of €8,000,000.00 (eight million) for each individual investment, as well as finance leases and rentals of such assets, with the cost limit referring to the annual rental;
 - c. purchases, including under usage licence, with the cost limit referring to the annual premium, and job orders relating to EDP programmes;
 - d. commercial information;
25. to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties, including legal entities;

26. the CEO is also assigned the powers and responsibilities set forth in Legislative Decree no. 626 of 19 September 1994 and Legislative Decree no. 81 of 9 April 2008 and subsequent amendments and integrations on the matter of workers' health and safety at work, all with the power of delegation;
27. the CEO is assigned the role of "Employer" pursuant to and for the purposes of Article 2 of Legislative Decree no. 81 of 9 April 2008 and subsequent amendments and integrations, with the duties provided for therein and with the power to delegate, as far as is permitted by said decree, the performance of any activity useful and/or necessary for ensuring compliance with the provisions of the law, with the exception of the following Sectors/Structures, for which the role of Employer is attributed as indicated below:

Services Sector	Marcello Guerrini
Operations General Department, except for the Business Units listed below	Roberto Barilli
Business Unit – Bologna Territorial Operating Structure	Angelo Bruschi
Business Unit – Ferrara Territorial Operating Structure	Oriano Sirri
Business Unit – Forlì-Cesena Territorial Operating Structure	Franco Fogacci
Business Unit – Imola-Faenza Territorial Operating Structure	Susanna Zucchelli
Business Unit – Modena Territorial Operating Structure	Roberto Gasparetto
Business Unit – Ravenna Territorial Operating Structure	Tiziano Mazzoni
Business Unit – Rimini Territorial Operating Structure	Edolo Minarelli

28. the CEO is responsible for managing activities relating to the Register of Freight Carriers, with the power of delegation;
29. the CEO is assigned the powers and responsibilities set forth in Legislative Decree no. 196 of 30 June 2003 concerning the protection of individuals and other parties with regard to the processing of personal data, with the power of delegation;
30. the CEO, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is responsible for supervising the functioning of the Internal Control System. To this end, as far as his authority permits, he:
- ensures that the Risk Committee identifies the main business risks, taking account of the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors,
 - implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control System, constantly checking its overall appropriateness, effectiveness and efficiency, and also ensuring that the System is suited to the dynamics of the operating conditions and of the legislative and regulatory context,
 - proposes to the Board of Directors, in association with the Chairman, the appointment, removal and remuneration of the Internal Control Officer.

Hence both the Chairman and the CEO are executive directors.

Information to the Board

In conformity with the recommendations of the Code, the delegated bodies report to the Board of Directors and to the Board of Statutory Auditors, at least every three months, on the activities carried out on the basis of the powers delegated to them.

The Chairman ensures that each director and statutory auditor has all the information and documentation necessary for discussing the agenda items of the meetings of the Board of Directors at least three days before the meeting, except in cases of necessity and urgency.

Lastly, the Chairman and the CEO ensure that the Board of Directors is also informed on the most important changes in legislation and regulations relating to the Company and the corporate bodies.

e) Executive Committee (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)

As provided for by Article 23.3 of the Articles of Association, at its meeting of 2 May 2011 the Board of Directors, appointed by the Shareholders' Meeting of 29 April 2011, appointed the Executive Committee consisting of the following members:

- Tomaso Tommasi di Vignano - Chairman of the Executive Committee;
- Giorgio Razzoli - Vice Chairman of the Executive Committee;
- Maurizio Chiarini - member of the Executive Committee.

With regard to the annual definition of the Group business plan and to the proposals for appointment of first level senior executives, the Committee has the task of expressing an opinion prior to presentation to the Board of Directors, and also of deciding:

1. as to contracts and agreements in any way pertaining to the corporate purpose with a value exceeding €2 million for each individual contract;
2. in the interests of the Company, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, with a value exceeding €100,000 and up to €500,000, and more generally on the overall criteria for use;
3. as to the Company's subscription to bodies, associations and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the said entity and where participation in the same involves an outlay of more than €100,000 and up to €500,000;
4. to settle disputes and/or waive credits of an amount exceeding €5 million;
5. as to the activation, amendment and termination of contracts for the opening of lines of credit or loans of any type and duration involving a cost commitment of more than €1,000,000 and up to €5,000,000; request the drawdown of tranches of loans, for an amount of more than €3,000,000 and up to € 5,000,000 per individual contract;
6. as to the stipulation, amendment and termination of contracts relating to:
 - works and supplies necessary for the transformation and maintenance of properties and plant for an amount exceeding €15,000,000;
 - purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, with a value exceeding €8,000,000.

The Executive Committee also has the task of examining the audit reports each quarter and of supervising, in conformity with the system of delegations defined within the Company, the implementation of the action plans arising from the audit reports.

The Executive Committee met on five occasions during 2011, and all the meetings were attended by all members. The average duration of the meetings of the Executive Committee was approximately one hour and thirty minutes.

f) Independent directors

There are currently 16 directors qualifying as non-executive independent members of the Board, in that:

- a) they do not control the Company directly or indirectly, including via subsidiary or trust companies or third parties; they do not exercise significant influence over the Company; they are not party to any shareholders' agreement whereby one or more parties may exercise control or significant influence over the Company;
- b) they are not currently, nor have they been in the last three financial years, important representatives of the Company, one of its subsidiaries with strategic importance or one of the companies subject to joint control together with the Company, or of a company or body which, also together with others as a result of shareholders' agreements, controls the Company or is able to exercise significant influence over it;
- c) they do not currently have, nor have they had in the previous year, either directly or indirectly, any significant commercial, financial or professional relationship:
 - with the Company, one of its subsidiaries or any of the related important representatives;
 - with a party who, also together with others as a result of shareholders' agreements, controls the Company, or – in the case of companies or bodies – with the related important representatives, and who have not been employees of one of the aforementioned parties in the last three financial years;
- d) they have not received in the last three financial years, from the company or from a subsidiary or parent company, significant remuneration in addition to the "fixed" emolument of the Company's non-executive directors, including participation in incentive schemes linked to the company's performance, even share-based;
- e) they have not held the office of executive director in another company in which an executive director of the Company holds the office of director;
- f) they are not shareholders or directors of a company or entity belonging to the network of the firm appointed to audit the Company's accounts;
- g) they are not close relatives of a party in one of the positions described in the previous points.
- h) they satisfy the requirements of independence set forth under Article 148, paragraph 3 of the TUF.

The following circumstances do not invalidate the requirements of independence of a director: the appointment of the director by the shareholders or group of shareholders controlling the Company; the holding of the office of director of a subsidiary of the Company and receiving the related remuneration; the holding of the office of member of one of the advisory Committees cited below.

In conformity with the provisions contained in Article 3 of the Code, the Board of Statutory Auditors has checked the correct application of the criteria and the assessment procedures adopted by the Board of Directors for ascertaining the independence of its members.

5. Handling of corporate information

For the purposes of governing the communication to the sector Authorities and to the public of notices, data and price-sensitive information pertaining to the management and activities carried out, whose dissemination might have an impact on the processes used for valuing the Company's shares, and consequently on the levels of demand and supply of those shares, on 15 February 2007 the Board of Directors adopted a specific procedure aimed at:

- i) identifying price-sensitive and confidential information;
- ii) defining procedures for authorisation and management within the Group;
- iii) governing the procedures of external communication in terms of documentation, notices issued, interviews given, statements made and meetings conducted.

Consequently, in application of the new procedure adopted by Hera S.p.A. on 27 March 2006 with regard to internal dealing, and in accordance with Article 152-*sexies* of the Consob Issuers' Regulation, the following individuals have been identified as significant parties obliged to inform Consob of the transactions they have carried out on Hera S.p.A.'s financial instruments: the members of the Board of Directors, the statutory auditors and the shareholders who hold an equity investment equal to or greater than 10% of the share capital, as well as individuals closely linked to the same.

In conformity with the provisions of the Issuers' Regulation, the timescales and procedures for communication of the operations carried out by the significant parties have been identified by the procedure adopted by Hera S.p.A. Hera S.p.A. has identified the Legal and Corporate Affairs Department as the responsible entity for receiving, managing and disseminating this type of information to the market.

The responsible entity will make use of the External Relations Department for disseminating the information to the market by means of the NIS screen-based system (Network Information System).

Furthermore, in accordance with the provisions of Article 115-*bis* of the TUF and Article 152-*bis* of the Issuers' Regulation no. 11971 of 14 May 1999, introduced by means of Consob Resolution no. 15232 of 29 November 2005, as from 1 April 2006 Hera S.p.A. set up the "Register of Individuals who, as a result of the working or professional activities, or in relation to the functions performed, have access on a regular or occasional basis to privileged information", this being understood to be the information (i) of a precise nature; (ii) directly or indirectly concerning the issuer or its financial instruments; (iii) which has not been made public; and (iv) which if made public, could considerably influence the prices of these financial instruments (price-sensitive information).

6. Internal Committees of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)

The Committees set up represent an internal structure of the Board of Directors and fulfil an advisory and consultative role. The Board of Directors, renewed on 29 April 2011, redefined the composition of the aforesaid committees at its meeting of 2 May 2011.

a) Appointments Committee

No Appointments Committee has been set up, since the 18 members of the Board of Directors are appointed by means of the list voting system.

b) Remuneration Committee

In 2011, the Remuneration Committee handled matters relating to remuneration policies, subject to approval by the Board of Directors at the time of the 2011 financial statements.

For information relating to this Section, please refer to the Remuneration Report pursuant to Article 123-ter of the TUF.

c) Internal Control Committee

Composition and functioning of the Internal Control Committee (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)

In conformity with the requirements of the Code, the Company's Board of Directors resolved at its meeting of 4 November 2002 to set up the Internal Control Committee. This Committee, whose composition was renewed on 2 May 2011, comprises Giorgio Razzoli as Chairman, Fabio Giuliani, Rossella Saoncella and Luca Mandrioli. At least one member of the Internal Control Committee has accounting and financial experience judged adequate by the Board of Directors at the time of the appointment.

The Internal Control Committee met on seven occasions in 2011; four meetings were attended by all of the members, while three were attended by the majority of members. The average length of the meetings of the Internal Control Committee was approximately one hour.

Functions attributed to the Internal Control Committee

The Internal Control Committee has been assigned the advisory and consultative functions indicated under paragraph 8.C.3 of the Code, with the exception of the tasks cited in letters c), d) and e) of the aforementioned paragraph, which are performed by the Board of Statutory Auditors.

During the course of the meetings held during the 2011 financial year, of which minutes were duly taken, the following measures were carried out:

- definition of an outline document for identifying the governance model for internal control and risk management systems, the Regulations of the Internal Control Committee, and the Operating Mandate and Manual of the Internal Auditing Department;
- evaluation of the effectiveness of the Internal Control System;
- preparation of the periodic reports of the Internal Auditing Department.

The Committee also examined the audit reports, as well as the 2012 Business Plan and budget of the Internal Auditing Department.

The Chairman of the Board of Statutory Auditors or another statutory auditor designated by the Chairman and, at the express invitation of the Chairman of the Committee, the Chairman of the Board of Directors and the Group CEO, attend the Committee's meetings.

In the performance of its functions, the Internal Control Committee had access to the information and business functions necessary for carrying out its duties.

Internal control system

Introduction

The Hera Group is committed to promoting and maintaining a suitable internal control system understood as a collection of tools, organisational structures and company rules and regulations aimed at allowing the business to be run in a manner that is fit and proper, correct and consistent with pre-set objectives.

In the definition of its risk management and internal control system in relation to the financial information process (hereinafter known as the "System"), the Group uses international best practices with the objective of significantly mitigating risks in terms of dependability, reliability, accuracy and timeliness of the Group's financial information. Specifically, the Hera System draws inspiration from the internationally recognised COSO Framework for the analysis, implementation and evaluation of the risk management and internal control system.

The risk management and internal control system in relation to the financial information process

As set out in Article 154-*bis* of the TUF (Consolidated Financial Act), introduced through the Law on the Protection of Savings, the position of Manager in charge of preparing corporate accounting statements (hereinafter known as "Finance Manager") was introduced into the Company's corporate governance structure.

Under the scope of the risk management and internal control system relating to the financial information process, Hera has also defined and implemented a raft of administrative and accounting procedures for preparing the consolidated and separate financial statements, as well as other disclosures of a financial nature, taking care of the updating and encouraging circulation and awareness.

In this context, the Finance Manager manages the process of identifying and assessing risks associated with Internal Control over Financial Reporting ("ICFR Risk Assessment").

It should be noted that since the second half of 2011, the regular activity of assessing risks associated with financial information has been carried out with the support of a specialist external consultant for the purpose of structuring the scoping activity appropriately, with the aim, based on a quantitative analysis and in compliance with evaluations and parameters of a qualitative nature, of identifying:

- Group consolidation scope companies to be included in the analysis;
- key processes fundamental to the consolidated financial statements for each operating company identified;

In particular, the following took place for each key process:

- specific risks relating to financial information were identified;
- control tables (Risk Control Matrices) were formalised; these describe the type of controls associated, the frequency and the responsibility allocated in relation to risks identified.

With regard to the scope of intervention, the Company organises regular assessments conducted by management into the suitability of the internal control system and sets up information flows to the Finance Manager so that he/she can regularly evaluate the suitability of the system and can confirm with reasonable certainty that the control objectives are being achieved at corporate and process level.

Specifically, corporate level controls are evaluated by correlating them to the main COSO Framework soft components (control environment, information and communication and monitoring) and process level controls are identified and evaluated in terms of adequacy and operating effectiveness through:

- Evaluation of the control design (type, responsibility, documentation);
- Evaluation of the operation by conducting regular checks.

The Risk Control Matrices are the instruments in the process of being implemented for a systematic approach to the:

- documentation and evaluation of the design for controls in terms of risks to mitigate, type of control, responsibility and type of evidence of control produced;

- planning of testing which will be carried out during the course of the year with the support of an external consultant.

In documenting the design of the controls, the Risk Control Matrices include procedures and guidelines issued by the Company for each process which regulate the financial statement activities and main corporate processes.

These procedures identify individuals and organisational structures involved in the management, processing or transfer of data and information, they identify roles and operating and control responsibilities and they define control and documentation activities.

During the course of the year the responsibilities and regulation of the Finance Manager were critically re-examined with a view to the continuous improvement of the accounting control model and the information and confirmation flows involving the Finance Manager from and to other company and control bodies.

These flows include, among other things, a structured and systematic reporting system to the main corporate bodies on operational planning content and logic of activities and any shortcomings encountered plus the corresponding plans and actions defined to deal with these shortcomings.

Based on the information gathered by the Finance Manager, with the support of the various company functions, the Board of Directors believes that, with reference to 2011, the existing internal control system is overall suitable to achieve the company objectives with reasonable certainty.

As this assessment refers to the internal control system as a whole, it is affected by the inherent limitations. Even though it is well conceived and working properly, the internal control system can only guarantee “with reasonable certainty” that the company objectives will be achieved.

Head of Internal Control

In order to ensure an adequate system of internal control, the Internal Auditing function was established, with the person in charge reporting to the Vice Chairman and fulfilling the role of Head of Internal Control.

The individual responsible for Internal Auditing provides a report on his activities, every three months or whenever he considers it necessary, to the Group CEO, the Chairman of the Board of Directors, the Internal Control Committee and the Board of Statutory Auditors.

He is hierarchically independent of the heads of operating segments and may have direct access to all information useful to the performance of his duties.

d) Ethics Committee

Composition and functioning

During its meeting of 12 September 2007, the Board of Directors of Hera S.p.A. set out the text of the “mission” and “values and working principles” of the Group, and consequently approved the updated version of the Code of Ethics that constitutes a “social responsibility” tool of the Company for implementing ethical principles inspired by good practices and aimed at the pursuit of the Company’s mission.

Consequently, in application of Article 60 of the aforementioned Code, the Board of Directors, at its meeting of 8 October 2007, set up a suitable Committee, whose composition was renewed on 2 May 2011. This Committee comprises a director of Hera S.p.A. in the person of Giorgio Razzoli, Mario Viviani, and a manager with expertise in matters of social responsibility.

The Board of Directors of Hera S.p.A., at its meeting of 26 January 2011, at the end of the three-year experimental phase of using the Code of Ethics, adopted an updated text of the Code with a view to implementing it within the Company.

The Ethics Committee met on nine occasions in 2011; eight of these meetings were attended by all the members, and one by a majority of members. The average duration of the meetings of the Ethics Committee was approximately one hour and thirty minutes.

Functions of the Ethics Committee

The Ethics Committee is responsible for monitoring the dissemination and implementation of the principles of the Code of Ethics.

During the course of the meetings held in 2011, the following measures were taken: appointment of the Chairman, analysis of the reports made to the Committee, verification of the scope of approval of the Code of Ethics and its extension to the subsidiaries, and verification of training and updating activities.

7. Organisational model pursuant to Legislative Decree no. 231/2001

Legislative Decree no. 231/2001 introduced into Italian legislation the administrative responsibility of legal entities, companies and associations. In particular, the law introduced the criminal liability of entities for certain offences committed in the interest or to the advantage of those entities by persons fulfilling roles of representation, administration or management of the entity or one of its organisational units with financial and operating independence, or by persons who exercise management and control thereof, including on a de facto basis, and lastly, by persons subject to the direction or supervision of one of the above-mentioned parties. Significant offences are those against Public Administration and corporate offences committed in the interest of the companies.

However, Articles 6 and 7 of Legislative Decree no. 231/2001 provide for a form of exoneration from liability where (i) the entity proves that it adopted and efficiently implemented, prior to the commission of the act, appropriate organisational, management and control models for preventing the perpetration of the offences considered by the said decree; and (ii) the duty of supervising the functioning of and compliance with the models, as well as providing for their revision, is entrusted to a body of the entity that is vested with autonomous powers of initiative and control.

To this end, on 16 February 2004, the Board of Directors of Hera S.p.A. approved and subsequently updated the organisational, management and control model pursuant to Legislative Decree no. 231/2001 (also in the light of the provisions introduced by Law no. 123/07), with the aim of creating a structured and organic system of control procedures and activities to prevent the offences referred to in the aforesaid decree, by identifying the activities exposed to a risk of offence and implementing suitable procedures for those activities.

At present, the organisational, management and control model pursuant to Legislative Decree no. 231/2001 comprises 25 protocols.

The organisational, management and control model pursuant to Legislative Decree no. 231/2001 has also been adopted by subsidiaries of strategic importance.

Consequently, on 2 May 2011 the Board of Directors set up the Supervisory Board comprising the Head of Internal Auditing of Hera S.p.A. as Chairman, the Head of Legal and Corporate Affairs of Hera S.p.A. and an external member, to which it entrusted the aforesaid duties, including the task of periodically reporting to the corporate bodies of Hera S.p.A. on the implementation of the said model.

The Supervisory Board met on seven occasions in 2011; six of these meetings were attended by all of the members, and one was attended by a majority of the members.

The average length of the meetings of the Supervisory Board was approximately one hour and fifteen minutes.

The Supervisory Board updated the 231 protocols that make up the organisational model. The Supervisory Board also applied and analysed the system of information flows that allow it to supervise the functioning of and compliance with the models, as well as examining the reports arising from the audits and scheduling further activities.

In order to carry out the checks and controls, the Supervisory Board drew up a schedule of measures for checking compliance with the protocols adopted.

8. Independent Auditors

The company appointed as independent auditor by Hera's Shareholders' Meeting of 27 April 2006 is PricewaterhouseCoopers S.p.A., whose mandate will expire upon approval of the financial statements for the year ending 31 December 2014.

9. Executive officer responsible for financial reporting

As established by the Board of Directors by a resolution dated 4 March 2010, the role of executive officer responsible for financial reporting falls to the Director of Administration, Finance and Control, Luca Moroni.

The executive officer responsible for financial reporting has adequate means for performing the functions provided for by Article 154-*bis* of Legislative Decree no. 58 of 24 February 1998.

10. Appointment of Statutory Auditors

The statutory auditors are appointed by the Shareholders' Meeting on the basis of the list voting system provided for by Article 26 of the Articles of Association, which specifies that (i) Municipalities, Provinces and Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000 and consortiums or joint-stock companies controlled by the same may present a single list, and (ii) shareholders other than those indicated in point (i) may present lists provided they represent, in accordance with current regulations (Consob Resolution no. 17633 of 26 January 2011), at least 2% of the shares with voting rights. The lists must be filed at the registered offices at least 25 days prior to the date of the Shareholders' Meeting, together with the candidates' CVs, the declaration of the individual candidates stating that they accept the office and certifying the non-existence of any ineligibility and/or incompatibility provided by law, as well as the satisfaction of the requirements of integrity and professionalism required by law for the members of the Board of Statutory Auditors. Together with the lists, a declaration must also be presented attesting to the absence of any agreements or links of any kind with the other shareholders who have presented other lists, as well as a list of the offices of administration and control held by them in other companies. These lists must be made available to the public from the registered offices, the stock exchange operator and the website www.gruppohera.it, at least 21 days prior to the date of the Shareholders' Meeting.

In the event of the replacement of a statutory auditor, he or she is succeeded by the alternate auditor belonging to the same list as the auditor to be replaced.

For the purposes of the provisions of legislation in force concerning the requirements of professionalism for members of the Board of Statutory Auditors of listed companies, "business matters and sectors strictly pertaining to the activities performed by the Company" means the business matters and sectors associated with or pertaining to the activity performed by the Company and cited in Article 4 of the Articles of Association.

The office of statutory auditor is incompatible with the offices of councillor or alderman in regional public authorities, as well as with that of statutory auditor in more than three listed companies other than subsidiaries of the Company pursuant to Article 2359 of the Italian Civil Code and Article 93 of Legislative Decree no. 58/98. In the latter case, a statutory auditor who subsequently exceeds this limit will automatically forfeit the office of statutory auditor of the Company.

Composition and functioning of the Board of Statutory Auditors (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)

The Board of Statutory Auditors comprises three statutory members and two alternate members. The Board of Statutory Auditors, whose mandate expired upon approval of the financial statements for the year ended 31 December 2010, was renewed during the course of the Shareholders' Meeting of 29 April 2011 and will remain in office until the approval of the financial statements for the 2013 financial year.

In conformity with the provisions contained in Article 10 of the Code, the Board of Statutory Auditors has appraised the correct application of the criteria and the ascertainment procedures adopted for assessing the independence of its members, including for the purposes of Article 144-novies of the Issuers' Regulation.

The table below shows the current composition of the Board of Statutory Auditors. The personal and professional details of each statutory auditor are available on the website www.gruppohera.it.

First name and surname	Office
Sergio Santi (**)	Chairman
Elis Dall'Olio (*)	Statutory Auditor
Antonio Venturini (*)	Statutory Auditor
Stefano Ceccacci (**)	Alternate Auditor
Roberto Picone (*)	Alternate Auditor

(*) appointed by the Shareholders' Meeting of 29 April 2011 on the basis of the list presented by the majority shareholders.

(*) appointed by the Shareholders' Meeting of 29 April 2011 on the basis of the only list presented by the minority shareholders in conformity with the provisions of current legislation.

The Board of Statutory Auditors met on eighteen occasions in 2011; sixteen of these meetings were attended by all of members, while two were attended by almost all of them. The average duration of the meetings of the Board of Statutory Auditors was approximately one hour and forty minutes.

There is a Voting Trust and Share Transfer Rules Agreement in existence between the public shareholders which governs the procedures for drawing up the list for the appointment of two statutory members and one alternate member of the Board of Statutory Auditors.

There is also a Consultation Agreement in existence, signed on 23 February 2010 by five minority shareholders of Hera S.p.A., concerning the appointment of members of the Board of Statutory Auditors.

The Board of Statutory Auditors oversees the independence of the Independent Auditors, verifying compliance with the relevant legislation, and coordinates in the performance of its activities with the Internal Audit Department and the Internal Control Committee.

11. Relations with Shareholders

To enable shareholders to understand the Company more fully, the Company has a suitable department dedicated to relations with investors. This department is managed by Jens Klint Hansen (the investor relator can be contacted by telephone on +39 051 287737 or by email at ir@gruppohera.it).

12. Shareholders' Meetings (pursuant to Article 123-bis, paragraph 2, letter c) of the TUF)

Ordinary and Extraordinary Shareholders' Meetings are called in the circumstances and manner provided for by law. They are held at the registered offices or elsewhere in Italy.

The right to take part in Shareholders' Meetings is enjoyed by shareholders with legitimate entitlement under the rules applicable at any given moment.

Ordinary and Extraordinary Shareholders' Meetings and the related resolutions are valid if the quorum and majority conditions established by law are satisfied.

The resolutions of Extraordinary Shareholders' Meetings concerning the modification of Article 7 ("*Public majority shareholding*"), Article 8 ("*Limits on shareholdings*"), Article 14 ("*Validity of Shareholders' Meetings and rights of veto*") and Article 17 ("*Appointment of the Board of Directors*") of the Articles of Association will be valid if they are passed on the basis of a vote in favour by attending shareholders representing at least three-quarters (rounded if necessary) of the share capital.

The Shareholders' Meeting of 29 April 2003 approved the text of the meeting regulations, which indicate the procedures to be followed in order to permit the orderly and proper functioning of meetings, without prejudice to the right of each shareholder to express his or her opinion on the matters under discussion.

The Shareholders' Meeting of 27 January 2011 modified the text of the regulations in order to take account of the new provisions introduced by Legislative Decree no. 27 of 27 January 2010 concerning "Implementation of Directive 2007/36/EC ("*Shareholders' Rights Directive*")", as well as to adapt the regulations to certain organisational requirements. The new, updated version is published on the Company's website at www.gruppohera.it

Table 1: Structure of the Board of Directors and the Committees

Board of Directors											Internal Control		Remuneration Committee		Appointments Committee		Executive Committee		Ethics Committee			
Office	Members:	In office since	In office until	List	Exec.	Non-exec.	Indep. pursuant to Code	Indep. pursuant to CFA	(%) **	Number of other positions	****	**	****	**	****	**	****	**	****	**		
Group Chairman	Tomaso Tommasi di Vignano	1/1/2011	App. of 2013 fin. statements	M	X				100%	1								X	100%			
Group CEO	Maurizio Chiarini	1/1/2011	App. of 2013 fin. statements	M	X				100%	-								X	100%			
Group Vice Chairman	Giorgio Razzoli	1/1/2011	App. of 2013 fin. statements	M		X	X	X	100%	1	X	100%	X	100%				X	100%	X	89%	
Director	Mara Bernardini	1/1/2011	App. of 2013 fin. statements	M		X	X	X	91%	-												
Director	Filippo Brandolini	1/1/2011	App. of 2013 fin. statements	M		X	X	X	100%	-												
Director	Marco Cammelli	4/29/2011	App. of 2013 fin. statements	m		X	X	X	88%	-			X	100%								
Director	Luigi Castagna	1/1/2011	App. of 2013 fin. statements	M		X	X	X	100%	-												
Director	Pier Giuseppe Dolcini	1/1/2011	App. of 2013 fin. statements	m		X	X	X	73%	-												
Director	Valeriano Fantini	4/29/2011	App. of 2013 fin. statements	M		X	X	X	75%	-												
Director	Enrico Giovannetti	4/29/2011	App. of 2013 fin. statements	m		X	X	X	100%	-												
Director	Fabio Giuliani	4/29/2011	App. of 2013 fin. statements	M		X	X	X	100%	-	X	100%										
Director	Luca Mandrioli	4/29/2011	App. of 2013 fin. statements	M		X	X	X	100%	-	X	83%										
Director	Nicodemo Montanari	4/29/2011	App. of 2013 fin. statements	M		X	X	X	100%	-			X	100%								
Director	Mauro Roda	4/29/2011	App. of 2013 fin. statements	M		X	X	X	100%	-												
Director	Roberto Sacchetti	1/1/2011	App. of 2013 fin. statements	M		X	X	X	100%	-												
Director	Rossella Saoncella	4/29/2011	App. of 2013 fin. statements	M		X	X	X	100%	-	X	100%										
Director	Bruno Tani	1/1/2011	App. of 2013 fin. statements	m		X	X	X	91%	-			X	100%								
Director	Giancarlo Tonelli	4/29/2011	App. of 2013 fin. statements	M		X	X	X	88%	-												
----- DIRECTORS LEAVING OFFICE DURING THE FINANCIAL YEAR CONCERNED -----																						
Director	Mauro Cavallini	1/1/2011	4/28/2011	LA		X	X	X	100%	-												
Director	Piero Collina	1/1/2011	4/28/2011	m		X	X	X	67%	1			X	100%								
Director	Ferruccio Giovanelli	1/1/2011	4/28/2011	LA		X	X	X	100%	-												
Director	Lanfranco Maggioli	1/1/2011	4/28/2011	LA		X	X	X	67%	-	X	100%										
Director	Alberto Marri	1/1/2011	4/28/2011	m		X	X	X	67%	1												
Director	Paolo Trombetti	1/1/2011	4/28/2011	LA		X	X	X	100%	-			X	100%								
Director	Daniele Montroni	1/1/2011	4/28/2011	LA		X	X	X	100%	-	X	100%										
Director	Francesco Sutti	1/1/2011	4/28/2011	LA		X	X	X	100%	-												
Director	Stefano Zolea	1/1/2011	4/28/2011	LA		X	X	X	100%	-	X	-										
Indicate the quorum required for the presentation of lists at the time of the last appointment: lists may be presented by shareholders who represent at least 1% of the shares carrying voting rights at Ordinary Shareholders' Meetings.																						
No. of meetings held during the financial year concerned				Board of Directors: 11				Internal Control Committee: 7			Remuneration Committee: 2			Appointments Committee: /			Executive Committee: 5			Ethics Committee: 0		

Notes

- *This column indicates LA/m/M according to whether the member was appointed by Local Authorities (LA), by a minority (m) or by a Majority (M).
- ** This column indicates the directors' percentage of attendance at the meetings of the Board of Directors and of the Committees (no. of attendances/no. of meetings held during the effective period of office of the person concerned).
- ** This column indicates the number of offices as director or statutory auditor held by the person concerned in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large enterprises
- *** In this column, an "X" indicates that the person concerned is a member of the Committee

Table 2: Structure of the Board of Statutory Auditors

Office	Member	In office since	In office until	List (M/m)*	Independence pursuant to Code	** (%)
Chairman	Sergio Santi	1-Jan-11	Approval of 2013 fin. statement	m	X	100%
Statutory Auditor	Dall'Olio Elis	29-Apr-11	Approval of 2013 fin. statement	M	X	100%
Statutory Auditor	Antonio Venturini	1-Jan-11	Approval of 2013 fin. statement	M	X	89%
Alternate Auditor	Ceccacci Stefano	1-Jan-11	Approval of 2013 fin. statement	m	X	-
Alternate Auditor	Picone Roberto	1-Jan-11	Approval of 2013 fin. statement	M	X	-
----- AUDITORS LEAVING OFFICE DURING THE FINANCIAL YEAR CONCERNED -----						
Statutory Auditor	Lolli Fernando	1-Jan-11	28-Apr-11	M	X	100%

Indicate the quorum required for the presentation of lists at the time of the last appointment:

Article 26 of the Articles of Association specifies that (i) Municipalities, Provinces and Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000 and the associates or the joint-stock companies controlled by the same may present a single list, other than those indicated in point (i) may present lists provided that they represent at least 3% of the shares with voting rights. Under the current legislation, this percentage is reduced to 2% (Consob Resolution no. 17633 dated 26/01/2011)

Number of meetings held during the financial year concerned: 18

Notes

* This column indicates M/m according to whether the member was elected from the list voted by the Majority (M) or by a minority (m).

** This column indicates the auditors' percentage of attendance at the meetings of the Board of Statutory Auditors (no. of attendances/no. of meetings held during the effective period of office of the person concerned).

*** This column indicates the number of offices as director or statutory auditor held by the person concerned pursuant to Article 148-bis of the TUF. The full list of offices is published by Consob on its website pursuant to Article 144-quinquiesdecies of the Consob Issuers' Regulation.

4.02 Remuneration report

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4.02 Remuneration report

Section I

1 Introduction

The fundamental principle which underpins the Group's culture and directs its choices is its commitment to combining economic and social value with the ultimate goal of satisfying the legitimate expectations of all stakeholders. Hera wants to be a business that stands the test of time and improves society and the environment for future generations to come.

The sense of responsibility that is the hallmark of its corporate culture and mission translates into an approach to remuneration that is similarly responsible. The remuneration policy was conceived as something that contributes to improving corporate performance and the creation of value in the medium to long-term.

In a context of responsible rewards, the Board of Directors, with the support of the Remuneration Committee, developed the Remuneration Policy adopted by the Hera Group for 2011, in the light of the recommendations set out in Article 6 of the Borsa Italiana Spa Code of Conduct.

This report, produced pursuant to Article 123-ter of Legislative Decree no. 58/1998 of the Consolidated Finance Act (TUF), illustrates the fundamental principles and features of the above-mentioned policy, with reference to the remuneration of the top management of the Group. Note that management with strategic responsibilities corresponds to the positions of General Manager of Operations and General Manager of Development & Market.

2 Scope of application

In compliance with the provisions of Annex 3A for the implementation of the TUF adopted by Consob through Resolution no. 11971 of 14 May 1999 ("Issuers' Regulations"), the remuneration policy described in this document applies to the members of the administrative bodies and to the General Managers.

The tables below illustrate the members of the Board of Directors and the Board of Statutory Auditors of Hera Spa, appointed at the Shareholders' Meeting on 29 April 2011, as well as the General Managers.

BOARD OF DIRECTORS	
Name and Surname	Office held
Tomaso Tommasi di Vignano	Chairman
Maurizio Chiarini	CEO
Giorgio Razzoli	Vice Chairman (independent)
Mara Bernardini	Director (independent)
Filippo Brandolini	Director (independent)
Luigi Castagna	Director (independent)
Pier Giuseppe Dolcini	Director (independent)
Roberto Sacchetti	Director (independent)
Bruno Tani	Director (independent)
Nicodemo Montanari	Director (independent)
Valeriano Fantini	Director (independent)
Rossella Saoncella	Director (independent)
Mauro Roda	Director (independent)
Luca Mandrioli	Director (independent)
Fabio Giuliani	Director (independent)
Enrico Giovannetti	Director (independent)
Marco Cammelli	Director (independent)
Giancarlo Tonelli	Director (independent)
BOARD OF STATUTORY AUDITORS	
Name and Surname	Office held
Sergio Santi	Chairman
Elis Dall'Olio	Statutory auditor
Antonio Venturini	Statutory auditor
Roberto Picone	Alternate auditor
Stefano Ceccacci	Alternate auditor
MANAGERS WITH STRATEGIC RESPONSIBILITIES	
Name and surname	Office held
Roberto Barilli	General Manager of Operations of Hera S.p.A.
Stefano Venier	General Manager of Development & Market of Hera S.p.A.

3 Governance Model

3.01 Remuneration policy definition and approval process

The Shareholders' Meeting decides the value of the fees for the Board of Directors.

The remuneration policy for Executive Directors is proposed to the Board of Directors by the Remuneration Committee. The Board of Directors then approves the remuneration for Executive Directors who are holders of mandates.

The CEO proposes policies for the General Managers and Group Directors to the Remuneration Committee, which expresses its opinion and puts forward the policies to the Board of Directors.

This process is supported, as far as the technical aspects are concerned, by the Group Director of Human Resources and Organisation, who takes care of the implementation of these policies.

Mr Enor Signorotto, Director of Executive Reward Services of the Hay Group, has been involved in the preparation of the remuneration policy in the capacity of independent expert.

3.02 Role, composition and responsibilities of the Remuneration Committee

The Remuneration Committee has the task of formulating proposals to the Board of Directors for the remuneration of the Chairman, Vice Chairman, CEO and General Managers, as well as based on the suggestions put forward by the CEO, for the adoption of general remuneration criteria for directors.

The Committee also regularly evaluates the adequateness, overall consistency and concrete application of the general policy adopted for the remuneration of Executive Directors and General Managers.

In carrying out its duties, the Remuneration Committee can access the necessary information and company functions for performing its tasks.

This Committee, initially set up at the meeting of the Board of Directors on 4 November 2002 and most recently, in its latest format, on 2 May 2011, comprises the following non-executive, independent directors: Giorgio Razzoli as Chairman, Bruno Tani, Marco Cammelli and Nicodemo Montanari. Note that at least one of the members of the Committee has experience in accounting and finance, deemed suitable by the Board of Directors at the time of appointment. The Chairman of the Board of Directors and the Group CEO may attend the Committee meetings upon express invitation of the Chairman of the Committee.

The Remuneration Committee met three times during 2011, and all members attended all meetings. On average, the meetings of the Remuneration Committee lasted between an hour and a half and two hours.

During the meetings held in 2011, which were minuted, subjects relating to remuneration policies, the final results for the balanced scorecard for 2010, 2011 guidelines for fixed and variable pay for directors, directors of subsidiaries and Hera Group directors and the remuneration of top management were all discussed.

4 Hera Group remuneration policy

4.1 Aims and Fundamental Principles

The Company defines and applies a General Policy on Remuneration designed to attract, motivate and retain resources which possess the professional qualities needed to effectively pursue the Group's objectives.

The Policy is defined in such a way as to align the interests of management with those of shareholders, with the main goal being the creation of sustainable value in the medium to long-term, through the consolidation of the link between reward and performance, both of individuals and the Group.

Within this context of responsible rewards, the guiding principles adopted for defining the remuneration policy for the top management are:

- constant reference to the external market, for the reference sector too, in order to check the consistency of the company's remuneration scheme, with the dual purpose of retaining directors and keeping down costs;
- focus on internal consistency between the level of remuneration offered and the complexity of the role performed;
- the use and constant updating of the methodology for evaluating offices, with the objective of guaranteeing standardised and consistent remuneration comparisons and analyses.

4.02 Correlation between remuneration, risk profile and company performance

The Hera Group has defined an integrated risk management and internal control system in relation to the financial information process pursuant to the provisions of Article 123-*bis*, paragraph 2, letter b) of the TUF.

This system is aimed at identifying, evaluating, managing and monitoring the main risks that could compromise the achievement of the objectives of dependability, accuracy, reliability and timeliness of financial information. The Hera System takes its inspiration from the internationally recognised COSO Framework reference model, for the analysis, implementation and evaluation of the risk management and internal control system.

In relation to the industry to which it belongs, the risk profile of the Hera Group is intermediately placed between operators which concentrate more on regulated activities and operators involved in the more risky business of production activities. Overall, the risk profile is very conservative.

The current remuneration offered is directed at preventing management from behaving in a way that would expose the company to excessive risks or the non-sustainability of the Group's results in the medium to long-term, in line with the risk profile undertaken.

Precisely in order to emphasise consistency with the risk profile, the current remuneration policy includes:

- a (variable remuneration) annual incentive plan based on a balanced scorecard system, with the objective of balancing the various perspectives of company stakeholders (reference shareholders, the market, institutional investors, customers, employees, the territory, etc.) with regard to the creation of value, sustainable performance and development of the dividend policy;
- in line with this risk profile, the maximum bonus that can be awarded is 30% of gross annual fixed remuneration for General Managers and 48% of gross annual fixed remuneration for Executive Directors, taking into account individual performance and the multiplier based on company results;
- still in line with the company's risk profile, the difference between the maximum value of the bonus and the value of the bonus for results on target is modest, equal to 20% (limited upside);

4.03 Balancing remuneration elements

The fundamental components of remuneration for Hera Group Directors are:

- fixed remuneration
- short-term variable remuneration
- non-monetary benefits.

Consistent with the very conservative risk profile, Hera has chosen not to proceed with granting highly volatile financial instruments, such as, for example, option rights, or other similar instruments. For the relative stability of business results and ex-post risks, the Company is not planning to include a variable component in the long-term.

The performance targets based on which the variable remuneration components are assigned are put to the Board of Directors by the Remuneration Committee. In the proposal, the Committee differentiates between short-term indicators and performance sustainability indicators and provides details of the link between variation in results and variation in remuneration.

The structure of the remuneration package envisaged for the various offices is defined with a view to balancing the fixed and variable components, taking the specific risk profile of the company into account.

5 Remuneration of Directors and General Managers

5.01 Non-executive Directors

The following different types of directors can be found within the Board of Directors:

- Executive Directors holding specific offices to whom specific powers are delegated;
- Directors not holding specific offices (hereinafter known as “Non-executive Directors”).

The current breakdown of the Hera Spa Board of Directors is as follows:

- Executive Directors: the Chairman of the Board of Directors Tomaso Tommasi di Vignano and the CEO Maurizio Chiarini;
- Non-executive Directors: the Vice Chairman of the Board of Directors Giorgio Razzoli, and Directors Mara Bernardini, Filippo Brandolini, Luigi Castagna, Pier Giuseppe Dolcini, Roberto Sacchetti, Bruno Tani, Nicodemo Montanari, Valeriano Fantini, Rossella Saoncella, Mauro Roda, Luca Mandrioli, Fabio Giuliani, Enrico Giovannetti, Marco Cammelli, Giancarlo Tonelli.

With regard to Non-executive Directors, following their appointment, the Shareholders’ Meeting on 29 April 2011 established that they would receive a gross annual payment of €50,000, in addition to reimbursement of living expenses sustained while carrying out their office.

The Board of Directors, with regard to the offices held by Directors in Group companies, as well as on the Remuneration and Internal Control Committees, decided to award these Directors a total sum of €25,000 gross per year.

The same Board of Directors decided, on 2 May 2011, to award the Vice Chairman a fixed annual sum of €100,000 for the duration of his office, which includes the indemnity due as a director and any other fees for offices held in Group companies.

Note that, in line with best practices and the instructions in the Corporate Governance Code, there are no provisions for a variable component in the payment of Non-executive Directors.

5.02 Executive Directors and General Managers

On 2 May 2011, the Board of Directors, resolved:

- with regard to the office of Chairman, the confirmation, for 2011, of fixed compensation equal to €350,000;
- with regard to the office of CEO, fixed compensation equal to €350,000 for 2011;

The Chairman, CEO and General Managers come under the scope of the remuneration policies defined for the top management of the company. They are based, as stated previously, on the weighting methods for the positions, remuneration and market comparisons and an incentive system based on the Balanced Scorecard system.

With reference to the weight of the variable component in relation to the fixed component, the following figures are of note:

- the Hera S.p.A. Board of Directors decided, for 2011, to award the Chairman and the CEO, a variable payment equal to 40% of the total gross fixed fees, if 100% of the targets defined by the Remuneration Committee were reached, with the results of 2010 taken as the reference.
- during the same meeting, the Board of Directors decided, for 2011, to award the General Manager of Operations and the General Manager of Development & Market a variable payment equal to 25% of the total gross fixed fees on reaching 100% of the targets, taking the results of 2010 as a reference.

The table below summarises the remuneration components awarded to the Directors and General Managers.

OFFICE	REMUNERATION PACKAGE COMPONENTS		
	Fixed Remuneration	Annual Variable Remuneration	Benefits
Chairman	✓	✓	✓
CEO	✓	✓	✓
Vice Chairman	✓		✓
Non-executive Directors	✓		✓
General Manager of Operations General	✓	✓	✓
General Manager of Development & Market	✓	✓	✓

6 Remuneration components

Currently, the typical remuneration components in Hera are:

6.01 Fixed remuneration

The fixed component of remuneration is usually determined by the professional specialisation and the organisational role plus related responsibilities. It is therefore a reflection of technical, professional and managerial skills.

Remuneration levels are decided based on a weighting system for positions and comparisons with the market. On the whole, the remuneration level is in the medium-low band for the market (first quartile/median). These market references, combined with performance evaluation, form the basis of individual remuneration reviews.

6.02 Short-term variable remuneration – The Balanced Scorecard system (BSC)

- **Recipients**

The scope of the Balanced Scorecard system extends to include all Hera S.p.A. and Group subsidiary company Directors and Executives. The scope includes 35 Directors and 82 Executives. There is a similar evaluation form planned for the Chairman and the CEO.

- **Incentive and objective definition process**

The short-term incentive system includes an individual Balanced Scorecard (BSC) for each of the recipients. Each BSC includes a series of objectives belonging to three evaluation areas:

- Project objective, defined according to the Group Strategic Map
- Economic objectives of the individual Budget Units, evaluated through economic-financial type indicators
- Discretionary evaluation, based on the extent of the adoption of the nine types of behaviour set out in the leadership model adopted by the Group

Each area is divided into a series of pre-set objectives, each with specific performance indicators. The relative weight of each area under the scope of the individual BSC is different for Directors and Executives, and corresponds to the total of the weight of the individual objectives belonging to the same area.

- **Performance measurement**

A target is defined for each objective. The amount of the reward to be paid to each recipient is determined according to whether the set targets are reached and the specific weight of the individual objective.

The result of the evaluation conducted using this individual Balanced Scorecard system is weighted through a company results profile which takes into account the performance recorded by the Group with reference, for 2011, to four parameters:

- EBITDA
- Net Profit
- Net Financial Position
- Customer Satisfaction Index

The target bonus to be paid to each individual is defined according to the performance profile achieved by the company. The range of the target bonus is between 40% and 120% depending on the degree of achievement of the targets in the year in question.

The maximum bonus that the Chairman and the CEO can receive is 48% of fixed remuneration, which breaks down as follows:

40% for results on target X company results multiplier equal to 1.2

The maximum bonus that the General Managers can receive is 30% of fixed remuneration, which breaks down as follows:

25% for results on target X company results multiplier equal to 1.2

The maximum bonus, expressed in percentage terms of gross annual fixed remuneration of the director, varies depending on the results of the incentive system and the office held by the manager, in a range between 17% and 30% of the individual gross annual remuneration.

The table below illustrates the mechanism for measuring accrued bonus:

A	Gross Annual Remuneration (GAR)
B	Target Bonus (% GAR)
C	Individual targets reached (% Target Bonus)
D	Weighting coefficient (corporate performance)
E	% Bonus paid = B x C x D (%)
€	Value of Bonus paid = A x E

With regard to transactions of strategic importance of an exceptional nature, with significant effects on the results of the company, the Board of Directors, following the proposal of the Remuneration Committee, can award discretionary bonuses to executive directors and management with strategic responsibilities.

6.03 Benefits

Non-monetary benefit packages include:

- mixed-use company car
- company telephone

In line with best practices, they also receive D&O Liability insurance cover against third parties in corporate bodies, in the performance of their duties, designed to indemnify the Group from expenses resulting from related compensation, as a result of the provisions established on the subject by the applicable national collective labour agreement and the regulations on the mandate, excluding cases of wilful misconduct or gross negligence.

The following policies have been covered:

- an accident policy that covers both professional activities and non work-related events: the policy covers the insured for economic compensation that is commensurate with the degree of permanent invalidity, an allowance for temporary disability and cover for medical expenses.
- a permanent disability policy (only for the directors) which pays the insured economic compensation commensurate with the degree of permanent disability resulting from the illness.
- a temporary life insurance policy which pays the heirs compensation if the insured dies.

7 Compensation for cases of resignation, lay-off or termination of the employment relationship

There are agreements in place between the company and the Chairman of the Board of Directors and the CEO which stipulate the payment, if the employment relationship were to end before the due date, subject to the assumption of just cause, of an amount by way of compensation for damages equal to what they would have received as payment until the end of the mandate.

With the exception of the above provision, there are no agreements for cases of early termination of the employment relationship.

Section II

Introduction

This section of the report illustrates the items that make up the remuneration of members of the administrative and control bodies, as well as General Managers, with the aim of highlighting the consistency with the General Policy described in Section I.

With reference to the remuneration policies for Directors, it should be noted that, before the resolution of the Board of Directors which established the policy currently in force, there were provisions, with regard to the offices held by Directors under the scope of Group Companies, as well as on the Remuneration and Internal Control Committees, to pay the directors involved a figure of €25,000 gross per year, in the case of a single office, and a total payment of €50,000 gross per year, in the case of two or more offices.

From 1 May 2011, payment for offices held by Directors under the scope of Group Companies, as well as on the Remuneration and Internal Control Committees, with the exception of the Chairman, the CEO and the Vice Chairman, was reduced to €25,000 gross per year.

The remuneration policy for the CEO was also modified during the course of 2011. The employment relationship was interrupted in favour of the accrual of pension rights, and for this reason, a total payment pertaining to the Administration role was made equal to €350,000 (in the absence of any employee remuneration component).

The fixed payment for the Vice Chairman was reduced from €120,000 to €100,000 per year.

Each figure also received a bonus in 2011, related to the degree of achievement of the targets set in the previous year.

1 Description of the compensation paid to Directors and General Managers

This section contains the details of payments made during 2011, with reference, as far as the variable part is concerned, to the accrual criterion.

The following aspects are highlighted:

Chairman

The fixed payments for Tomaso Tommasi di Vignano are exclusively made up of fees from the Administration role. Note that during 2011 he received a bonus with regard to the results of the previous year, equal to €117,600, following the achievement of an overall performance index of 112%.

CEO

The fixed payment of Maurizio Chiarini is made up of a fee for the Administration role and a gross annual remuneration equal to €79,472 with regard to the part of the year during which the CEO was an employee of the company. With reference to the same period, Mr Chiarini received €35,987 as payment for holidays accrued but not taken as an Executive of Hera S.p.A.

Note that during 2011 he received a bonus with regard to the results of the previous year, equal to €119,361 , following the achievement of an overall performance index of 112%.

Vice Chairman

Giorgio Razzoli only received a fixed payment of €106,667 as the fee for his office.

Non-executive Directors

Mara Bernardini, Filippo Brandolini, Luigi Castagna, Pier Giuseppe Dolcini, Roberto Sacchetti, Bruno Tani, Nicodemo Montanari, Valeriano Fantini, Rossella Saoncella, Mauro Roda, Luca Mandrioli, Fabio Giuliani, Enrico Giovannetti, Marco Cammelli, Giancarlo Tonelli, Mauro Cavallini, Piero Collina, Ferruccio Giovanelli, Lanfranco Maggioli, Alberto Marri, Francesco Sutti, Stefano Zolea, Daniele Montroni and Paolo Trombetti received fixed payment for the office of Directors and a further payment for their involvement in Committees or as Directors of subsidiaries or associated companies, as set out in the Group remuneration policy (taking into account the changes that took place in 2011, described in this section of the report). The compensation of Non-executive Directors is completed by several non-monetary benefits.

General Manager of Operations

The General Manager of Operations, Roberto Barilli, received compensation of €320,094 in the form of gross annual remuneration as a director. Note that during 2011 he received a bonus with regard to the results of the previous year, equal to €86,382, following the achievement of an overall performance index of 112%.

General Manager of Development & Market

The General Manager of Development & Market, Stefano Venier, received compensation equal to €317,981 in the form of gross annual remuneration as a director. Note that during 2011 he received a bonus with regard to the results of the previous year, equal to €85,220 , following the achievement of an overall performance index of 112%.

Statutory Auditors

The members of the Board of Statutory Auditors received fixed compensation for the office of Auditor determined by the Shareholders' Meeting.

TABLE 1: Compensation paid to members of administrative and control bodies, General Managers and other management with strategic responsibilities.

Administrative body

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Tomaso Tommasi di Vignano	Chairman	01.01.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				350,000		117,600		6,046	2,190	475,836		
(II) Payments from subsidiaries and associated companies												
(III) Total				350,000		117,600		6,046	2,190	475,836		
<i>Notes</i>												

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Maurizio Chiarini	CEO	01.01.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				353,110		119,361		8,022	37,750	518,243		
(II) Payments from subsidiaries and associated companies												
(III) Total				353,110		119,361		8,022	37,750	518,243		
Notes				I) of which: - €273,638 as fee for office of CEO - €79,472 as Gross Annual Remuneration for the period 01.01.2011 – 03.05.2011.					I) it includes the payment for holidays accrued but not taken as Director of Hera S.p.A. (period 01.01.2011 – 03.05.2011)			

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Giorgio Razzoli	Vice Chairman	01.01.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				106,667				4,608		111,275		
(II) Payments from subsidiaries and associated companies												
(III) Total				106,667				4,608		111,275		
Notes												

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Mara Bernardini	Director	01.01.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				50,000	8,333			575		58,908		
(II) Payments from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000	8,333			575		83,908		
Notes				II) for offices held in Group companies	I) as member of the Remuneration Committee (period 01.01.2011 – 28.04.2011)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Filippo Brandolini	Director	01.01.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				50,000				3,513	1,812	55,325		
(II) Payments from subsidiaries and associated companies				33,333						33,333		
(III) Total				83,333				3,513	1,812	88,658		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Luigi Castagna	Director	01.01.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				50,000				1,453		51,453		
(II) Payments from subsidiaries and associated companies				33,333						33,333		
(III) Total				83,333				1,453		84,786		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Pier Giuseppe Dolcini	Director	01.01.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				50,000				2,880		52,880		
(II) Payments from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000				2,880		77,880		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Roberto Sacchetti	Director	01.01.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				50,000				3,618	1,470	55,088		
(II) Payments from subsidiaries and associated companies				33,333						33,333		
(III) Total				83,333				3,618	1,470	88,421		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Bruno Tani	Director	01.01.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				50,000	16,667			1,124		67,791		
(II) Payments from subsidiaries and associated companies				8,333						8,333		
(III) Total				58,333	16,667			1,124		76,124		
Notes				II) for offices held in Group companies	I) as member of the Remuneration Committee (period 01.05.2011 – 31.12.2011)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Nicodemo Montanari	Director	29.04.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				33,333	16,667			4,460	728	55,188		
(II) Payments from subsidiaries and associated companies												
(III) Total				33,333	16,667			4,460	728	55,188		
Notes					I) as member of the Remuneration Committee (period 01.05.2011 – 31.12.2011)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Valeriano Fantini	Director	29.04.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				33,333						33,333		
(II) Payments from subsidiaries and associated companies				16,667						16,667		
(III) Total				50,000						50,000		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Rossella Saoncella	Director	29.04.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				33,333	16,667			298		50,298		
(II) Payments from subsidiaries and associated companies												
(III) Total				33,333	16,667			298		50,298		
Notes					I) as member of the Internal Control Committee (period 01.05.2011 – 31.12.2011)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Mauro Roda	Director	29.04.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				33,333				495		33,828		
(II) Payments from subsidiaries and associated companies				16,667						16,667		
(III) Total				50,000				495		50,495		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Luca Mandrioli	Director	29.04.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				33,333	16,667			338		50,338		
(II) Payments from subsidiaries and associated companies												
(III) Total				33,333	16,667			338		50,338		
Notes					I) as member of the Internal Control Committee (period 01.05.2011 – 31.12.2011)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Fabio Giuliani	Director	29.04.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				33,333	16,667			462		50,462		
(II) Payments from subsidiaries and associated companies												
(III) Total				33,333	16,667			462		50,462		
Notes					I) as member of the Internal Control Committee (period 01.05.2011 – 31.12.2011)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Enrico Giovannetti	Director	29.04.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				33,333				719		34,052		
(II) Payments from subsidiaries and associated companies				16,667						16,667		
(III) Total				50,000				719		50,719		
<i>Notes</i>				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Marco Cammelli	Director	29.04.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				33,333	16,667			1,070		51,070		
(II) Payments from subsidiaries and associated companies												
(III) Total				33,333	16,667			1,070		51,070		
Notes					I) as member of the Remuneration Committee (period 01.05.11 – 31.12.2011)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Giancarlo Tonelli	Director	29.04.2011 - 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				33,333				477		33,810		
(II) Payments from subsidiaries and associated companies				16,667						16,667		
(III) Total				50,000				477		50,477		
<i>Notes</i>				II) for offices held in Group companies								

Directors no longer in office following the change in the administrative body at the Shareholders' Meeting on 29 April 2011

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Mauro Cavallini	Director	01.01.2011 - 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				16,667				236		16,903		
(II) Payments from subsidiaries and associated companies				8,333						8,333		
(III) Total				25,000				236		25,236		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Piero Collina	Director	01.01.2011 - 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				16,667	8,333			1,500		26,500		
(II) Payments from subsidiaries and associated companies												
(III) Total				16,667	8,333			1,500		26,500		
Notes					I) as member of the Remuneration Committee (period 01.01.11 – 28.04.11)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Ferruccio Giovanelli	<i>Director</i>	01.01.2011 - 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				16,667				339		17,006		
(II) Payments from subsidiaries and associated companies				8,333						8,333		
(III) Total				25,000				339		25,339		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Lanfranco Maggioli	Director	01.01.2011 - 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				16,667	8,333			312		25,312		
(II) Payments from subsidiaries and associated companies												
(III) Total				16,667	8,333			312		25,312		
Notes					I) as member of the Internal Control Committee (period 01.01.11 – 28.04.11)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Alberto Marri	Director	01.01.2011 - 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				16,667				312		16,979		
(II) Payments from subsidiaries and associated companies				8,333						8,333		
(III) Total				25,000				312		25,312		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Francesco Sutti	Director	01.01.2011 - 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				16,667						16,667		
(II) Payments from subsidiaries and associated companies				8,333						8,333		
(III) Total				25,000						25,000		
Notes				II) for offices held in Group companies								

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Stefano Zolea	Director	01.01.2011 - 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				16,667	8,333					25,000		
(II) Payments from subsidiaries and associated companies				8,333						8,333		
(III) Total				25,000	8,333					33,333		
Notes				II) for offices held in Group companies	I) as member of the Internal Control Committee (period 01.01.11 – 28.04.11)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Daniele Montroni	Director	01.01.2011 - 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				16,667	8,333			205		25,205		
(II) Payments from subsidiaries and associated companies												
(III) Total				16,667	8,333			205		25,205		
Notes					I) as member of the Internal Control Committee (period 01.01.11 – 28.04.11)							

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Paolo Trombetti	Director	01.01.2011 - 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				16,667	8,333			619		25,619		
(II) Payments from subsidiaries and associated companies												
(III) Total				16,667	8,333			619		25,619		
Notes					I) as member of the Remuneration Committee (period 01.01.11 – 28.04.11)							

Controlling body

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Sergio Santi	Chairman of the Board of Statutory Auditors	01.01.2011 – 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				120,000				2,160		122,160		
(II) Payments from subsidiaries and associated companies												
(III) Total				120,000				2,160		122,160		
<i>Notes</i>												

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Elis Dall'Olio	Statutory Auditor	29.04.2011 – 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				53,333				200		53,533		
(II) Payments from subsidiaries and associated companies												
(III) Total				53,333				200		53,533		
<i>Notes</i>												

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Antonio Venturini	Statutory Auditor	01.01.2011 – 31.12.2011	Approval of Financial Statements at 31.12.2013									
(I) Payments in the company preparing the financial statements				80,000				516		80,516		
(II) Payments from subsidiaries and associated companies												
(III) Total				80,000				516		80,516		
<i>Notes</i>												

Auditors no longer in office following the change in the controlling body at the Shareholders' Meeting on 29 April 2011

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Fernando Lolli	Statutory Auditor	01.01.2011 – 28.04.2011	Approval of Financial Statements at 31.12.10									
(I) Payments in the company preparing the financial statements				26,667						26,667		
(II) Payments from subsidiaries and associated companies												
(III) Total				26,667						26,667		
<i>Notes</i>												

General Managers

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Roberto Barilli	<i>General Manager of Operations</i>	01.01.2011 - 31.12.2011										
(I) Payments in the company preparing the financial statements				320,094		86,382		15,758		422,234		
(II) Payments from subsidiaries and associated companies												
(III) Total				320,094		86,382		15,758		422,234		
Notes												

Name and surname	Office	Duration of office	Expiry of office	Fixed payments	Payments for participation in committees	Non equity variable payments		Non-monetary benefits	Other payments	Total	Fair value of equity payments	End of office or termination of employment relationship severance indemnity
						Bonus and other incentives	Share in profits					
Stefano Venier	<i>General Manager of Development & Market</i>	01.01.2011 - 31.12.2011										
(I) Payments in the company preparing the financial statements				317,981		85,220		16,187		419,388		
(II) Payments from subsidiaries and associated companies												
(III) Total				317,981		85,220		16,187		419,388		
Notes												

Table 3B: Monetary incentive plans for members of the administrative body, General Managers and other management with strategic responsibilities

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Payable/Paid	Deferred	Deferment period	No longer to be paid	Payable/Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard System (related approval date)	117,600						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total			117,600						

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
Chiarini Maurizio	CEO		Payable/Paid	Deferred	Deferment period	No longer to be paid	Payable/Paid	Still deferred	
Payments in the company preparing the financial statements	Balanced Scorecard System (related approval date)		119,361						
	Plan B (related approval date)								
	Plan C (related approval date)								
Payments from subsidiaries and associated companies	Plan A (related approval date)								
	Plan B (related approval date)								
Total			119,361						

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
Barilli Roberto	General Manager of Operations		Payable/Paid	Deferred	Deferment period	No longer to be paid	Payable/Paid	Still deferred	
Payments in the company preparing the financial statements	Balanced Scorecard System (related approval date)		86,382						
	Plan B (related approval date)								
	Plan C (related approval date)								
Payments from subsidiaries and associated companies	Plan A (related approval date)								
	Plan B (related approval date)								
Total			86,382						

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Payable/Paid	Deferred	Deferment period	No longer to be paid	Payable/Paid	Still deferred	
Venier Stefano	General Manager of Development & Market								
Payments in the company preparing the financial statements		Balanced Scorecard System (related approval date)	85,220						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total			85,220						

Surname and Name	Office in Hera S.p.A.	Subsidiary	No. of shares owned at the end of the previous year	No. of shares bought	No. of shares sold	No. of shares owned at the end of the current year
Tomaso Tommasi di Vignano (1)	Chairman	Hera S.p.A.	20,000	-	-	20,000
Maurizio Chiarini (5)	CEO	Hera S.p.A.	-	39,200	-	39,200
Giorgio Razzoli	Vice Chairman	Hera S.p.A.	-	-	-	-
Mara Bernardini	Director	Hera S.p.A.	17,400	-	-	17,400
Filippo Brandolini	Director	Hera S.p.A.	-	-	-	-
Marco Cammelli (in office from 29.04.2011) (6)	Director	Hera S.p.A.	-(6)	-	-	-
Luigi Castagna (2)	Director	Hera S.p.A.	54,000	6,000	-	60,000
Mauro Cavallini (in office until 28.04.2011)	Director	Hera S.p.A.	-	-	-	-(4)
Piero Collina (in office until 28.04.2011)	Director	Hera S.p.A.	-	-	-	-(4)
Pier Giuseppe Dolcini	Director	Hera S.p.A.	2,750	-	-	2,750

Surname and Name	Office in Hera S.p.A.	Subsidiary	No. of shares owned at the end of the previous year	No. of shares bought	No. of shares sold	No. of shares owned at the end of the current year
Valeriano Fantini (in office from 29.04.2011) (6)	Director	Hera S.p.A.	5,000 (6)	-	22,000	27,000
Ferruccio Giovanelli (in office until 28.04.2011)	Director	Hera S.p.A.	-	-	-	-(4)
Enrico Giovannetti (in office from 29.04.2011) (6)	Director	Hera S.p.A.	-(6)	-	-	-
Fabio Giuliani (in office from 29.04.2011) (6)	Director	Hera S.p.A.	-(6)	-	-	-
Lanfranco Maggioli (in office until 28.04.2011)	Director	Hera S.p.A.	500	-	-	500 (4)
Luca Mandrioli (in office from 29.04.2011) (6)	Director	Hera S.p.A.	-(6)	-	-	-
Alberto Marri (in office until 28.04.2011) (7)	Director	Hera S.p.A.	5,800,000	950,000	-	6,750,000 (4)

Surname and Name	Office in Hera S.p.A.	Subsidiary	No. of shares owned at the end of the previous year	No. of shares bought	No. of shares sold	No. of shares owned at the end of the current year
Nicodemo Montanari (in office from 29.04.2011) (3) (6)	Director	Hera S.p.A.	43,500 (6)	10,500	-	54,000
Daniele Montroni (in office until 28.04.2011)	Director	Hera S.p.A.	2,750	-	-	2,750 (4)
Mauro Roda (in office from 29.04.2011) (6)	Director	Hera S.p.A.	-(6)	-	-	-
Roberto Sacchetti	Director	Hera S.p.A.	-	-	-	-
Rossella Saoncella (in office from 29.04.2011) (6)	Director	Hera S.p.A.	-(6)	-	-	-
Francesco Sutti (in office until 28.04.2011)	Director	Hera S.p.A.	-	-	-	-(4)
Bruno Tani	Director	Hera S.p.A.	35,000	75,000	-	110,000
Giancarlo Tonelli (in office from 29.04.2011) (6)	Director	Hera S.p.A.	-(6)	-	-	-

Surname and Name	Office in Hera S.p.A.	Subsidiary	No. of shares owned at the end of the previous year	No. of shares bought	No. of shares sold	No. of shares owned at the end of the current year
Paolo Trombetti (in office until 28.04.2011)	Director	Hera S.p.A.	-	-	-	-(4)
Stefano Zolea (in office until 28.04.2011)	Director	Hera S.p.A.	-	-	-	-(4)
Sergio Santi	Chairman of the Board of Statutory Auditors	Hera S.p.A.	20,000	8,100	-	28,100
Elis Dall'Olio (in office from 29.04.2011) (6)	Member of the Board of Statutory Auditors	Hera S.p.A.	-(6)	13,300	-	13,300
Antonio Venturini	Member of the Board of Statutory Auditors	Hera S.p.A.	-	-	-	-
Fernando Lolli (in office until 28.04.2011)	Member of the Board of Statutory Auditors	Hera S.p.A.	-	-	-	-(4)
Roberto Barilli	General Manager of Operations	Hera S.p.A.	-	-	-	-
Stefano Venier	General Manager of Development & Market	Hera S.p.A.	-	-	-	-

(1) indirect possession through spouse (2) of 60,000 shares held, 1,950 are held by the spouse (3) of the 54,000 shares held, 30,000 are held by the spouse (4) shares held at 28.04.2011, date of the termination of office (5) of the 39,200 shares held, 15,000 are held by the spouse (6) shares held at 29.04.2011, date of appointment (7) shares held through a third-party company.



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