HERA GROUP CONSOLIDATED FINANCIAL REPORT

AS AT 31ST DECEMBER 2013

Focus on figures and performance numbers, results and key indicators.

4.5 *billion*

REVENUES

Revenues from supplied services go up, totalling 4,579.7 million

830.7 *million*

EBITDA

Ebitda from business activities goes up once again, totalling 830.7 million

+38.9 %

HERA NET PROFIT

The increasecompared to year 2012

GRUPPO HERA

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CHAPTER 0

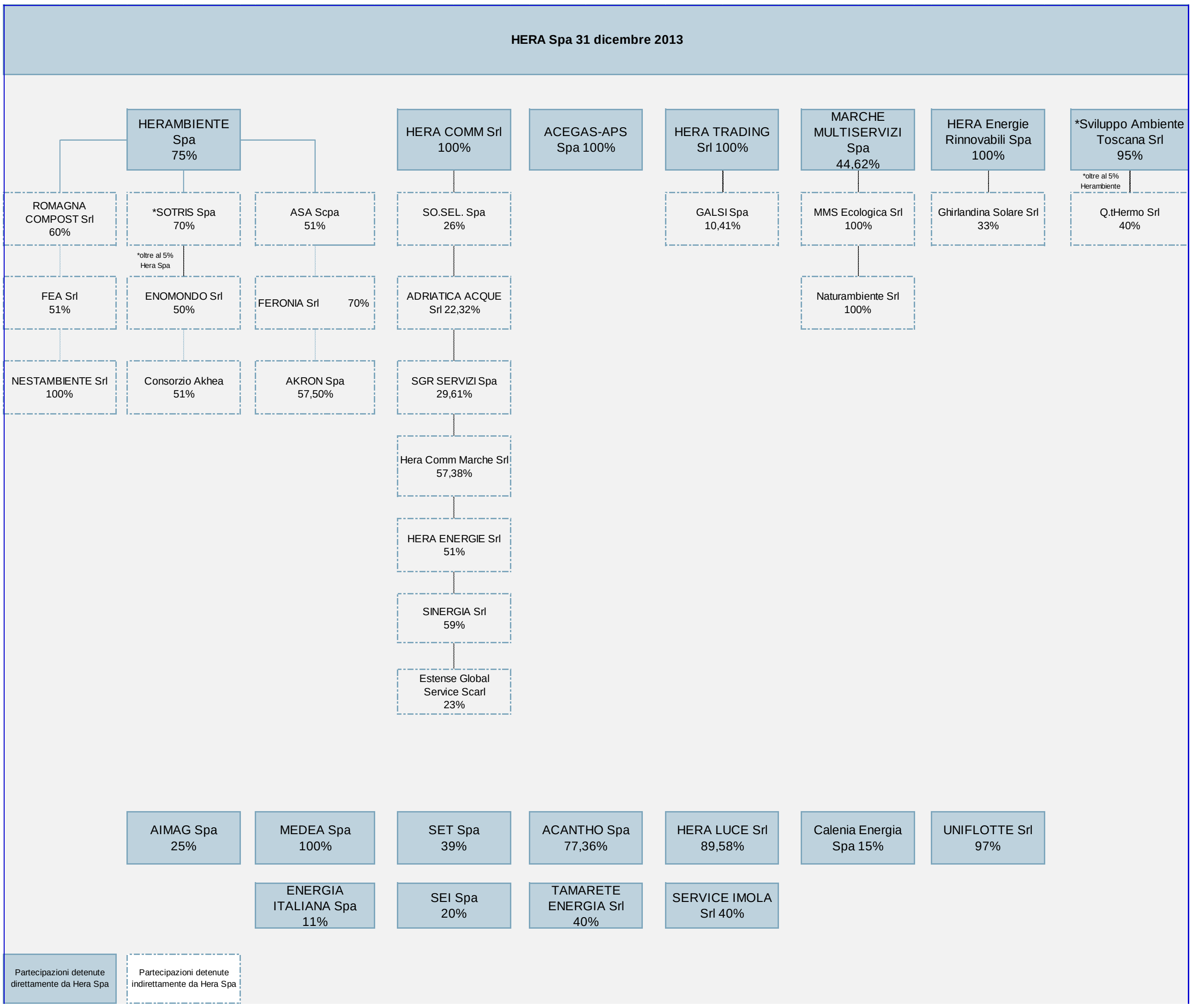
Introduction

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 to be the best means to represent a reason for pride and trust for*: customers, who receive, thanks to Hera's constant 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 of the principles of social responsibility****; the reference areas,*** *because economic, social and environmental health represent the promise of a sustainable future; and* ***suppliers,*** *key elements in the value chain and partners for growth".*

Group Structure

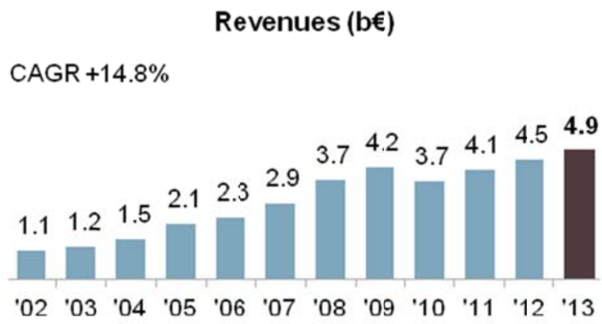


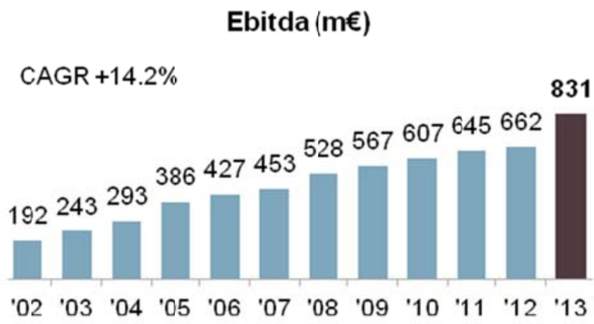
Governance and control bodies

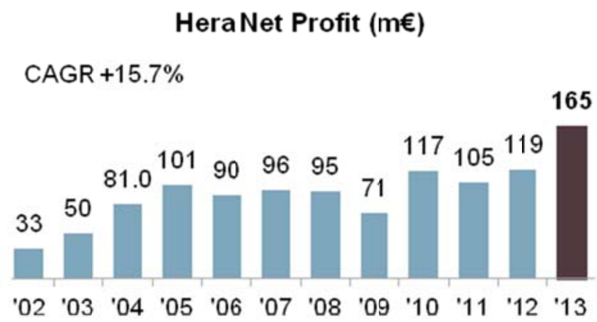
Board of Directors	
Chairman	Tomaso Tommasi di Vignano
Vice-Chairman	Giorgio Razzoli
CEO	Maurizio Chiarini
Director	Mara Bernardini
Director	Filippo Brandolini
Director	Marco Cammelli
Director	Luigi Castagna
Director	Pier Giuseppe Dolcini
Director	Valeriano Fantini***
Director	Enrico Giovannetti
Director	Fabio Giuliani
Director	Luca Mandrioli
Director	Daniele Montroni****
Director	Stefano Manara*****
Director	Mauro Roda
Director	Roberto Sacchetti
Director	Rossella Saoncella
Director	Bruno Tani
Director	Giancarlo Tonelli
Director	Giovanni Perissinotto*
Director	Cesare Pillon*
Board of Statutory Auditors	
Chairman	Sergio Santi
Standing Auditor	Antonio Venturini
Standing Auditor	Elis Dall'Olio
Internal Control Commitee	
Chairman	Giorgio Razzoli
Member	Fabio Giuliani
Member	Luca Mandrioli
Member	Rossella Saoncella
Remuneration Commitee	
Chairman	Giorgio Razzoli
Member	Marco Cammelli
Member	Daniele Montroni****
Member	Stefano Manara*****
Member	Bruno Tani
Executive Commitee	
Chairman	Tomaso Tommasi di Vignano
Vice-Chairman	Giorgio Razzoli
Member	Maurizio Chiarini
Member	Giovanni Perissinotto**
Ethics Commitee	
Chairman	Giorgio Razzoli
Member	Filippo Bocchi
Member	Mario Viviani
Indipendent auditing firm	
	PricewaterhouseCoopers

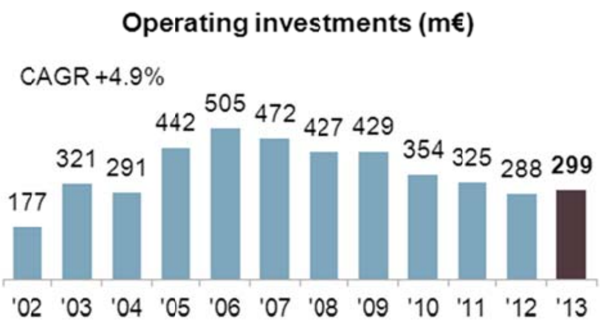
** In office since 1 January 2013 ** In office since 24 January 2013 *** Died 18 March 2013 ****Resigned 14 March 2013 **** In office since 28 August 2013*

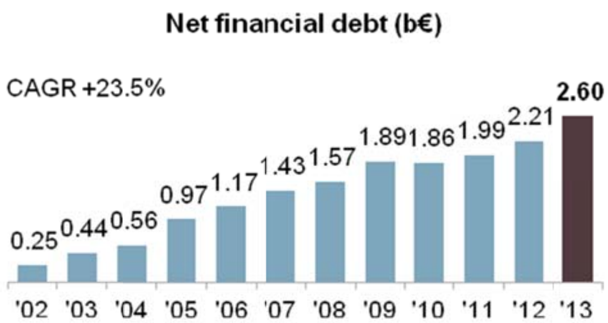
Key financial information

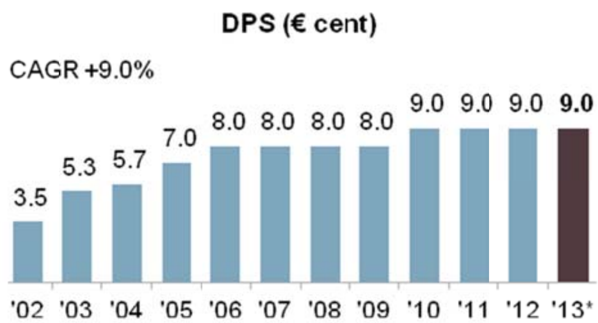












*to be approved by the GSM on 23 april 2014

The expansion of the Hera Group

After 11 years of uninterrupted growth, in 2013 the Hera Group underwent a further evolution that enabled it to substantially reinforce its assets in all of the activities managed by the Group.
Hera in fact aggregated the Acegas Aps Group, expanding the area in which it operates to encompass a territory that extends from the border with Slovenia to the northern part of the Marche region, covering most of the Adriatic coast. Hera is now present in four regions (Marche, Emilia-Romagna, Veneto and Friuli) and has an annual turnover of 4.9 billion Euro. The economic and patrimonial size of the Group are now more than 4 times larger than its initial configuration; it employs over 8,500 people and enjoys one of the largest capitalisations in the multi-utility sector across the Country.
The company has become the most relevant player in its sector in Veneto and Friuli, where a further process of growth is expected through the consolidated aggregation model that the Group has gradually perfected in the over 20 operations carried out in 12 years, leading to a reduction of the fragmentary nature of utility companies, notable still today in comparison with European standards.

The aggregation with Acegas Aps was completed in 2013 following a successful public tender and exchange offer (OPAS), which was launched at the beginning of the financial year and came to a conclusion in the second quarter, when full control of the shares was reached and Acegas Aps shares were de-listed from the stock market. The positive conditions that emerged from the aggregation concern both the implied and derived multiples and the two Groups' synergistic potential. The collaboration offered by Acegas Aps' management, shown since the first part of the financial year, along with Hera's consolidated experience in integrating other companies, allowed the quinquennial targets in foreseen potential synergies to be increased (with value creation for shareholders) from 25 to 30 million Euro in terms of a greater EBITDA through 2017.
Just a few months after the integration with Acegas Aps, two further external growth operations were launched that led the Group to develop the area it covers in Friuli. The first operation concerns the dissolution of the Acegas Aps – ENI joint venture for gas and electricity distribution and sales in Gorizia. With the dissolution of this joint venture, Acegas Aps ceded its minority equity investment (equal to 30%) in energy sales to ENI, while taking full control of the area's gas and electricity distribution networks. The second operation concerns the aggregation of the multi-utility AMGA Udine, through the acquisition of 100% of the Company. This operation is presently being approved, and will be completed within the first half of the current financial year.

In line with the experience Hera has gained since its establishment, all of the recent territorial expansion operations (in Trieste, Padua, Gorizia and Udine) will give the Group's directors the responsibility of managing the integration of the activities acquired within the Group. This will bring about a greater exploitation of economies of scale and a further improvement in efficiency, with a consequent extraction of value for the main stakeholders.

The growth described above has been financed by the emission of new shares, as foreseen by Hera's integration model, in which the balance between different categories of shareholders remains unchanged and diversification is increased over a larger number of public and private shareholders.
At the end of the 2013 financial year, Hera implemented a capital increase of roughly 78.5 million shares, giving shareholders the right to opt in (for 5.5% of the number of shares post-increase), in order to sustain the Group's future growth. The capital increase has been fully undersigned, with an large participation of private investors, including international ones. The favourable reception met by this operation allowed the share's performance to continue in its positive trend after the capital increase.

Strategic approach and business plan

Hera's strategic objective has always consisted in the creation of value from a multi-stakeholder perspective over the medium and long term, by competing efficaciously in liberalised markets and acting in regulated markets. The Group's objective is to replicate an original business model intended to expand itself in primary services and manage them in an increasingly efficient manner, in order to satisfy the main stakeholders. This strategy has continued to sustain uninterrupted growth in results since 2002, by relying on Hera's strong points, which consist in an "open" organisational model able to produce both an efficient increase in size through external lines and to become more *efficient* by extracting synergies from aggregation processes. This has allowed the Group to reach a position of national leadership in some of its business areas, including the waste sector, and to ensure its loyal and extensive customer base that is concentrated in the main reference area.
The Group's strategic imperative is to preserve its customer base by giving great attention to service quality, after-sales support service and an integrated offer of a complete set of multi-business portfolio's primary services (with traditional services including gas, water, waste and electricity). Furthermore, development strategies have been aimed at maintaining a balance between these various activities, in order to conserve a low variability profile as regards the Group's results.
Hera's business plan has been articulated into five priorities, which have led the Group's management along a continuous and linear path throughout its first eleven-year period:

- Pursuing a process of extracting synergies from business aggregations, through a complete integration of the companies incorporated into Hera, applying an industrial model of efficient activity management;

- Implementing the plan for large plant construction and the development of distribution networks, balancing the infrastructural growth of all its businesses so as to increase the efficiency and quality of services;

- Preserving a solid economic-financial profile with contained operative risks, capable of reassuring stakeholders as to the creation of value in the long term;

- Pursuing opportunities (activities in growth through external lines) in liberalised sectors (waste processing, energy sales and generation), both to consolidate its leadership in the environmental sector and to expand, in a defensive perspective, the offer to its current customer base with energy services in line with the development directives pursued by large international groups;

- According to a rationale of territorial proximity, applying Hera's aggregation model for multi-utility businesses in neighbouring areas, focused on compatible activities and with economic-financial profiles capable of maintaining the Group's financial soundness.

To ensure higher operative efficiency and a greater exploitation of economies of scale, after the merger, each business has been integrated into the original model based on an industrial holding company. At the same time, "direct operational supervision" of all local territories has been ensured, to preserve the crucial competitive advantages deriving from customer proximity and local roots.

The strategy of focusing on core activities led to a rationalisation of the portfolio, a consequent disposal of minor businesses and a corporate rationalisation involving a much thinner organisation, which currently responds better to the Group's industrial management rationale.
The Group's development strategies in energy businesses have been aimed at consolidating its significant position in main sectors (gas distribution and sales) across its reference area, both by improving networks and service quality and by implementing after-sales support services. The dual-fuel strategy, an expansion of the offer of electricity services to existing customers, was supported by a parallel and prudent upstream strategy of self-generation development, complementary to market procurement sources. All of this allowed a low risk exposure to be maintained in this business sector as well.

In the waste disposal market, in which Hera is the market leader in Italy, strategies were aimed at strengthening the plant structure in the light of sustainable management and respect for the environment. In a sector featuring seriously underdeveloped infrastructures, the Group's goal was to develop a fully integrated plant system, capable of reusing waste materials and extracting value from waste, through a policy of adequate investments and a rationalisation of operative activities.

These underlying strategies, considering the forms they take with respect to the new reference scenario, have been confirmed once again in the 2013-2017 business plan (presented in October 2013). Expectations for future growth rest primarily on the continuation of efficiency improvement processes, the completion of the Acegas Aps merger, predictable further expansion by way of external growth lines that have already been identified and set under way, and, lastly, continuity of the Group's expansion strategies in liberalised markets.

The foreseen growth satisfies the strategic objective of maintaining a policy of constant dividend distribution over the entire length of the plan.
The strategies contained in the Business Plan through 2017 have been well received by investors and financial analysts, and represent a prefect continuity with the rationale applied in the past as to the Group's management, showing at the same time a clear guideline for development that responds to the changes that have been introduced in current systems and that are foreseen for the coming years. Hera continues in its strategy of defending the position it has reached in regulated activities, above all in preparation for the expiry of the concessions.

Thanks to the positive organic growth and the extraction of further synergies, at the conclusion of the 2013 financial year Hera has recorded a tangible achievement of the objectives contained in the outlook of the Business Plan through 2017.

Business sectors

The Group has managed a multi-business portfolio ever since its establishment, with the intent of drawing the greatest possible value from its vast and loyal customer base across the area served. Its management strategies have been aimed at rationalising its various sectors, with the attention concentrated on the more consolidated ones and those that are more important for its customer base. Both regulated activities such as energy distribution, water services and collection/disposal (or lesser activities marked by long-term contracts with high stability in future results such as public lighting and TLC) and free market activities have been developed in a focused way. The portfolio's asset at the end of the financial year shows a substantial balance, by now consolidated over time, between regulated (57%) and liberalised (43%) components. This will allow a low risk profile to be maintained in the future as well, while at the same time guaranteeing good opportunities for growth in markets in which the Group possesses competitive advantages.

This variegated asset has contributed to the Group's continuous growth over the past few years, effectively countering the prolonged period of macro-economic crisis witnessed in the last five years. A balanced portfolio has been maintained even during recent aggregations, in that the groups involved were similar to Hera and focused on the same core activities. These aggregations have therefore maintained its mixed portfolio, both in order to reinforce the Group's competitive position in the activities managed, and to create efficacious and concentrated initiatives towards synergy and value creation.

Hera is the leading domestic operator in the environment sector by quantity of waste treated.
Waste collection, regulated by concession contracts, has expanded over the years through subsequent company mergers, eventually covering all of the areas from Modena to Pesaro-Urbino and, more recently, a few areas of the Friuli and Veneto regions. Thanks to a constant rise in customer awareness and the support of local authorities, Hera's urban waste collection system is oriented towards a progressive increase in the recovery of materials and energy. Sorted waste collection in fact allows glass, paper, plastic, metals, electronic waste and biomasses to be recycled efficiently, with direct benefits in environmental protection. The remainder of urban waste materials, collected with non-sorted methods, is almost entirely disposed of through the extraction of its energy content in waste to energy plants. This efficient system has notably contributed to decreasing the amount of waste disposed of in landfills, reaching the same standards found in the most advanced European countries.
Following the aggregation with Acegas Aps, the volume of urban waste treated has increased, leading to benefits for the Group in terms of reinforced assets and management strategies.

Waste treatment and disposal activities, managed in the free market system, have also benefited from the significant expansion and renovation of the asset base. In 2011 a multi-year plan for modernising 8 plants was completed, to which one WTE acquired from Veolia at the end of the 2012 financial year in Molise (Energonut) must be added. In 2013, the plant base was enriched with 2 additional WTEs (in Trieste and in Padua) with the aggregation of Acegas Aps, effective as of 1 January 2013; lastly, the Group has begun procedures to request authorisation for the construction of 1 WTE in Florence. In the past year Hera's capacity for biomass treatment and selection of material coming from sorted waste collection has also increased. Today's asset base of 72 plants (excluding the contribution of Acegas Aps) is able to satisfy the request for treatment and optimisation of any kind of waste, and represents one of the Group's points of excellence on a national scale, in line with the best practise of European countries.
With a generation of over 1.0 TWh, the Group has become one of the leading operators committed to the recovery of electricity from waste.

In order to rationalise its business organisation according to market factors, in 2010 Hera established Herambiente, to which all liberalised waste disposal, treatment and recovery operations were transferred. In the same year, the Group opened Herambiente's shareholding structure to the Eiser infrastructure investment fund, thus ensuring financial support for its future development. The integration with Acegas Aps further reinforced the Group's leadership in its own business sectors, expanding its range of action given that its presence in the North-East of the country gives Hera greater competitive strength in those markets as well. In the financial year that has just concluded, positive growth rates in disposal and treatment of special waste were also seen, thanks to the geographical expansion of the Group's reference market. This allowed for wider commercial activity, and increased the volume treated over all of the year's quarters, more than compensating the negative effects of the macro-economic crisis witnessed during the last few years.
Since its establishment, Hera has also been active in 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 of Emilia Romagna and the northern Marche, on the basis of long-term concessions (on average until 2023). With the aggregation of Acegas Aps, this activity has been extended to Padua and Trieste, reinforcing the Group's position as Italy's second largest operator in the sector.
Following the mergers that have taken place, and with the physiological development of the activities and investments carried out, the Group has essentially more than doubled its customer base. The water network has reached a length of roughly 57 thousand km and, like all of the Group's distribution networks, it is currently controlled by a single remote control system held to be one of the most advanced in Europe. Remote monitoring of networks optimised maintenance and supervision processes, ensuring 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 of network) has been counted among the nation's most efficient.
The system of environmental control, from the analysis of water before distribution to the collection and purification of waste water, has also shown major progress, guaranteeing high service quality and maximum customer safety.

The Group has an almost complete coverage of its reference area in the gas sector as well. This includes services in distribution and in methane gas sales and trading, as well as district heating management. Since the liberalisation of the sales market in 2005, the Group has developed its original customer base, reaching 1.2 million users, in other words almost doubling it in ten years, aided in this process by a series of mergers. The contribution of Acegas APS has allowed the customer base to be significantly widened and new markets to be opened. With this aggregation, the Group has reached the third position in the national market.

Sales have also more than doubled over time, bringing the volumes handled to almost 3.2 billion cubic metres. The distribution network, developed through direct investments and the acquisition of companies, now has a length of over 16 thousand km. Acegas Aps also brings an important contribution of plant assets, that allow the Group to look optimistically towards future tenders for gas distribution concessions in all reference areas.

The unstable situation of energy markets over the last decade has led the Group to follow prudent and flexible procurement policies. Hera has a multi-year capacity of gas importation that reaches almost 500 million cubic metres per annum, through the TAG gas pipeline (Russian gas). It has also gradually diversified its internal (domestic) sources, striving for maximum flexibility through annual agreements (multi-year contracts currently cover only 10% of the overall supply). This asset of Hera's supply portfolio protected it from the risks derived from "pre-determinate" material purchase commitments many years in advance, and allowed it, in recent years, to benefit from the increasing availability of methane gas in the country.

Furthermore, Hera has recently signed a framework agreement for Azeri gas, imported through the TAP gas pipeline. The agreement will be implemented upon completion of the infrastructures that are currently under construction.

The volume of sales relating to district heating has also more than doubled over the last 11 years. This way of transforming energy into heat is more efficient and has less impact on the environment than independent home heating systems.
The district heating network has been developed in various urban areas across the territory, some of which are near the large waste-to-energy and co-generation plants built in the last 11 years, thereby exploiting heat sources that would otherwise not be used.

Hera's "dual fuel" commercial strategy has allowed the electricity market to be developed at a sustained rate of growth, both through activities of cross-selling to existing customers and through expansion into new markets. This strategy has proved to be capable of defending existing customers in the gas sector, achieving important domestic market shares with annual sales of roughly 10 TWh, and increasing tenfold, in just a few years, the customer base, which now reaches 720 thousand customers, in spite of a very competitive market due to the presence of competitors whose size is considerable.

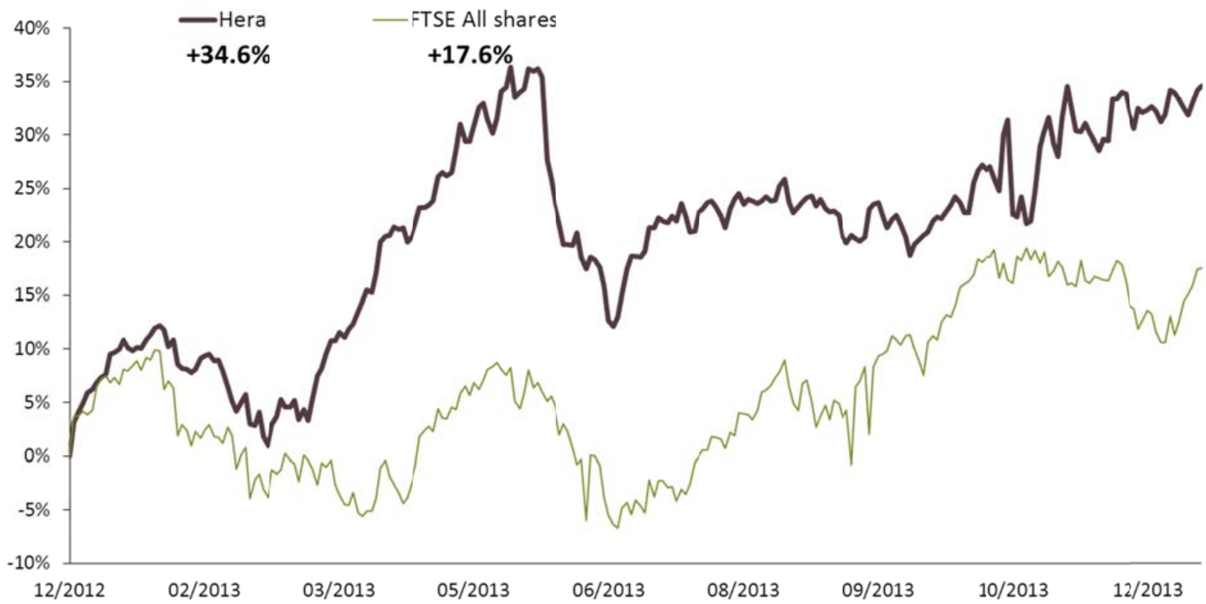
Commercial development in the electricity sector has been accompanied by a parallel cautious development in electricity generation, to manage customer demand in a sustainable way. Over the years, Hera has acquired minority shares in generation companies and built a few modestly sized conventional generation plants. Hera's generation equipment saw the development of over 110MW of clean energy from incineration plants, a further 13 MW from biomass waste-to-energy plants, as well as the recent development of small biogas and photovoltaic generation plants, which complete the diversified portfolio of the Group's sources. Hera continues to be an operator with a relatively contained presence in generation activities; the greater part of end customer electricity demand is in fact prevalently covered by a widely diversified portfolio of bilateral supply contracts and by activities in market trading. The Group's low exposure to electricity generation from conventional sources has allowed it to significantly contain the negative impact with respect to the average of its national competitors, and to benefit from the reduction of market prices for electricity, improving the competitiveness of its offer to its own customers.

Electricity distribution has seen major development ever since Hera's establishment; the merger with the Modena multi-utility Meta Spa in 2005, the acquisition of Enel's electrical network in the province of Modena, the acquisition of Acegas Aps in Trieste and the rationalisation operation of the Joint Venture with Eni in Gorizia have all contributed to expanding its grid, that now reaches almost 12 thousand kilometres and, thanks to the investments made, is completely equipped with electronic meters and managed remotely by a control centre. The contribution resulting from the Acegas Aps aggregation is important in this sector as well, in particular for the commercial development potentiality that those markets can offer to the integrated dimensions of the new Group.

Share performance and investor relations

During 2013 the share price made significant progress, as it rose by 34.6% (from €1.22 to about €1.65), thereby outperforming the FTSE All Share (up 17.6%). This was further confirmation of the positive performance of the share, which had risen by 15% in 2012, as opposed to the fall in prices of the main industry shares. Over a 24-month period (until 31 December 2013) the share went up by 50.3% (from €1.096 to €1.65), compared to an increase of 43.4% of the sector index. As of 31st December 2013, the Hera Group's market capitalization reached around €2.33 billion, up 71% on the previous year, ranking second among multi-utility companies listed in Italy, thanks to the rise in the share price, the takeover of Acegas APS and the capital increase that took place at the end of December 2013. Also in the early months of 2014, the Hera share continues to perform well, which is further evidence to the constant creation of shareholder value.

Performance of Hera share as at 31st December 2013

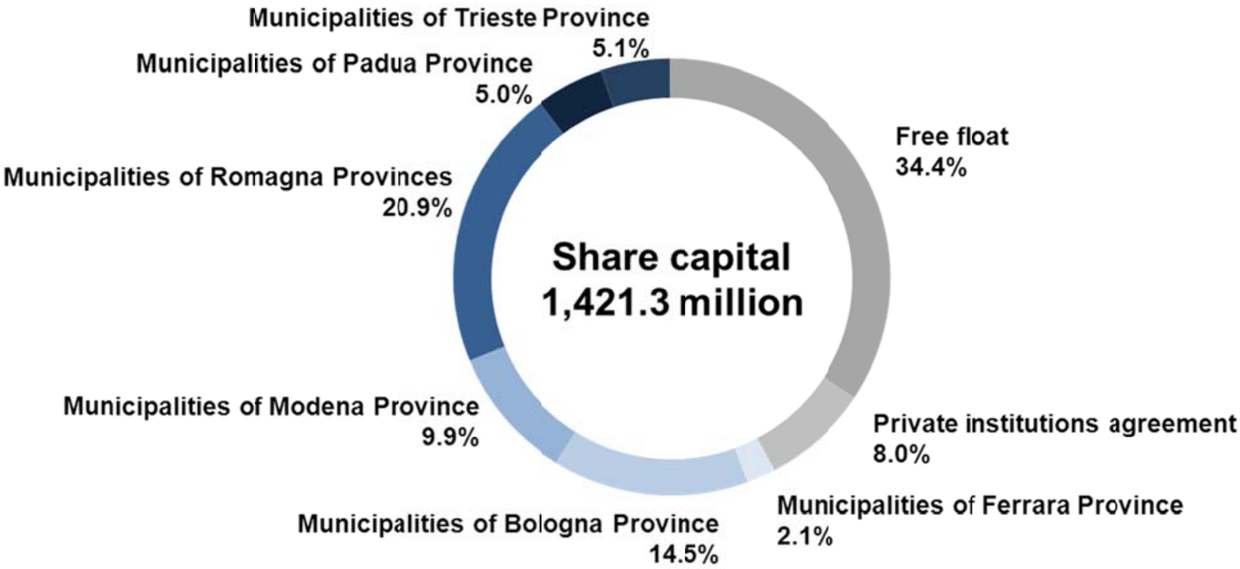


In 2013, the liquidity level of the Hera share improved, with an average 1.5 million shares traded (for a total amount of approximately €2.3 million). This was higher than in 2012, mainly due to the capital action carried out by the Group, particularly the new shares issued between the end of October and mid-November.

The share price at the end of 2013 implied an E2013 EV/EBITDA of 6X, an E2013 P/E slightly higher than 11X and a dividend yield of 5.4%. As of 31 December 2013, Hera's market capitalization was equal to its book value, which is about 6% lower than the value attributed by the independent analysts that cover the company share.

At 31 December 2013, Hera had among its shareholders 183 Municipalities located in the area where it is based, which account for approximately 57.6% of the 1,421.3 million shares outstanding.

During the year the number of shares outstanding rose by 306.3 million, or 27.4%, following the business combination with Acegas APS (which entailed a new share issue of approximately 228 million shares, which were used to pay for Acegas APS) and the rights issue for 78.5 million ordinary shares. The shareholder base is stable, as in the past, with a slight increase of the private component over the previous year, who participated actively in the new share issue completed by the end of 2013. The shareholder base is characterized by the presence of 25,000 investors, the absence of a controlling shareholder and the existence of a shareholder agreement among the Municipalities, covering 51% of all shares outstanding.



Since 2006, Hera has adopted a share buyback programme designed to fund any opportunities to acquire smaller companies and to manage any large fluctuations of the share price compared with the main national peers, in order to reduce the volatility of the share (the company's beta is 0.67), thereby improving the risk/return profile for investors. In the General Meeting held on 30 April 2013, the Shareholders approved the extension of the share buyback programme for an additional 18 months, for up to €40 million and a total of 25 million shares. As of 31 December 2013, Hera held about 10 million shares in treasury.

During the past 11 years, ever since Hera launched its I.P.O., dividends have been either constant and/or growing, including when the macro-economic crisis reached its acme, allowing total cumulative shareholder return to be constantly positive every year (94% at the end of the year). The Board of Director' proposal, to be submitted to the shareholder for approval during the next General Meeting, is to pay a dividend for 2013 of €0.09 per share, in line with the previous year and with the forecast made in the business plan until 2017.

The Investor Relations department promotes Hera equity with Italian and foreign financial analysts, with the objective to generate interest about the company, as well as to expand the number of reviews and opinions by independent professionals on the way it is managed. In 2013, about 116 reports and notes were published. Despite the profound restructuring activities in the banking sector that led to the closing of a large number of research departments, Hera still shows highly qualified coverage, between national and international brokerage houses: Banca Akros, Equita, ICBPI, Intermonte and Kepler Cheuvreux. At year-end, Hera had four "Buy/Outperform" ratings, a "Hold/Neutral" and no negative views. Currently, the Group is dealing with a renewed interest in the share by banks. In fact, at the end of 2013 various activities were started for the release of reports on the share by Banca IMI, Goldman Sachs, Mediobanca (published in early 2014) and 2 other organizations, so as to establish an even broader and more qualified coverage.

The main tool used by Hera to communicate with its shareholders is its website, which can be accessed by all the stakeholders (individual and institutional investors, bondholders and financial analysts). In fact the

Investor Relations section is constantly updated and shows in-depth reports ad analyses on the main areas of interest for the stakeholders (financial reports, plans and strategies, financial analysts' opinions, risk profile and return analyses). In addition, 2013 saw the introduction of the new section of the web site devoted to investors, where a simpler and more pleasant navigation allows access to financial information in an easier and timelier manner.

Internet-based communication was designed to increase the amount of information that can be used also by individual investors, through such interactive tools as the navigable annual report (including the six-monthly one), the description of corporate governance and an analysis of the changes in the share price and opinions on the share, as expressed by independent financial analysts. In the year just ended, Hera's web site was again in the spotlight, as it received an award as one of the best Italian institutional web site by the KWD Webranking study, conducted by KW Digital in cooperation with Lundquist and published on Corriere della Sera.

Also in 2013, communication with retail investors was inspired by transparency, with the publication of a quarterly internet newsletter illustrating financial results, the merger with Acegas APS and the capital action undertaken by the Group. Every issue of the newsletter contains a short and extremely accurate overview of the share performance, the views of independent financial analysts and significant events during the period, which may affect such performance. When the public purchase and exchange offer was launched for Acegas APS shares at the beginning of 2013, the Group introduced a web site for "small shareholders" to provide in an accessible manner important information related to the exchange part of the transaction, making available not only the technical documentation required by laws and regulations but also a simple and clear explanation in the form of easy-to-use Q&A. In 2013 integration of Acegas APS shareholders into Hera was completed, with top management undertaking a roadshow dedicated to such stakeholder niche.

In addition to holding specific meeting upon request by individual investors, every year Hera promotes meetings between top management and Italian and international professional financial operators. In 2013, Hera had 393 direct contacts between direct meetings, company and plant visits, conference calls, video conferences, webcasts, involving Italian and foreign investors, mainly from the U.S., Anglo-Saxon countries France, Switzerland, Germany and Scandinavian countries.

The Group's effort in its interaction with investors is much greater than the average for the multi-utility sector and greater even than that made by the main Italian listed companies, in proportion to its market capitalization and breadth of coverage of the share. As in the past, also in 2013 the Group took part in the annual forum held in Paris by sustainable investors (organize by specialized brokers of international standing) and joined a non-financial accountability project carried out by Impronta Etica, to involve a growing number of ethical investors in IR communication activities.

CHAPTER 1

Directors' report

1.01 Introduction

For the eleventh consecutive year, the Hera Group presents a Financial Statement showing growth throughout the various levels of its balance sheets, at double figure rates, as was already the case in the quarterly reports published during the financial year in question.
This statement shows the contribution of the Acegas Aps aggregation, consolidated in the accountancy as of 1 January 2013, which contributed to placing the Group in the second position by result magnitude nation-wide, its dimensions having more than quadruplicated since its establishment in 2002. These results are all the more appreciable if one considers that they were reached in particularly negative economic circumstances.

The seasonally adjusted 2013 Gross Domestic Product (GDP) marked a further fall of -1.9%. The level of industrial production in Italy marked a negative trend of -3.0%, added to the -6.7% seen in 2012. Exports increased by +0.1% (with respect to +2.3% in 2012), while imports decreased by -2.8% with respect to -7.7% in 2012. The overall context was also influenced by a further fall in household spending (-2.6%), investments (-4.7%) and energy consumption, in which a decrease of -6.4% appeared in the demand for gas (tied above all to the fall in thermoelectric production), as well as a slowdown in electricity demand (-3.1%, compared to -2.8% in 2012).

Even within this difficult context, Hera has continued to coherently pursue its own strategies, following its own planned objectives and reacting to the continuous changes that have arisen within the reference scenario.

Considering the constant economic contraction, the Group's strategy in liberalised markets continued to produce positive results. Commercial growth in the electricity sector in 2013 allowed over 57,000 customers to be gained, confirming the Group's commercial force in an ever more competitive market. The expansion of electricity activities over specific segments of the residential clientele, along with a flexible upstream policy, contributed to containing the reduction in the unitary margins of the activities. The Hera Group also benefited from a customer increase from Acegas Aps, that contributed to reaching a result of roughly 720 thousand clients served.

On the gas market, in 2013 the Group reported sales volumes to final customers that were essentially stable, with approximately 2 billion cubic meters, to which one must add the sales volumes to final customers of Acegas Aps (197 million cubic meters) and the volumes sold on the wholesale gas market (956 million cubic meters, with respect to 1.4 billion over the preceding year). The fall in activity on the wholesale market is a consequence of the different market balance induced by the regulatory revisions introduced by the Authority.

The urban and industrial waste disposal business recorded a contraction of its volumes over the financial year, caused by the crisis situation, by the further fall recorded in Italy's productive system and, to a lesser degree, by a decrease in household consumption. The strategies aimed at expanding Hera's market share obtained positive results, that more than compensated the negative effects of the overall scenario. In this direction, the volume of special waste treated increased by +11.3% with respect to the data of the preceding year, without considering the effects of the consolidation with Acegas Aps (a +24.2% increase, including Acegas Aps' 2013 data). This strategy relied on the new logistic platforms in the Molise, Friuli and Veneto regions, that increased the possibilities of reaching an industrial clientele over a wider area than in the preceding year.

The increase in volumes allowed the capacity of all of the Group's principal types of plants to be exploited to a greater degree. In 2013, thanks to the consolidation with Acegas Aps, an increase of 13.6% in the volume of urban waste was recorded. Separated waste collection accounted for roughly half of the urban waste treated by the Hera Group; treatments using waste to energy production grew by 11.6% (from 955 to 1,065 thousand tonnes, plus 345 thousand tonnes pertaining to Acegas Aps), for a production of electricity form waste that rose by +16.9% (+47.8% including the contribution of Acegas Aps).

The Group's strategy of growth through external lines led it to be involved in three extraordinary finance operations. These operations, that concluded with augmentative conditions in terms of earnings per share and with the prospect of value creation through the extraction of synergies, in a relatively short period of time allowed the presence of the Group in Triveneto to be rationalised, with extended coverage in the Friuli region and an important presence in Padua, in the Veneto region.

The accounts for the financial year closed with an increase of almost +39% in net profits pertaining to shareholders, which was also due to the extraordinary positive effects related to the operation with Acegas Aps, causing the earnings per share to increase from 10.6 to 11.2 Euro cents (+9.0%, including the capital increase carried out at the end of the financial year). Even subtracting the extraordinary effects from the results of the years in question, and considering the contribution of Acegas Aps in a homogeneous comparison, positive growth was recorded in all major operative results and in net profits.

From a financial viewpoint, the year 2013 witnessed a positive operative cash flow (before dividends and extraordinary operations). This result contributed to reducing the ratio between net financial debt and EBITDA from 3.35 (3.39 proforma, including the Acegas Aps data from 2012) in the preceding year to 3.12 at the end of the financial year.

The Group's net financial position, including payment within the financial year of dividends and third party profits for a total of 130 million Euro, closes at 2,595 with a decrease respect to the 2,681 million Euro of the preceding financial year (including the debt of Acegas Aps), confirming the solidity of the Group's financial asset, which once again proved to be among the best in the sector. During the financial year, Debt refinancing operations were carried out, taking advantage of the best market conditions and various opportunities in sources of financing (capital markets and EIB). In this way, it was possible to obtain a cost of gross debt that improved by roughly 50 bps.

The 2013 Financial statement represents a solid confirmation of the expectancies contained in the Plan through 2017 (which was communicated to the financial markets in October), considering that over 58% of the quinquennial growth promised in the plan was achieved within this financial year.
In the light of the solidity of the Group's economic and financial indicators, the Board of Directors decided to propose a dividend of 9 Euro cents per share at the Shareholders' Meeting, confirming the direction witnessed in the preceding financial year and maintaining the policies pursued since the Group's establishment.

1.02 Corporate events and significant events after the balance sheet date

Corporate events

Financial year 2013 saw the continuation of the rationalization of the Group's structure begun in previous years, with the disposal/liquidation of 12 companies, the striking off of 7 companies from the Companies Register, the increase of the equity stake in 10 investees, the strategic reallocation of 1 equity investment within the Group, and 4 mergers which resulted in the dissolution of the companies taken over.

The corporate rationalisation had already led during 2012 to the disposal / liquidation of 7 companies, cancellation from the Register of Companies of 4 companies, withdrawal from 1 company and acquisition of 5 new equity investments, constitution of 2 new companies, the acquisition of further holdings in 2 investee companies, as well as 1 merger that resulted in the extension of 4 companies.
In this connection, the principal *M&A* operations that took place are noted below:

OPAS Hera Spa acquired all the listed shares of Acegas APS Spa
On 2 January 2013, Hera Spa, following completion of the merger of Acegas APS Holding Srl, launched an obligatory public offer to acquire and exchange all the Acegas APS Spa ordinary shares, directed at the latter's delisting.
On 3 May 2013, the closing date of the OPAS, Hera Spa became the sole shareholder of Acegas APS Spa, increasing its equity investment in the latter from 62.69% to 99.784%, the residual part of the share capital being represented by treasury shares.

Modena Formazione S.r.l.
On 17 January 2013 the equity investment, corresponding to 7% of the share capital, held by Hera Spa in Modena Formazione Srl was sold. This company operates in the professional training sector.

Famula On-line S.p.A.
On 19 December 2012 the extraordinary shareholders' meeting of Famula On-line Spa, a company operating in the organisation, design, production, marketing and consultancy in the information systems sector, approved the voluntary dissolution of the company commencing from 1 January 2013, simultaneously with the sale of the business to the parent company Hera Spa. The liquidation procedure was concluded on 25 June 2013 with cancellation of the company from the Bologna Register of Companies.

Nuova Geovis S.p.A. – Refri S.r.l. – Herambiente S.p.A.
On 19 June 2013, in compliance with the provisions of the agreement entered into between Unieco Costruzioni Meccaniche Srl (abbreviation "UCM") and Herambiente Spa, the corporate restructuring inherent to Nuova Geovis Spa and Refri Srl was concluded.
With reference to Nuova Geovis Spa, a company operating in the composting sector, Herambiente which already held 51% of the share capital, acquired the remaining 49% from UCM, consequently becoming the sole shareholder. The reorganization was completed with the merger of Nuova Geovis S.p.A. with and into Herambiente S.p.A., effective 31 December 2013.
Herambiente sold its 20% equity interest in Refri S.r.l., a company engaged in the WEEE sector, to UCM, thus exiting this business.

Modena Network S.p.A.

On 19 April 2013 Acantho Spa, a Group company in which Hera Spa holds 79.936%, acquired all the shares held by Sorgea Spa in Modena Network Spa, a Group company operating in the telecommunications sector, corresponding to 10% of the share capital. Following this transaction Hera continues to directly hold 14% of Modena Network and indirectly, through Acantho Spa, increased its stake from 30% to 40%.
On 25 July 2013, in their Extraordinary General Meetings, the shareholders of Modena Network S.p.A. and Acantho S.p.A. approved the plan of merger whereby the former would merge with and into the latter, effective 1 November 2013.

Solhar Alfonsine S.r.l.

On 25 June 2013 the shareholders of Solhar Alfonsine S.r.l., a company engaged in renewable energies, approved the voluntary dissolution of the company, which was stricken off the relevant Companies Register on 18 December 2013.

Energonut S.p.A.

The merger of Energonut Spa with Herambiente Spa became effective on 01 July 2013. This company is fully held by Herambiente Spa and operates in the environment sector. It owns a waste co-incineration facility situated in the Pozzilli industrial area in the Isernia Province (Molise).

Solhar Piangipane S.r.l. – Solhar Ravenna S.r.l. – Solhar Rimini S.r.l.

On 12 July 2013 Herambiente Spa, already a 51% shareholder of Solhar Alfonsine Srl, Solhar Ravenna Srl and Solhar Rimini Srl, acquired the remainder of the share capital, consequently becoming the sole shareholder of the three companies. Subsequently, on 8 October 2013, the shareholders of the three companies approved the voluntary dissolution of their respective companies, which were eventually stricken off the relevant Companies Registers on 18 December 2013.

Gal.A S.p.A. – Herambiente S.p.A.

On 5 August 2013, the acquisition of the Gal.A Spa shares was completed by Herambiente Spa. These shares were previously held by the Baricella and Galliera Municipalities and Herambiente Spa consequently became the sole shareholder of Gal.A Spa.
Subsequently, effective 31 December 2013, Gal.A S.p.A. merged with and into Herambiente S.p.A..

Hera Servizi Cimiteriali S.r.l. – Hera Servizi Funerari S.r.l.

Following the conclusion of the public procedure arranged by the Bologna Municipality and consequent selection of a private partner for the management of the cemetery and funeral services, the transfer to the Bologna Municipality of the equity investments held by Hera Spa in Hera Servizi Cimiteriali Srl and Hera Servizi Funerari Srl. was completed on 1 August 2013.

Wimaxer S.p.A. in liquidation

On 23 September 2013 Wimaxer S.p.A. in liquidation, a company engaged in telecommunications and 25%-owned by Acantho S.p.A., was stricken off the relevant Companies Register.
Wimaxer's liquidation had been approved by the shareholders in the extraordinary general meeting held on 5 December 2012.

Nestambiente S.r.l. – Energeica S.r.l.

Effective 1 October 2013, Acegas APS S.p.A. sold Nestambiente S.r.l., a wholly-owned subsidiary engaged in waste disposal, to Herambiente S.p.A.. Effective as of the same date, Nestambiente S.r.l. sold to Acegas APS S.p.A. its 5.08% equity interest in Energeica S.r.l., a company engaged in the construction of plants and networks for the production and distribution of electric and/or thermal energy.

Naonis Energia S.r.l. in liquidation

On 29 October 2013 Naonis Energia S.r.l. in liquidation, a company engaged in the construction and subsequent operation of a waste-to-energy plant in Pordenone and 59%-held by Acegas APS S.p.A., was stricken off the relevant Companies Register.

Naonis Energia had been put into liquidation by the shareholders in the general meeting held on 17 December 2012.

Eris Scarl

On 30 October 2013, effective 31 October 2013, Hera Comm S.r.l. sold its 51% equity stake in Eris Scarl, a company engaged in energy, heat management and related maintenance activities.

Herasocrem S.r.l.

On 15 November 2013, the shareholders of Herasocrem approved the voluntary dissolution of the company in their general meeting.

Isontina Reti Gas S.p.A. - Est Reti Elettriche S.p.A. - Est Più S.p.A.

The transactions described below were completed within the context of a broader reorganization of the equity investments held by Acegas APS S.p.A. and Eni S.p.A. in Isontina Reti Gas S.p.A., Est Reti Elettriche S.p.A. and Est Più S.p.A.

Isontina Reti Gas S.p.A. is a company based in the Gorizia area operating in the natural gas distribution sector, which was owned by Acegas APS S.p.A. and Eni S.p.A., with 30% and 70% shareholdings, respectively. Following agreements executed on 30 September 2013 and 24 January 2014, Acegas APS S.p.A. purchased of 20% and 50% of the company from Eni S.p.A., respectively, thus becoming sole shareholder.

Est Reti Elettriche S.p.A. is a company based in the Gorizia area operating in the transmission, distribution and wholesale of gas and electric energy which was which was owned by Acegas APS S.p.A. and Eni S.p.A., with 30% and 70% shareholdings, respectively. With an agreement executed on 12 December 2013, Acegas APS S.p.A. purchased Eni’s 70% equity interest, thus becoming sole shareholder.

Est Più S.p.A. is a company based in the Gorizia area operating in the sale of electric energy, heat management and the operation of public lighting and traffic light systems which was owned by Acegas APS S.p.A. and Eni S.p.A., with 30% and 70% shareholdings, respectively. With an agreement executed on 12 December 2013, Acegas APS S.p.A. sold its 30% interest to Eni S.p.A., thereby exiting from the investment.

Following the above reorganization transactions, the integration of Isontina Reti Gas S.p.A. and Est Reti Elettriche S.p.A. into Acegas APS S.p.A. is expected by the end of 2014.

Tamarete Energia S.r.l.

On 13 December 2013 Odoardo Zecca S.r.l. sold its 20% equity interest in Tamarete Energia S.r.l., a company operating in the management and production of electric energy, to Hera S.p.A. and BKW Italia S.p.A., which raised their equity interests in the company from 32% to 40% and from 48% to 60%, respectively.

Subsequent events and outlook

FlameEnergy Trading Gmbh

Effective 1 January 2014, the shareholders approved the voluntary dissolution of this company which is 50% held by Hera Trading S.r.l..

Hera S.p.A. - AMGA – Azienda Multiservizi S.p.A.

Starting in the second half of 2013, Hera S.p.A. and Amga – Azienda Multiservizi S.p.A. began a process to determine a timetable and a procedure to incorporate AMGA into Hera, to harness to the utmost the respective industrial structures in the gas, electric energy, public lighting, plant management and cogeneration sectors and ancillary activities.

In January 2014, the boards of directors of Hera S.p.A. and Amga S.p.A. approved the plan of merger that will be submitted for approval also to the respective shareholders in the general meetings convened to approve the 2013 annual accounts.

Fucino Gas S.r.l.

Hera Comm S.r.l. was awarded the contracts after the tender launched by the Municipality of Luco dei Marsi (AQ) for the sale of the 100% equity interest held by the Municipality in Fucino Gas S.r.l., a company operating in the purchase and sale of gas methane and other fuels.

The sale agreement was executed on 6 February 2014 by Hera Comm, on one side, and the Municipality of Luco dei Marsi, on the other.

Acegas APS Service S.r.l.

On 23 December 2013, effective 1 January 2014, Acegas APS Service S.r.l., a wholly-owned company of Acegas APS S.p.A. operating in public lighting spun off its public lighting business in the city of Padua to the parent company.

Aristea Sinergie Illuminazione Scarl

Within the scope of a broader rationalization process of the Group companies operating in the public lighting business, effective 1 January 2014, Sinergie S.p.A., a subsidiary of Acegas APS S.p.A., sold to Hera Luce S.r.l. the 50% equity stake held in Aristea Sinergie Illuminazione.

SIL – Società Italiana Lining S.r.l. / CST S.r.l. – Acegas APS S.p.A.

Effective 1 April 2014 for legal purposes, SIL – Società Italiana Lining S.r.l., a wholly owned subsidiary of Acegas APS S.p.A. operating in the construction and maintenance of water, sewer and gas grids and CST S.r.l., a wholly owned subsidiary of SIL – Società Italiana Lining S.r.l. operating in the management of the Integrated Water Cycle, will both merge with and into Acegas APS S.p.A..

Competition and Market Authority's sanction

On 27th February 2014 the Autorità Garante della Concorrenza e del Mercato (Italian Antitrust Authority) sanctioned Hera and Herambiente with a fine for €1,898,700 for abuse of dominant position after Hera directly granted separate-collection paper waste contracts to Akron (held by Herambiente).

While Hera Group has always operated strictly according to waste integrated cycle regulations, there are presently no laws exist to compel competitive procedures as regards to the case sanctioned by the Authority; in fact, sues filed to the Regional Court have been so far favourable to Hera and confirmed its law-abiding conduct.

Moreover, even in those cases where the law demands for certain specific types of business to operate through public tender to grant license contracts, it does allow exoneration from such obligation when the business relation is established within same-group companies.

Besides, the Group believes this sanction to not hold sufficiently into consideration neither present regulation to which environment operators are already subject nor the business actual waste collection, treatment and disposal trade dynamics; the penalty seems to also overlook the benefits for the citizenship in financial, quality and safety terms, by means of enhancing the Group's value rather than acting through national consortiums.

For the above reasons, after a thourough examination of the sanction's motivations, Hera group will appeal to the Regional Court of Lazio (TAR) in order for its fair conduct to be fully reinstated and acknowledged. A conduct which has so far led Hera's operating areas to become among the top in Europe in terms of waste management environmental policies and quality.

For the same reasons, after detailed legal consulting, the Group has chosen not to create any offsets against the sanction.

1.03 Group performance for the year ended 31 December 2013

(millions of euros di €)	31-Dec-12	Inc.%	31-Dec-13	% Inc.	Abs. Var.	% Change
Revenues	**4,492.7**		**4,579.7**		**+87.0**	**+1.9%**
EBITDA	**662.1**	**14.7%**	**830.7**	**18.1%**	**+168.6**	**+25.5%**
Operating profit (EBIT)	335.5	7.5%	415.8	9.1%	+80.3	+23.9%
Net profit	**134.4**	**3.0%**	**181.7**	**4.0%**	**+47.3**	**+35.2%**

1.03.01 Operating results and investments

Group's consolidated highlights:

The results of 2013 are evidence to the Hera Group's commitment to constant growth. Despite the national drop in consumption, the mild weather in the last quarter of 2013 and the economic crisis that is still taking a toll on the property market, the Hera Group saw its profits increase on the previous year. This was due both to the performance of the Hera Group companies and the takeover of the AcegasAps Group. In terms of volumes, sales of electric energy, methane gas, heat and water fell while waste disposal activities rose, thanks to greater plant capacity and the major effort undertaken in industrial waste disposal.

Following the merger, the Hera Group is now Italy's largest operator in terms of waste handled, the second in the integrated water cycle, third in gas distribution and fourth in the sale of electricity to end customers.

Financial year 2013 was characterized by the continuing rationalization of the Hera Group's structure. Significant transactions, in addition to the well-known acquisition of the AcegasAps Group, included:

- The sale on 1 August 2013 of the equity interest in Hera Servizi Cimiteriali, with the operating performance reflecting this company's results until that date.

- The corporate reorganization of the company for the sale and distribution of gas and electric energy in the Gorizia area. On 30 September 2013 AcegasAps S.p.A. acquired a further equity interest in Isontina Reti Gas S.p.A., a gas distribution company operating in the province of Gorizia, raising its shareholding from 30% to 50%. Eventually, after the balance sheet date, AcegasAps S.p.A. acquired the remaining 50% of Isontina Reti Gas S.p.A.. Moreover, on 12 December 2013, AcgasAps sold its investment in EST+, a company that sells gas and electric energy in the Gorizia area and acquired, simultaneously, the remaining shares that it did not own in Est Reti Elettriche, a company that distributes electric energy, thus becoming sole shareholder.

As already indicated in the previous annual reports, the consolidated income statement reflects the application of IFRIC 12, "Service Concession Arrangements", which changed the accounting treatment of certain transactions for companies that operate in sectors regulated by specific concession arrangements. The effect of the application of this interpretation, which did not affect the results, is the recognition in the income statement of capital expenditure on network assets held under concession. Thus, other operating income increased by €161.2 million (AcegasAps's input was €35.2 million) in 2013 and by €129.3 million in 2012, capitalized costs declined by €32.1 million in 2013 and €33.8 million in 2012 and operating costs for services, materials and other operating expenses went up for a total of €129.2 million in 2013 (AcegasAps's input was €35.2 million) and €95.5 million in 2012.

Below, for simplicity's sake, the AcegasAps Group will be referred to as "AcegasAps" while the legacy Hera Group will be referred to as "Hera".

The table below shows the operating performance of financial years 2012 and 2013. Marginal adjustments were made to financial year 2013. For further details, reference is made to the paragraph "Adjustment summary" contained in the "Consolidated notes" of the 2013 annual report.

Income statement (millions of euro)	31-Dec-12	% Inc.	31-Dec-13	% Inc	Abs.Var.	% Var.
Revenues	4,492.7	0.0%	4,579.7	0.0%	+87.0	+1.9%
Other operating income	203.6	4.5%	271.7	5.9%	+68.1	+33.5%
Commodities and materials	(2,726.0)	-60.7%	(2,454.8)	-53.6%	-271.2	-9.9%
Service cost	(912.7)	-20.3%	(1,040.5)	-22.7%	+127.8	+14.0%
Other operating costs	(46.8)	-1.0%	(60.9)	-1.3%	+14.1	+30.1%
Personnel costs	(382.0)	-8.5%	(482.7)	-10.5%	+100.7	+26.4%
Capitalised costs	33.4	0.7%	18.2	0.4%	-15.2	-45.5%
EBITDA	**662.1**	**14.7%**	**830.7**	**18.1%**	**+168.6**	**+25.5%**
Depreciation amortisation and pı	(326.6)	-7.3%	(414.9)	-9.1%	+88.3	+27.0%
Operating profit (EBIT)	**335.5**	**7.5%**	**415.8**	**9.1%**	**+80.3**	**+23.9%**
Financial operations	(128.7)	-2.9%	(155.1)	-3.4%	+26.4	+20.5%
Other non operating revenues	6.7	0.1%	45.2	1.0%	+38.5	+677.5%
Pre-tax profit	**213.5**	**4.8%**	**306.0**	**6.7%**	**+92.5**	**+43.3%**
Taxes	(79.1)	-1.8%	(124.3)	-2.7%	+45.2	+57.2%
Net profit for the period	**134.4**	**3.0%**	**181.7**	**4.0%**	**+47.3**	**+35.2%**
Attributable to:						
Shareholders of the Parent Con	**118.7**	**2.6%**	**164.9**	**3.6%**	**+46.2**	**+38.9%**
Non-controlling interests	15.7	0.3%	16.8	0.4%	+1.1	+6.8%

EBITDA was up €168.6 million, from €662.1 million in 2012 to €830.7 million in 2013; operating profit went from €335.4 million to €415.8 million; pre –tax profit rose by 43.3%, going from €213.4 million to €306.0 million; and net profit grew from €134.4 at 31 December 2012 to €181.7 million for 2013, +35.2%.

Revenues increased by €87.0 million, +1.9%, from €4,492.7 million at 31 December 2012 to €4,579.7 million for 2013, due mainly to the combined effects of:

- the contribution of AcegasAps for €502.4 million;
- a decrease in Hera's revenues of €415.5 million, due mainly to lower trading and gas sales volumes and lower volumes of electric energy sold.

Other operating income grew by €68.1 million, mainly due to the contribution of AcegasAps for €60.5 million.

The decrease in commodities and materials costs, amounting to €271.2 million, was due to the following:

- an increase of €185.2 million determined by the merger of AcegasAps;
- a decline of €456.4 million, due mainly to the decline in gas trading and sales activities and lower purchasing costs of electric energy, determined by the lower volumes sold.

Other operating costs (Service costs up €127.8 million and Other operating expenses up by €14.1 million) rose overall by €141.9 million (up 14.8%). This increase was due nearly entirely to the merger of AcegasAps, which accounted for €142.6 million.

Personnel costs grew by 26.4% from €382.0 million at 31 December 2012 to €482.7 million for 2013. This increase was due for €93.7 million to the merger of AcegasAps and, for the remaining part, by the salary raises provided for by the national labour agreement (CCNL), partly offset by a reduction in the average headcount and the lower cost per employee.

Capitalized costs fell from €33.4 million to €18.2 million, due mainly to a decrease in activities on plants and works between Group companies.

Consolidated EBITDA was up, from €662.1 million in 2012 to €830.7 million in 2013, +168.6 million (up 25.5%), which was due to the inclusion of AcegasAps for €141.5 million and an increase of €27.1 million (up 4.1%) attributable to Hera. Reference is made to the single operating segments for more details.

Amortization, depreciation and provisions rose by €88.3 million (up 27.0%), from €326.6 million in 2012 to €414.9 million for 2013. The merger of AcegasAps caused amortization, depreciation and provisions to rise by €66.7 million (up 20.4%) while the legacy Hera Group saw the comparable amounts go up by €21.6 million due to: (i) depreciation of new capital expenditure and the expansion of the WTE assets, with the addition of the Pozzilli plant; (ii) greater amortization, depreciation and provisions due to the adjustment of the rates associated with certain assets related to gas concessions; (iii) greater provisions to the allowance for doubtful accounts.

Operating profit for 2013 amounted to €415.8 million, up 23.9% on 2012, for the above reasons. AcegasAps's contribution as of 31 December 2013 was €74.8 million.

In 2013 financial expense exceeded financial income by €155.1 million, compared to €128.7 million for 2012.

Of this increase, about €16.1 million was attributable to the inclusion in the scope of consolidation of AcegasAps.

The results were impacted also by a loss of approximately €11.1 million determined by the write-down of the investment in Energia Italiana as well as the gain of about €3.2 million on the disposal of the equity interest in Estpiù.

The difference between financial expense and financial income attributable to Hera, which was largely in line with the previous year, rose as a result of the increase in average debt for 2013.

The acquisitions that took place in 2013 – i.e. Acegas Aps S.p.A. and the equity interest in Est Reti Elettriche S.p.A. – resulted in the recognition of badwill in the amount of €45.2 million, under other non-operating revenues. This amount was determined in connection with the purchase price allocation process, where the prices paid for the assets and liabilities acquired were compared to their fair value. Last year, similar acquisitions resulted in the recognition of badwill for €6.7 million.

However, reference is made to the notes to the financial statements for a description of the accounting treatment of these transactions.

In light of the above, pre-tax profit went from €213.5 million as of 31 December 2012 to €306.0 million for 2013, up 43.3%.

Income taxes for the period went from €79.1 million in 2012 to €124.3 million in 2013. The tax rate, recalculated without taking into account the non-recurring effects posted in both years (€18.2 million related to the refund of the IRES determined by the deductibility of IRAP in 2012 – gains from bargain purchases for €6.7 million and €45.2 million in 2012 and 2013, respectively), improved from 47% in 2012 to 46.1% in 2013.

Net profit for the year ended 31 December 2013 settled at €181.7 million, up on the €134.4 million of 2012. This €47.3 million increase was due to: (i) the merger of AcegasAps for €35.3 million; (ii) Hera's organic growth by €1.7 million (up 1.6%); (iii) higher non-recurring items, summarized in the table below, with a positive effect of €10.3 million related to: (i) the absence of lower taxes for the IRES refund of 2012 (down €18.2 million); (ii) gains/losses on investments (down €8.8 million); and (iii) other non-operating revenues determined by bargain purchase gains determined in connection with purchase price allocation (up €37.3 million).

Net profit attributable to the parent company's shareholders amounted to €164.9 million, up €46.2 million, compared to €118.7 million for the year ended 31 December 2012.

The table below provides a summary of key operating indicators, which reflect the impact of Hera's growth, AcegasAps's integration and non-recurring items on net profit:

Management income statement (millions of euro)	Hera as at 31/12/2012	Hera as at 31/12/2013	Abs. Var.	AcegasAps as at 31/12/2103	Group as at	Group Abs. Var.	Group % change
EBITDA	**662.1**	**689.2**	**+27.1**	**141.5**	**830.7**	**+168.6**	**+25.5%**
EBIT	**335.5**	**341.0**	**+5.5**	**74.8**	**415.8**	**+80.3**	**+23.9%**
Adjusted pre-tax profit	**206.8**	**210.8**	**+4.0**	**58.7**	**269.6**	**+62.8**	**+30.4%**
Ordinary taxes	(97.3)	(99.6)	-2.3	(24.7)	(124.3)	-27.0	+27.8%
Adjusted Net profit	**109.5**	**111.2**	**+1.7**	**34.0**	**145.3**	**+35.8**	**+32.7%**
Non-recurring financial assets	-	(8.8)	-8.8	-	(8.8)	-8.8	-100.0%
Minori imposte non ricorrenti	18.2	-	-18.2	-	-	-18.2	-100.0%
Other non operating income	6.7	44.0	+37.3	1.3	45.2	+38.5	+577.5%
Lower non-recurring taxes	**134.4**	**146.4**	**+12.0**	**35.3**	**181.7**	**+47.3**	**+35.2%**

(*) AcegasAps's income statement includes lower provisions for €8.6 million and higher taxes for €2.4 million, following the adjustments resulting from the purchase price allocation process.

Analysis of the Group's financial structure:

The table below shows changes in the Group's net invested capital and sources of financing for the years ended 31 December 2013 and 31 December 2012:

Invested capital and sources of financing (millions of euro)	31-dec-2012 adjusted	% Inc	31-dic-2013	% Inc	Abs. Var.	% Var.
Net non-current assets	4,418.7	107.9%	5,340.1	109.0%	921.4	20.9%
Net working capital	116.7	2.8%	96.0	2.0%	(20.7)	-17.7%
(Provisions)	(440.1)	-10.7%	(535.1)	-10.9%	(95.0)	21.6%
Net invested capital	**4,095.3**	**100.0%**	**4,901.0**	**100.0%**	**805.7**	**19.7%**
Equity	1,878.7	45.9%	2,305.7	47.0%	427.0	22.7%
Long-term borrowings	2,366.7	57.8%	3,224.7	65.8%	858.0	36.3%
Net (cash)/ short term borrowings	(150.1)	-3.7%	(629.4)	-12.8%	(479.3)	319.3%
Net borrowings	2,216.6	54.1%	2,595.3	53.0%	378.7	17.1%
Total sources of financing	**4,095.3**	**100.0%**	**4,901.0**	**100.0%**	**805.7**	**19.7%**

In 2013 net invested capital rose by 19.7%, going from €4,095.3 million to €4,901.0 million, mainly due to the consolidation of the Acegas APS Group in the Hera Group with a contribution of €855.7 million.

At 31 December 2013, net non-current assets amounted to €5,340.1 million compared to €4,418.7 million at 31 December 2012, with a 20.9% increase due both to capital expenditure and the expansion of the scope of consolidation.

Net working capital fell by €20.7 million thanks to the constant attention, and resulting improvement, of the credit management process.

At year-end 2013, provisions amounted to €535.1 million, up 21.6% on the comparable amount as of 31 December 2012.

Equity increased from €1,878.7 to 2,305.7 million, due mainly to the new share issue to acquire the AcegasAps Group and the subsequent capital increase that took place in November 2013.

Reconciliation between separate and consolidated financial statements

	Net profit	Equity
balances separate financial statements	143,647	2,083,892
Dividends recorded in the year	(131,949)	
Valutation with equity method of investments measured at costs	1,614	22,360
Carrying ammount of consolidated companies		(859,032)
Equity and profit for the year of consolidated companies	99,705	920,189
Allocation of differences to assets of consolidated companies and related amortisation e depreciation:		
- Goodwill arising on consolidation		53,190
- Intangible assets	(549)	3,845
- Property, plant and equipment	(295)	679
- Income from tax consolidation	51,069	(37,355)
Other adjustments due to elimination of intercompanies transacti	1,692	(27,362)
Total	**164,934**	**2,160,406**
Attribution to non-controlling interests	16,774	145,317
Balances as per the consolidated statement of financial position	**181,708**	**2,305,723**

Analysis of net cash (net borrowings)

The table below provides details of the composition and changes in net borrowings:

millions of euros		31 Dec 2013	31 Dec 2012
a	**Cash and cash equivalents**	**942.3**	**424.2**
b	**Other current financial receivables**	**72.2**	**47.3**
	Current bank debt	(227.9)	(74.7)
	Current portion of long-term bank debt	(112.6)	(225.7)
	Other current borrowings	(42.6)	(17.1)
	Finance leases expiring within one year	(2.0)	(3.8)
c	**Current borrowings**	**(385.1)**	**(321.3)**
d=a+b+c	**Net current borrowings**	**629.4**	**150.2**
e	**Non-current financial receivables**	**52.6**	**17.6**
	Non-current bank debt and bonds issued	(3,253.3)	(2.371.0)
	Other non-current borrowings	(8.5)	0
	Finance leases expiring beyond one year	(15.5)	(13.4)
f	**Non-current borrowings**	**(3,277.3)**	**(2,384.4)**
g=e+f	**Net non-current borrowings**	**(3,224.7)**	**(2,366.8)**
h=d+g	**Net borrowings**	**(2,595.3)**	**(2,216.6)**

At 31 December 2013 net borrowings amounted to €2,595.3 million, compared to €2,216.6 million at 31 December 2012. This increase was due mainly to the inclusion of the Acegas APS Group in the scope of consolidation of the Hera Group.

Without the contribution of AcegasAps, Net borrowings would have amounted to €2,089 million, down approximately €127.5 million due both to the generation of cash flows from operations – determined by lower capital expenditure and a more disciplined working capital management approach – and the capital increase that took place in November 2013, with the placement of 78.5 million new shares, equal to 100% of the shares issued, for a total amount of €98.1 million.

The Net borrowings/EBITDA ratio decreased by 9.4%, from 3.35x to 3.03x; at the group level, the same ratio went from 3.39x - with the pro forma AcegasAps data for 2012 – to 3.12x, with an 8% decrease.

The cash figure at 31 December 2013 benefited from proceeds generated by the issue of 77.4 million new Hera shares, representing about 98.61% of the shares offered, for a total amount of €96.7 million.

Medium- and long-term borrowings account for 88% of total indebtedness, financing the extensive amount of the Group's non-current assets.

Hera Spa has a "Baa1" rating with a negative outlook by Moody's and a "BBB" rating with a stable outlook by Standard & Poor's.

Investments

The Group's investments, with the integration of AcegasAps, amount to a total of 314.5 million Euro, including 15.1 million in capital grants, of which 11.6 million for the New Investment Fund (FoNI), a component foreseen by the tariff method for the Integrated Water Service. The Group's overall investments net of capital grants amount to 299.4 million Euro.

The Hera Group's gross tangible and intangible investments amount to 261.8 million Euros, compared to 292.5 million Euros in the preceding financial year. The decrease of -30.7 million Euros, which is analysed below for each single Business Area, is principally due to the fall of investments in areas not subject to regulation in the 2012 financial year (-14.3 million for the purchase of photovoltaic systems, -3.1 million for interventions in the CCGT Imola cogeneration plant, -10.1 million for composting plants and digesters with dry-fermentation technology). Furthermore, minor financial equity investments for 0.7 million Euro were also carried out. An additional 52.0 million Euro were invested by AcegasAps in the 2013 financial year.

As of the 2013 financial year, particular attention is given to capital grants, in that the new tariff method for the Integrated Water Cycle sets aside part of the tariff as a quota reserved for new investments (FoNI: New Investment Fund). For this reason, it appears to be more useful to present the investments gross of capital grants, and to indicate the latter separately.

In the following table, the investments are listed gross of disposals and capital grants, subdivided by business segment, and the capital grants are underlined. The Group's investments, net of capital grants, amount to 299.4 million Euro of which AcegasAps is responsible for 46.3 million Euro.

Total Investment (millions of euros)	31-Dec-12	31-Dec-13	Abs. Var.	% Change
Gas segment	41,3	57,0	+15,7	+38,0%
Electricity segment	32,0	26,7	-5,3	-16,6%
Integrated water cycle segment	96,5	105,8	+9,3	+9,6%
Environment segment	48,4	51,4	+3,0	+6,2%
Other services segment	12,2	20,0	+7,8	+63,9%
Central structure	62,0	53,0	-9,0	-14,5%
Total operating investment	**292,5**	**313,8**	**+21,3**	**+7,3%**
Total financial investments	1,3	0,7	-0,6	-46,2%
Total gross investment	**293,8**	**314,5**	**+20,7**	**+7,0%**
Capital grants	4,5	15,1	+10,6	+235,6%
of which FoNI (New investment fund)	-	*11,6*	*+11,6*	+100,0%
Total Net investment	**289,3**	**299,4**	**+10,1**	**+3,5%**

The gross investments in the Gas sector amount to 57.0 million Euro, of which AcegasAps is responsible for 14,2 million.

Gas (millions of euros)	31-Dec-12	31-Dec-13	Abs. Var.	% Change
Networks	29,7	46,8	+17,1	+57,6%
District heating/heat management	11,4	10,2	-1,2	-10,5%
Other	0,1	0,0	-0,1	-100,0%
Total Gross Gas investment	**41,3**	**57,0**	**+15,7**	**+38,0%**
Capital grants	1,0	0,1	-0,9	-90,0%
Total Net gas investment	**40,3**	**56,9**	**+16,6**	**+41,2%**

Hera’s investments in the Gas area amount to 42.8 million Euro and record an increase of +1.5 million with respect to the 2012 financial year. In Gas Distribution (+2.9 million) major interventions were carried out on networks and plants, as well as operations for the regulatory upgrade as in 155/08 (extensive meter substitution) that show a noticeable acceleration with respect to 2012 (+2.2 million). The effects of the overall economic situation continue to be felt, bringing about a decrease with respect to 2012 in the request for new interconnections for -0.6 million Euro in the Gas service.

In the District Heating service, lesser investments by -0.7 million were seen, mainly (-0.5 million) due to the reduction in requests for new interconnections, as well as lesser interventions in Heat Management.

AcegasAps carried out investments for 14.2 million Euro in the Gas area, mainly involving interventions on the network (9.2 million Euro), prevalently to comply with obligations concerning the substitution of the pipelines in grey cast iron in the Trieste area, investments in remotely managed gas meters (2.1 million Euro) and interconnections (2.2 million Euro). Through the controlled Bulgarian company RilaGas AD, investments were made for a total of 1.6 million Euro.

The investments in the Electricity service amount to 26.7 million Euro, of which AcegasAps is responsible for 7.7 million.

Electricity (millions of euros)	31-Dec-12	31-Dec-13	Abs. Var.	% Change
Networks	27,7	22,2	-5,5	-19,9%
Imola CCGT	3,1	0,0	-3,1	-100,0%
Cogeneration	1,2	4,5	+3,3	+275,0%
Total gross electricity investment	**32,0**	**26,7**	**-5,3**	**-16,6%**
Capital grants	0,0	0,1	+0,1	+100,0%
Total net electricity investment	**32,0**	**26,6**	**-5,4**	**-16,9%**

Hera's interventions for 19.0 million Euro prevalently concern the extension of the service and the extraordinary maintenance of plants and distribution networks in the Modena and Imola areas, where an important intervention on the New AT-MT station in via Selice was initiated. The decrease of -13.0 million Euro with respect to the preceding financial year is mainly an effect of the acquisition of the photovoltaic plants in 2012 (14.3 million Euro) and interventions carried out in electricity and heat production plants the preceding financial year as well (Imola CCGT for 3.1 million Euro). Investments in Electricity Distribution are in fact 1.5 million Euro higher than the preceding year, in spite of the decreased request for new interconnections, that are in fact -1.4 million Euro lesser than the preceding year. The interventions carried out in the area of industrial cogeneration are also higher than the preceding year (+3,3 million Euro).

AcegasAps carried out 7.7 million Euro of investments in the Electricity area, that mainly concern interventions on the network for 3.6 million Euro, investments in technological plants for 3.2 million Euro, as well as new interconnections for 0.6 million Euro and interventions on meters for 0.3 million Euro.

As regards the Integrated Water Cycle, investments principally concern extensions, network and plant decontaminations and enhancements, as well as regulatory compliance regarding above all purification and sewerage. On the whole, interventions in the Integrated Water Cycle amount to 105.8 million Euro of which 16.9 million pertain to AcegasAps.

Integrated water cycle (millions of euros)	31-Dec-12	31-Dec-13	Abs. Var.	% Change
Aqueducts	47,3	56,1	+8,8	+18,6%
Purification	25,9	20,0	-5,9	-22,8%
Sewerage	23,3	29,7	+6,4	+27,5%
Total gross water cycle investments	**96,5**	**105,8**	**+9,3**	**+9,6%**
Capital grants	3,0	14,6	+11,6	+386,7%
of which FoNI (New investment fund)	-	*11,6*	*+11,6*	+100,0%
Totale Net water cycle investment	**93,5**	**91,1**	**-2,4**	**-2,6%**

The reduction of -7.6 million Euro recorded in the Hera Group with respect to the preceding year is partially an effect of having reprogrammed the interventions on Treatment plants, against a rise in interventions in the Rapid Response service for the aqueduct and the sewage system, where upgrades in disposal were carried out in compliance with Legislative Decree n. 152/2006, their planning having been completed during 2012. Furthermore, the persisting crisis of the real estate sector continues to produce lesser requests for new interconnections, with a result of -2.3 million Euro with respect to the preceding year.

AcegasAps invested 16.9 million Euro in the Integrated Water Cycle, 8,8 million Euro of which were dedicated to the Aqueduct, 5.0 million Euro to the Sewage system and 3.1 million Euro to Purification. These investments concern network maintenance, interventions in plants, as well as 2.7 million new interconnections implemented.

In the Environment area, interventions in maintenance and enhancement of existing plants across the Group's reference area amount to 51.4 million Euro, of which AcegasAps is responsible for 3.8 million.

Environment (millions of euros)	31-Dec-12	31-Dec-13	Abs. Var.	% Change
Composters/Digesters	15,7	5,6	-10,1	-64,3%
Landfills	9,4	12,4	+3,0	+31,9%
WTEs	8,4	11,7	+3,3	+39,3%
RS plants	5,2	4,2	-1,0	-19,2%
Market	1,0	0,6	-0,4	-40,0%
Collection plants	3,7	6,6	+2,9	+78,4%
Transhipment, selection and other plants	4,9	10,3	+5,4	+110,2%
Total gross environment investment	**48,4**	**51,4**	**+3,0**	**+6,2%**
Capital grants	0,5	0,3	-0,2	-40,0%
Total net environment investment	**47,9**	**51,1**	**+3,2**	**+6,7%**

As regards Hera's investments in the various chains, the following factors are of note: a decrease in investments in composting and digesters (-10.1 million Euro) including the creation of plants with Dry-fermentation technology in Rimini and Lugo, which are currently in the completion phase; an increase in investments in landfills (+3.0 million Euro), respect to which the creation of the 7th sector of the Ravenna landfill and of the meteoric basins substitute the waterproofing interventions, along with availability and viability on the Tre Monti and Pago landfills carried out in 2012; an increase in the investments in the WTE chain (+1.6 million Euro) that includes a widened plant base with the Pozzilli plant, and a reduction in other interventions that can be principally attributed to the revamping of the Forlì Pre-selector plant that in 2013 is in its conclusive phase; a reduction of investments in plants for special waste treatment (-1.0 million Euro), mainly due to the creation of the Ravenna Wastewater Dehydration plant, currently in its conclusive phase, and to the maintenance and regulatory compliance interventions carried out in 2012; larger investments in selection plants (+5.4 million Euro) that concern the revamping of the Modena plant and the creation of the Bologna plant, both managed by Akron.

AcegasAps carried out investments in the Environment area for 3.8 million Euro, of which 1.6 million in the WTE chain.

Investments in the Other Services area amount to 20.0 million Euro, of which AcegasAps is responsible for 9.3 million.

As concerns Hera's interventions, mention should go to the Telecommunications area, in which 8.3 million Euro were invested in networks and in TLC and IDC services, as well as 2.5 million in the public lighting service, while the heading "Other" includes, in the preceding year, investments in Cemetery Services.

AcegasAps carried out 9.3 million Euro in investments, that prevalently concern investments in the Sinergie subsidiary companies, of which 2.9 million in the public lighting service.

Other Services (millions of euros)	31-Dec-12	31-Dec-13	Abs. Var.	% Change
Telecommunications	8,8	8,3	-0,5	-5,7%
Public lighting and Traffic lights	1,9	5,4	+3,5	+184,2%
Other	1,6	6,4	+4,8	+300,0%
Total gross other services invesment	**12,2**	**20,0**	**+7,8**	**+63,9%**
Capital grants	0,0	0,0	+0,0	-
Total net other services invesment	**12,2**	**20,0**	**+7,8**	**+63,9%**

Investments in the area of the Central Business Unit concern the property works dedicated to creating new headquarters, that decreased with respect to the preceding financial year, as well as the investments in information systems and those necessary for maintaining the company's vehicle fleet. "Other investments" include the completion of laboratories and Remote control structures.

Central business unit (millions of euros)	31-Dec-12	31-Dec-13	Abs. Var.	% Change
Property works	27,9	17,2	-10,7	-38,4%
Information systems	18,1	19,9	+1,8	+9,9%
Fleets	12,9	13,5	+0,6	+4,7%
Other investment	3,0	2,4	-0,6	-20,0%
Total gross central business unit investments	**62,0**	**53,0**	**-9,0**	**-14,5%**
Capital grants	0,0	0,0	+0,0	-
Total net central business unit investment	**62,0**	**53,0**	**-9,0**	**-14,5%**

1.03.02 Regulatory framework and regulated revenues

Reference legislation

In 2013 the Parliament adopted highly relevant measures for the energy and local public services sectors: the “Fare” and “Destinazione Italia” decrees for electricity and gas and the "Legge di Stabilità" 2014 concerning waste taxation reform.

The “Fare” decree of 21st June 2013, n° 69, subsequently amended and converted with Law 9th August 2013, n° 98, enforced urgent measures for economic recovery. Among the measures aimed at simulating the country’s economic growth, mention should go to the allowed consumer protection range now to be applied solely to household gas, whilst prior to the decree the consumer protection range also included small and medium enterprises and public service providers. As far as gas distribution tenders are concerned, the Decree has introduced a 4 month extension for tender issuing, limited to the first two sets of ATEM (minimum territory set) as defined by decree 12th December 2011, n° 226 (a.k.a. “Regolamento Criteri”), and a further 18 month extension for the municipalities stricken by the May 2012 earthquake in the region of Emilia-Romagna. The decree also establishes that the deadline has passed the Region must put local service providers under administration and issue a tender; after four additional months, the Ministry of Economic Development shall take over administration. After the deadline has passed, the decree establishes a 20% fee on concession royalty to be destined to the pertaining ATEM tariff reduction. Concerning the "Robin Hood Tax", i.e. an IRES surcharge on energy providers, such raise in taxation shall be extended to all companies with over €3 million turnover and a taxable revenue over €300.000 (compared to the previous €10 million turnover and €1 million taxable revenue). Finally, for 2013, the Decree states that the value of Avoided Fuel Costs (CEC), on which Cip6 plant remuneration is based, shall be determined based on the reference fuel pool, where oil-based fuels will be progressively reduced (80% first quarter, 70% second quarter, 60% for the last two quarters). From 2014 on, CEC will be determined quarterly and solely based on gas supply cost.

In the last days of 2013, the Decree 23rd December 2013, n° 145, called “Destinazione Italia”, was approved, later converted into law 21st February 2014, n° 9. It contains amendments to tender regulation for gas supply services, particularly as far as reimbursement for existing providers at the end of their concession time is concerned. Specifically, art. 16 amends Decree 23rd September 2000, n° 164, or “Decreto Letta”, stating that, in case agreements do not clearly define which calculation is to be applied, the amount of the reimbursement shall be obtained according to the method complying with the Ministry of Economic Development's guidelines. Such guidelines, introduced in 2013 and still to be officially implemented, are based on Residual Industrial Value (VIR), in turn based on properly downgraded asset reconstruction costs, thus providing reference standards concerning plant type as well as exploitation of the various components that contribute to defining the assets. The Decree establishes that the Reimbursement Value will take into account deductions, social contribution and private funding received by operators, according to present regulation. To encourage new tenders, existing providers shall advance a single allowance to cover tender costs. There is a relevant decrease from 25% to 10% of the threshold (measured as the gap between Reimbursement Value and RA) beyond which the client is expected to contact the Electricity, Gas and Water Authority (hereafter: the Authority). Finally, a further four-month extension has been established for the issuing of ATEM tenders concerning the first 3 sets described in Decree "Regolamento Criteri".

After only two years since the beginning of the waste tax system restructuring initiated by Decree 6th December 2011, n° 201, converted into law 22 dicembre 2011, n° 214, which created and implemented TARES and suppressed TARSU and TIA, the Stability Law 2014 27th December 2013, n°147 has introduced further modification consisting in the Imposta Unica Comunale (unified municipality tax). IUC consists of a property tax component (IMU), to be paid by real estate owners, and a service tax component subdivided into TASI, for compound services, and TARI, for urban waste disposal and assimilated services. TARI resembles the TARES framework in the treatment of both those who are subject to taxation and those who are exempt, as well as in the cost coverage policies for service providers. However, a new regulation has also been introduced according to which each Municipality shall be responsible for assessing such costs, taking into account standard service costs and tax deductions for separate household waste collection (in cases such as Bologna, where compost collection is permanently carried out), which are no longer a mere option for the municipality but a compulsory policy. Within six months from the effective date of the law, the issue of a regulation by the Ministry of Environment is expected in order to address the creation of waste collection measurement (or service cost correction systems). Those municipalities that choose such waste measurement systems may allow for a tariff to be paid instead of tax charges. The implementation of the law requires local legislation to determine detailed tariffs, waste type-based company sets and deduction policies (such as large family households).

Finally, biomethane incentives are regulated by the Interministerial Decree 5th December 2013 (issued by the Ministry of Economic Development in collaboration with the Ministry of Environment and of Agriculture), complying with art. 21, par 2 of decree n° 28/2011. In particular, depending on the specific use of pipelined biomethane, different sets of incentives are available. Access is possible to both new production plants operative after 5 Dece 2013 as well as to partially converted biogas plants or biomethane-only plants. The framework allows for incentives (in €/MWh) for biomethane pipelined in the gas network, amounting to the spread between biogas's doubled average yearly price and its monthly price as per the Balancing Market. The duration of the incentives is 20 years as of the commissioning date of the plan. It is also specified that, in order to apply for incentives, plants with 250 smc/hour must use by-products or waste for at least 50% of the total. The implementation of the incentive system is waiting for the Authority’s approval on the assessment methods to establish biomethane incentive quantity, range and tariff types, as well as determining GSE procedures for incentive application and granting.

Gas, Electricity and Integrated Water Service Regulation

The Electricity and Gas Authority (as of 1st January 2014 the Authority for Electricity, Gas and the Water System) carried out a particularly intense regulatory activity during 2013, as can be seen in the over 600 regulations issued and the over 50 reference papers released.

Gas distribution has been a core focus, its regulation having been improved with en eye to upcoming tenders for service management. One of the noteworthy measures is the publication of the new Integrated Texts for Tariffs and Service Quality for distribution and measurement services for the fourth regulatory period 2014-2019, issued following the complex consultations that have taken place since 2012.

Among the main measures contained in the Gas Distribution Tariff Regulation (RTDG), as per resolution 573/2013/R/gas, one should first note the extension of the duration, approved from four to six years. Framework and core criteria for access to incentives will remain unvaried over the six years, while the financial parameters for the remuneration rate of capital cost will be updated every two years and the productivity recovery rate for operational costs every three years. For 2014-15, according to the resolution, the Weighed Average Cost of Capital (WACC) will be 6.9% for distribution service and 7.2% for measurement. Such values will be adjusted for the two subsequent 24 months of the regulatory period, based on ten-year BTp rates (referenced by the risk-free rate). The unlevered beta coefficient (that measures sector risk against the market average) has been established at 0.44, and the Debt/Equity ratio at 0.6. Operative cost regulations have not been changed and are still organized in company sets by density and size of distribution, based on national unified rating as regards measurement and marketing. The approved unitary values for 2014 have been derived from 2011's final balances as provided by operators in their Consolidated Annual Statements and in compliance with profit sharing policies. The remaining factor for distribution services, i.e. the recovery of efficiency on taxed operative costs, equals 1.7% for distribution operators (companies with over 300.000 redelivery points), while no charges are applied for marketing and measurement operators. Surcharges on WACC for specific investment incentives have been ruled out, this tariff type having been replaced by an output-based incentive/penalty policy in Quality Regulation. Distribution volume-related risk has been minimized by basing tariffs on "redelivery points" and not actually distributed gas. Lastly, tariffs concerning incentives have also been restructured: as of 2012's received incentives, these will be deducted from both RAB (Regulatory Asset Base) and from depreciation of assets. Incentives deducted from RAB will be adequately degraded. As regards stocks of incentives received until 2011, operators will be able to choose whether to apply the previous framework's rules or the newly adopted incentive regulation.

Resolution 573/2013 does not contain policies concerning the tariff framework of the new ATEM managements, given that the pertaining Authority decided to carry out further consultations. To this purpose, in February 2014 the final consultation paper (53/2014) was released confirming previous standards expressed in consultation paper DCO 359/2013, and aiming to define a regulatory framework by March 2014. More in detail, the Authority will confirm the differentiation in value assessment of net permanent assets for tax optimization, by establishing two scenarios: in cases in which the entering management is not the same as the exiting one, assets shall be valued based on VIR (Residual Industrial Value); in cases in which the new management corresponds to the former one, the present regulatory framework will apply. The Authority is considering cutting local asset value for an amount equalling the discount offered in the tender, regardless of such asset value being Residual Value- or RAB-based. The Authority has designed a parametric formula to identify sites with sensibly lower RAB values, proposing also for additional value to be applied starting with the forthcoming period of contracting. The extension of regulatory service life has also been confirmed, in order to adjust to industrial service life as defined in decree "Regolamenti Criteri". A tariff component to cover the VIR-RAB gap has been designed for macro-regional levels, foreseeing council taxation to compensate for budget variance exceeding 25% as well as in cases where individual local units RAB level is below the national average.

The new Regulation on Gas Quality Distribution (RQDG) 2014-2019 is included in resolution 574/2013/R/gas. In reference to commercial quality, the Authority's action is aimed at a gradual convergence towards the commercial quality standards of electricity. As of 2014, compensation will be increased for non-standard compliant provided services, in addition to surcharges for further delays in service provision. Moreover, a number of services provided which until 2013 were subject to general standards, have now been put under specific parameters and thus may benefit from compensation policies should supply be delayed. In line with the commercial quality of electricity, as of January 2015 the so-called "quick estimate" and deferred activation/deactivation will be implemented. Gas service tenders are affected by the abolition of the “hand-over period”, which under previous regulation was defined as a short latency phase in service monitoring, in order to allow the take-over management to start operations without being penalized by possible issues related to the exiting management's side of the hand-over. Concerning technical quality (safety and service continuity), the main innovations regard new service obligations which make regulation/supply regulation yet more challenging: for instance, new regulations concern distribution networks and their maintenance complying with standards for effective cathodic protection as well as mapping updating and emergency response time. The presented incentive-penalty model will be effective as of 2015 and is expected to generate a 6% increase in the conventional value of energy dispersion together with a 20% decrease of the sanctionable minimum limit.

With resolution 631/2013/R/gas, the Authority has further modified installation standards for remote gas meters (known as smart gas meters). Measurement tools, connection and wiring are now considered to be sufficiently reliable, and the largest service providers at least have proved to be able to maintain effective operation and management standards in order to implement extended smart meter installation for mass market clients (measurement group G4 and G6 classes). More in detail, companies with over 200,000 redelivery points must guarantee the replacement of 3% of G4 and G6 meters by 2014 and of 10% by 2015. Consequently, at least 3% of newly installed meters must be functional by 2015. For large enterprises, the next step for replacement has been set to 60% of the meters stocked by 2018, as stated in the previous resolution 575/2013/R/gas, which also ruled out the compulsory removal of 100% G4 and G6 meters with expired meter certificates. For 2014 and 2015, resolution 573/2013 has established investments on meters below or equal to G6 class to be evaluated (in derogation from standard cost policy) on actual sustained costs up to a maximum 150% of standard cost, and has ruled concentrator costs to be determined on an actual cost basis.

As far as gas sales are concerned, with resolution 196/2013/R/gas the economic reform of gas services has been completed. The main change is the shift from a raw material indexing based on long-term contracts with gas pick up obligations - “Take or Pay” (ToP) contracts - to a spot market-based index. This method upgrade, aimed at adjusting prices to market conditions where demand has been dropping and energy prices have been falling on international markets, has affected raw material investments (previously named CCI and now Cmem) by over 20%. The subsequent decrease in margins for operators has been partially compensated by the increase in retail trade (QVD - Retail Sales Rate), both in fixed and variable rates, aiming at a competition shift from supply strategy to client commercial management. In addition to the new Cmem index, two further components have been planned: the first, known as CCR, includes coverage of risks related to supply operations, while CCRgrad (expiring in 3 thermal years, from 2013-2014 to 2015-2016) is a tool intended to gradually weaken the effects of the reform on the operators' supply portfolio. Finally, the QS component to cover for stocking costs has been abolished, while the QT component for transport costs has been down-sized. The new price structure will be effective starting in the 2013-2014 thermal year - that is, as of October 2013. In February 2014 the Authority issued consultation 24/2014/R/gas, in which it suggests lowering some of the fees on raw material supply, specifically CCR and CCRgrad.

The final piece of the reform is the “Apr” mechanism, an incentive system approved with resolution 447/2013/R/gas and only concerning ToP contracts (unlike CCRgrad, that can be accessed by all sales enterprises). It aims at sharing costs that would affect long-term contract holders during renegotiation. Specific sets of operators will see a percentage to be issued in three instalments by December 2014, 2015 and 2016, amounting to 40% of the ToP/spot price spread, considering actual volumes provided to clients under special tariff plan. The Apt component will be adjusted according to spot rating and average ToP prices. The system also guarantees for final customer price, because in case of an inversion of Apr prices (that is, with ToP prices falling below spot prices) operators would have to pay the amount due instead of receiving it.

With resolution 241/2013/R/gas, the regulation framework for Default Gas Services (SdD) was also brought to completion. Default gas services had been contested by sector operators as, in the original intention of the Authority, it seemed to be a re-attribution of operations specifically pertaining to sales to distribution operators. After the Administrative Court granted suspension, in January 2013, resolution 25/2013/R/gas has allowed for a transitory period for February and March 2013, in which default gas service can be carried out by a temporary provider directly appointed by the distributor. The final regulation provided with resolution 241/2013/R/gas was to assign service management to an operator selected by tender by the Acquirente Unico (a company working as Authority for small client power supply) to carry out service on a thermal year basis and on territorial areas similar to those outlined in the Last Resort Provider (FUI). During the tender to select the default distribution provider, opened for thermal year 2013-2014, concerning supplies over the transitory period June-September, the Authority opted to assign service management to a last resort provider with territorial competence. Since 1st July, Temporary Suppliers selected by distributors have therefore ceased to operate, while since October 2013 service has been regularly provided by traders selected through public tender.

The large stock gas market has been further regulated by resolution 446/2013/R/gas, which introduces a new G-1 session for the Balance Market, in order to allow the Balance Authority (that is, the SNAM) to obtain extra-stock supplies through market mechanisms aiming at balancing the gas transport system while minimizing user fees. Potential extra assets consist of short-term imports, in LNG, in combined cycle plant modulation and in line packing, even though the integration of such assets will be gradual due to technical issues related to the marketing of such resources. The compliance with European Gas Code and Guidelines instead concerns capacity allocation and conformity to European Regulations related to congestion management: the former states that a portion of the overall transport capacity must be reserved for short-term capacity items in order to increase market liquidity, while the latter works in order to make available, through reallocation procedures, the users' systemic unexploited capacity by applying a “use it or lose it” policy.

Concerning the electricity sector, resolution 607/2013/R/eel, while updating compulsory distribution tariffs for 2014, has introduced adjustments to the existing tariff framework. WACC has been updated for the 2-year period 2014-2015 in compliance with TIT, setting for this time-frame a 6.4% rate for distribution as well as measurement services. Non-refund connection charges included in the tariff plan have been modified and as of 2014, now charges will be deductible from invested capital and no longer from recognised operation costs as previously. This regulatory variation affects both new fees as well as the stock that had already been implicitly ruled out of tariffs. Only for 2013, the resolution has lastly established a non-recurring mechanism that guarantees revenue from forfeit contributions, to compensate for the gap between a decreased connection demand over 2013 and the values implicitely expressed by the tariffs.

Tariff plans are also affected by resolution 204/2013/R/eel, which establishes reform policies for cost-optimized electricity distribution and higher consumer choice, by providing her with clear tariff plans better adhering to the consumer's actual power usage. In fact, the present tariff framework grants cross-subsidies between residents and non-residents for household consumers, due to tariffs gradually rising along with power usage. The present system therefore discourages high power consumption, artificially helping to make power usage unappealing for some household purposes (cooking, heating and hot water). The Authority therefore aims at an integrated tariff, straightforward and cost reflective, in order to facilitate the upgrade to newer and more efficient technology such as heat pumps and induction vessels. The Authority believes integration to be no longer deferrable if 20-20-20 EU targets are to be met, as since these demand both higher renewable sources exploitation and energy efficiency upgrades as well as an increase in power usage for household applications. The Authority intends to implement initial measures in 2014 and intends to complete the reform process in the early fifth regulatory period (2016-2019). First, consultation paper 52/2014 foresees the experimental implementation of a new tier tariff (D1) starting 1st July 2014 and addressed to household customers using heat pumps as the sole heating system in their residence. According to plans, starting from 2016 an integrated D1 tariff will be introduced for all household users.

As a result of the consultation on the Electricity Protection Service reform, the Authority issued resolution 456/2013/R/eel, re-defining tender regulations and service requirements. Contract duration has been extended from 2 to 3 years (new contracts shall now cover the 3-year period 2014-2016) and a new charge compensation policy has been introduced to cover previously non-refundable charges on overdue interests: now, the incentive-penalty policy is compulsory and the territorial gap parameter for overdue interest has been replaced by a general efficiency threshold. Csal has been introduced as a form of incentive to fund the overdue charge compensation pool, and aims at gathering further resources to cover priority customers who are cannot be disconnected. From 2015 on, for priority client protection, two distinct types of despatching contracts with Terna must be set: a general one for market operators and a specific one for priority clients. Moreover, in case of customers with unpaid bills or missing deposit, the protection authority shall be entitled to file a disconnection request, complying with resolution 4/08. The new category "non-disconnectable" has been approved and now covers priority clients who cannot be disconnected due to public authority deliberation.

Resolution 578/2013/R/eel has approved the long-awaited Integrated Text for Basic Production and Consumer Systems (TISSPC): these are fundamentally semi-autonomous production facilities parallel to the public distribution network as, regardless of their being connected to it, they will use residual quantities of its power supply. The most interesting sub-group included within the macro-set SSPC, known as Efficient Customer Systems (SEU), features power outlet under 20 MWe, is powered by either renewable sources or high-efficiency hybrid cogeneration and has contracts involving a sole producer and a sole final customer (which do not have to be necessarily different individuals). The Existing Systems Equivalent to Efficient Customer Systems (SEESEU) category is similar to the SEU, but is already operational on the date of approval of the resolution (while only plants operating since 1st January 2014 can be classified as SEU). The SSPC category finally includes two other sets, which are Auto-production Systems (SAP), in which the producer must use at least 70% of produced energy for his own use or for same-group companies, and Other Existing Systems (ASE) in which the producer and the final user must be distinct. Category assignment is granted by GSE, the sole certifier of all auto-production systems included in SSPCs. As of 1st January 2014, SEU or SEESEU plants are to benefit from a special tax plan, exempt from system fees (amounting approx. to 60€/MWh) on power generated autonomously and consumed on site. For all non-SEU/SEESEU qualified systems (that is, for SAP e ASE systems), general fees will be applied to all-inclusive power consumption. Benefits for cogeneration plants are applicable only upon attaining GSE certification as "high-efficiency cogeneration" (CAR) plants.

Consultation on power was initiated by the document 354/2013/R/eel, where several new policies for electricity dispatching have been introduced. The Authority is working towards extending the compulsory supply of dispatching service to renewable energy based plants (FER), presently exempt. Such measures were unavoidable, due to the fact that the rising use of renewable energy also poses safety and system overloading issues, due to intermittent energy production. The Authority has therefore started a review process of dispatching management in order to involve FER plants, by commissioning a study from the Politecnico di Milano to analyse potential configurations. The study aims at shifting from the present fit & forget policy to a smart grid model, thus optimizing dispatching and reducing bottlenecks, limiting in turn the need for further physical growth. To achieve this result, three options have been put forward: in the first, Terna would keep its hold on exclusive dispatching services, while at the same time extending its production range to renewable sources; in the second scenario, a "second-level" dispatching market would be created under the distributor's responsibility; in the third case, the present structure would be maintained, but the distributor would be asked to reduce the gap in the AT/MT interface to virtually zero.

Consultation paper 613/2013/R/eel introduces new options concerning storage systems for power system regulations. The Authority works in the direction of equating the treatment for storage systems to the one for programmable production facilities powered by non-renewable sources, while connection process should work under the procedures and policies for high-efficiency cogeneration plants. Moreover, power used for storage should no longer be subject to system charges and transmission and distribution fees. Finally, under specific incentive plans, the producer must provide distinct evidence of both storage system power input/output and plant power production.

During the final days of 2013 regulatory changes were approved concerning the Minimum Guaranteed Prices (MGP) assigned to power production from renewable sources. With resolution 618/2013/R/efr 19th December, the Authority approved the new MGPs for 2014, whose amounts are considerably lower than previous regulation. A few days afterwards, the decree “Destinazione Italia” was approved, which includes among others a resolution according to which Minimum Guaranteed Prices must be equal to the hourly price for the zone in question in all plants that receive incentives (therefore effectively abolishing them, except for those plants that do not receive incentives), with the sole exception of photovoltaic plants up to 100kW and hydroelectric plants up to 500 kW. However, in February 2014 the Authority published a note confirming the validity of MGPs as defined within resolution 618/2013, without distinguishing between plants that receive incentives and those that do not, with the option for both types to obtain, at the end of the solar year, a compensation corresponding to the hour/zone price for the amount of hours in which it exceeded the minimum guaranteed price.

Concerning the wide-ranging measures for energy sectors, resolution 260/2013/R/com must be mentioned, with which the Authority has started preliminary research to surpass the current invoice layout and to adapt the regulation on the bill transparency to the changed market conditions. The Authority itself asserts that the current regulation was designed for a recently liberalized market, where the main target goal was a complete and standardised information for the final customer. The inquiry was begun in order to evaluate possible alternatives to the current bill format model and to assess its impact on marketing costs. With this purpose, both consumer and marketer associations were asked to provide their opinion. The preliminary research ended in December 2013, whilst in March 2014 a consultation (69/2014/R/com) was opened in which the Authority illustrates its proposals on the subject and offers new power and gas bill layout prototypes.

The most relevant measure for the water service sector in 2013 was the approval, with resolution 643/2013/R/idr, of the Water Tariff Method (MTI) for 2014-2015. The method is substantially in line with the content of the 2012-2013 Transitory Tariff Method (MTT). Regarding service provider cost valorisation criteria, the tariff compensation for investments is assured by the historical cost method, re-evaluated. Financial charges and taxes, through standard references, are to be approved on asset investment (instead of on the remuneration rate, as foreseen by systems that preceded the Authority’s regulatory actions), as well as coverage for specific sector risk and a one-time only surcharge on financial fees equal to 1%, to compensate the two-year lag after which investments will be recognised in the tariffs.

The methodological innovation with respect to the MTT concerns the tariff approval process: on the one hand, the Territorial Authorities (AATO) are to act as primary supervisors, while on the other hand the latter will have to define tariffs within the given deadline, and providers will be only able to present their own tariff plans to the Authority for electricity, gas and the water system if this deadline passes without the tariffs having been deliberated.

The method for Revenue Bond calculation has also been renewed, with two new components in addition to those foreseen by the MTT (Capex, Opex, and FoNI) to cover for environment- and resource-related costs (ERC) and in compensation for previous years' revenue bonds. Four possible regulatory models have been identified, depending on whether the tariff revenue is or is not sufficient to cover the infrastructural investments foreseen by the Territorial Plan for the following four years, depending as well on the degree of efficiency of the provider. Tariff recognition varies according to the regulatory framework in which the provider is located.

The 2014-2015 MTI also updated some of the parameters for calculating financial charges: the reference interest rate for 10 year bonds has passed from 5.24% to 4.41%; the cost of debt capital (Kd) passes from 5.69% to 5.96%, and the expected inflation rate passes from 1.8% to 1.5%. Other new elements include aqueduct tariffs divided into basic or facilitated and three types of surplus, a higher portion of the fixed charges assigned to final customers and a forecast for a facilitated tariff for (at least) the first 30 sqm consumed. Overdue costs for 2014-2015 will be assessed on the basis of parameters involving revenue and geographic area (north, south and centre).

Again with respect to the water sector, resolution 273/2013/R/idr establishes the methodological criteria to be used in calculating restitutions to final customers, according to the June 2011 national referendum, which abolished the concept of "adequate remuneration of invested capital". The basis for calculating the compensation is given by the remuneration on invested capital foreseen by each Territorial Plan according to the former tariff framework, which has been appropriately updated according to revenue for 21st July-31st December 2011. From the compensation thus calculated, in order to guarantee the recovery of actual costs, the Authority allows financial fees to be deducted, as re-assessed according to the results of the financial year and HR costs, financial fees and funds for credit devaluation.

In 2013, the Authority also defined procedural measures concerning tariff incentives and payment instalment options for communities struck by the earthquake in Emilia in May 2012. These measures will affect all three sectors regulated by Authorities (gas, power and integrated water service) and, with respect to the energy sectors, concern both distributors and marketers.

In greater detail, resolution 6/2013/R/com, issued in January 2013, above and beyond allowing for payment in instalments over an appropriate period of time of credits suspended from 2012, introduced tariff incentives for a 50% reduction of power distribution and integrated water service fees, with retroactive effect to 20th May 2012 and for a duration of two years. Lower revenue for providers subject to such special fees shall be compensated by specific policies supervised by the Compensation Fund for the Electricity Sector.

The incentive system, which also affects extra-tariff service payments, has been extended to the 104 municipalities identified by the Ministry of Economy and Finance on 1st June 2012, as well as the municipalities of Mantova and Ferrara.

After the inspection undergone by Hera in October 2012, according to resolution 416/2013/S/eel 3rd October 2013, the Authority provided for regulation enforcement measures to be carried out in the future in order to verify potential violations of electricity production plant connections.

In particular, according to the Authority, Hera would have failed in some cases to provide default indemnities owed to users who experienced delays in the provision of expense plans and service activation. The preliminary inquiry will last 180 days and the deadline for implementing the final measures allows for 90 days as of the end of the inquiry.

Hera has availed itself of the possibility provided by the Authority, in compliance with art. 45, section 3 of decree n.93/11, that allows for the presentation of a customer compensation plan for users affected by treatment that does not comply with regulations, and the Authority has yet to provide a response as to the acceptance of this plan.

It is important to point out that Hera was not sanctioned by regulatory bodies. Within the consolidated Hera Group, Acegas-Aps Spa did receive sanctions for €31.000 for irregular use of marketer measurement data, specifically the indication contained in the Integrated Gas Marketing Text (TIGV) stating that data must be provided "within the 6th working day of the month following the one in which the attempt to gather data took place".

The misconduct was confirmed following a procedure compliant with resolution VIS 73/11 and a sample testing procedure carried out for the period lasting from October 2009 to January 2010. Within the resolution 524/2013/S/gas, that quantified the sanction, the Authority has in any case acknowledged the termination of any such misconduct on the part of the company.

Gas distribution: tariff framework

The gas distribution and metering system adopted by the Authority for 2013 is governed by the RTDG, under resolution ARG/gas 159/08. In fact, with resolution 436/2012/gas the Authority extended by one year the 2009-2012 regulatory period, setting for 2013 a rate of return on invested capital of 7.7% (from 7.6% for the four-year period 2009-2012) and an annual productivity recovery rate of operating costs equal to 2.4%, for large operators, in keeping with the falling trend set by resolution 315/2012/R/gas. On the basis of these principles, the Authority approved the 2013 reference tariffs, with resolutions 553/2012/R/gas and 328/2013/R/gas for all the distribution companies, including those of the Hera Group, and corrected material errors in the approvals for previous years.

Several operators, including Hera S.p.A., filed an appeal with the Regional Administrative Court of Lombardy (TAR) against resolutions 436/2012 and 553/2012, considering that the procedure used to set the weighted average cost of capital (WACC) for 2013, in particular, did not reflect market conditions for the period, as it is based on a survey period for the risk-free rate inconsistent with the rules utilized permanently by the Authority until 2012. In addition, the rate of return set for 2013 is further penalized by the increase of the debt-to-equity ratio from 0.5 to 0.8, which is regarded by the Authority as more in keeping with the electricity sector. Currently, the TAR's ruling on the appeal is pending.

The tariff plan defined for 2013 ensures each operator of the attainment of *allowed revenues* determined by the Authority on the basis of the recognized costs, expressed by the *reference tariffs*, and number of hand-over points served, de facto making the corporate revenues independent of the volumes distributed. This is done by using tariff equalization mechanisms, which allow operators to use the Electricity Equalization Fund to settle differences between their own allowed revenues and the revenue generated by invoicing the sales companies. These latter revenues arise from the *compulsory tariffs* determined by the AEEG based on macro-regional size.

In this context, Hera S.p.A.'s revenues from gas distribution and metering activities for 2013 amounted to €165.7 million, for distributed volumes of 2,205 million m^3, reflecting on average a price of €7.51 cent/m^3. The revenue amount shown takes account of an adequate estimate of tariff equalization. Compared to 2012, given unchanged distributed volumes, revenues rose by a respectable 4.1%, from €159.2 million to €165.7 million. Of the €6.5 million increase, €3.7 million was attributable to positive changes in revenues related to periods prior to 2013 (tariff approvals and results of the equalization mechanisms for 2011 ad 2012 above estimates) while the remaining €2.8 million was due to more hogher caps on revenues in 2013, compared to 2012, mainly due to the inflation adjustment approved by the Authority and the increase in the return on invested capital.

Gas distribution and metering - Regulated revenues	2012	2013	% change
Hera S.p.A.			
Revenues (€ millions)	159.2	165.7	4.1%
Volumes (millions cubic meters)	2,204	2,205	0.0%
Average revenue per unit (€cent cubic meter)	7.22	7.51	4.0%

Concerning gas distribution within the Hera Group as a whole, in addition to Marche Multiservizi S.p.A., from the 1 January 2013 the consolidated accounts reflect also the results of the Acegas-Aps Group. Consolidated revenues from gas and metering activities for the Hera Group amounted to €221.9 million, for 2,871 million m^3 distributed and revenues per unit of €7.73 cent/m^3. The input of the Acegas Aps Group to consolidated revenues amounted to €40.7 million (for distributed volumes of 515 million m^3), inclusive of revenues generated by Isontina Reti Gas S.p.A., whose accounts were consolidated in proportion to the 50% ownership at 31 December 2013.

Gas distribution and metering - Regulated rever	2012	2013	% change
Consolidated Hera Group			
Revenues (€ millions)	174.1	221.9	27.5%
Volumes (millions cubic meters)	2,360	2,871	21.6%
Average revenue per unit (€cent cubic meter)	7.38	7.73	4.8%

Electricity distribution: tariff framework

The year under review was the second of the fourth tariff regulation period (2012-2015) for the Transmission, Distribution and Measurement of electricity. The reference consolidated texts (TIT for Transmission and Distribution and TIME for Measurement) were approved with resolution ARG/elt 199/11.
Concerning the distribution service, the new tariff method involves the setting of a cap on regulated revenues for companies (with similar logic to gas distribution). Capital costs are calculated on a mixed base (implicit for the assets perimeter until 2007 and at effective historical cost for investments from 2008) while operating costs are calculated on the final average domestic values recorded by the Authority and appropriately adjusted to take account of the effects of the tariff equalizations for the previous regulatory period. Setting a cap for each company is no longer as complex as in the previous tariff system and at the same time is in keeping with the cost reflectivity principles of allowed revenues.
In terms of allowed cost of capital, the tariff system provides for a 7.6% rate of return on capital employed, and the recognition of the so known "*regulatory lag*". This means an increase of the return on capital, to cover the financial charges resulting from the two-year time lag between the time the capital expenditure is made and the time that the expenditure is incorporated in the tariff. This increase amounted to 1%, for investments made in 2012 and, therefore, applicable to the 2014 rates.
The rates of reference for 2012 and 2013 were approved by resolution 122/2013/R/eel for all the operators, including the companies of the Hera Group. The successive resolution 203/2013/R/eel confirmed the levels approved previously.

In 2013, Hera's revenues from transmission, distribution, and measurement of electric energy amounted to €56.4 million, up 3.6 million on 2012, despite a 1.4% contraction of distributed volumes. This was due to the adjustment to the reference tariffs to include, in addition to inflation, changes in invested capital and recognized operating expenses, with a mechanism that in fact makes revenues independent of distributed volumes. The above revenues take into account also the effects of the approval of certain equalization items pursuant to the TIT and TIVG (Consolidated Act on Gas Sales) in 2013, though attributable to previous financial years.

Distribution, metering and transmission - Electric Energy, regulated revenues	2012	2013	% change
Hera S.p.A.			
Revenues (€ millions)	52.8	56.4	6.8%
Volumes (millions KWh)	2,233	2,201	-1.4%
Average revenue per unit (€cent/KWh)	2.36	2.56	8.4%

Consolidated revenues from transmission, distribution, and measurement of electric energy for 2013 reflected the input of the Acegas-APS Group as of 1 January 2013. This item amounted to €79.5 million, with 2,971 kWh distributed and revenues per unit of €2.68 cent/kWh. The Acegas-APS Group contributed €23.1 million, with distributed volumes of 769 million kWh, which includes in turn revenues attributable to Est Reti Elettriche S.p.A., whose accounts were consolidated in proportion to the 30% equity interest held in this company.

Distribution, metering and transmission - Electric Energy, regulated revenues	2012	2013	% change
Consolidated Hera Group			
Revenues (€ millions)	52.8	79.5	50.6%
Volumes (millions KWh)	2,233	2,971	33.0%
Average revenue per unit (€cent/KWh)	2.36	2.68	13.2%

Water cycle: tariff framework

The year under review was the second in the 2012-2013 first transitory period for tariff regulation by AEEGSI. However, as the new regulation took effect only at the end of 2012, 2013 is in fact the first year of application of the new water tariffs set on the basis of the national tariff method under AEEGSI's resolution no. 585/2012.

Compared to 2012, revenues in 2013 revenues rose by 21.5%, due to the consolidation of Acegas-APS and the rules of the new tariff method, which call for the convergence toward full cost coverage.

Hera Group consolidated Water cycle - tariff revenues	31 December 2012	31 December 2013	% change
Tariff revenues (€/millions)	465.80	565.85	21.5%
Volumes (millions cubic meters)	253	307	21.3%
Average revenue per unit (€cent/cubic meter)	184.32	184.41	0.1%

Urban hygiene: tariff framework

The year under review saw the introduction of “TARES”, which replaced the existing TIA and TARSU. As of December 2013, waste collection and disposal services were provided to 194 municipalities, 48% of which (94 municipalities) contracted their TARES assessment and collection services out to the Hera Group,

The table below shows an accurate comparison with the previous year on a like-for-like basis.

Hera Group consolidated Urban hygiene - tariff revenues (TIA + TARSU)	2012	2013	% change
Tariff revenues (€/millions)	435.0	519.2	19.34%
Residents served* (000)	2,841	3,277	15.35%
Average urban revenue (€/resident)	153.1	158.4	3.44%

* number of residents served as at 01/01/2013

The overall increase of 19.3% in the regulated revenues, for the urban hygiene service to the municipalities under concession, was due mainly to the consolidation of Acegas-APS. The average increase of 3.4% per unit, which incorporates also cost inflation, was due mainly to the tariff rise approved by the competent local water Authority, also in light of an increase in services provided.

1.03.03 Analysis by business segment

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

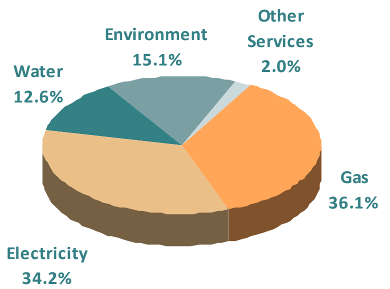
In the following text, Acegas Group will be referred to as “AcegasAps”, the whole of Hera Group as composed in 2012 as "Hera" and its overall results as "Group".

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

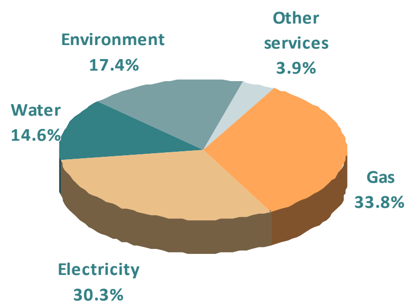
Breakdown of the Group's business portfolio

REVENUES

31-Dec-‘12

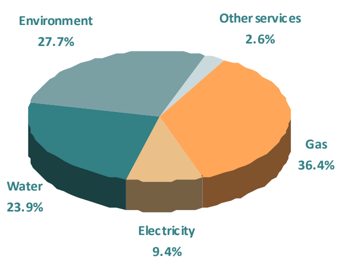


31-Dec-‘13

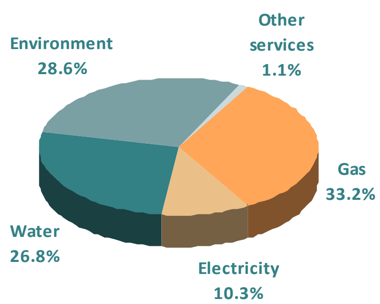


EBITDA

31-Dec-‘12



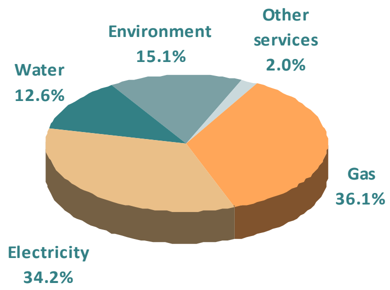
31-Dec-‘13



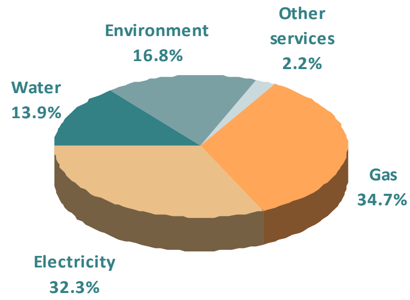
Breakdown of Hera's business portfolio

REVENUES

31-Dec-'12

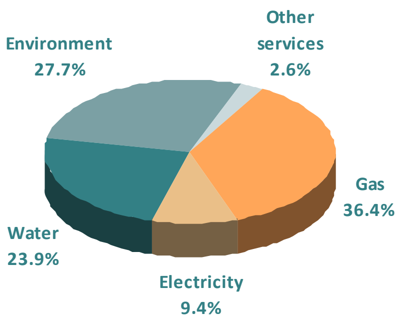


31-Dec-'13

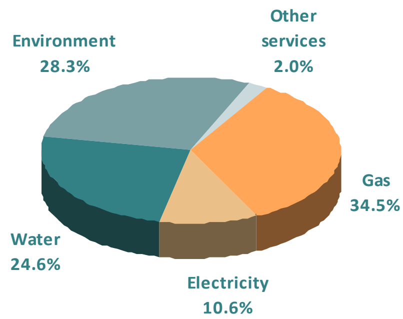


EBITDA

31-Dec-'12



31-Dec-'13



An analysis of the operating results broken down by segment is shown below. Hera's income statement include structural costs and account for segment trading valued by current market price. In AcegasAps, in order to have greater transparency in reading data, the criterion of representing segments used in their financial statement has been maintained. For conciseness' sake, the "Department Structures" segment has been included in the "Other Services" segment.

The analysis by business segment considers the evaluation of higher revenues and costs, without an impact on the Gross Operating Margin, relating to application of IFRIC 12, as shown in the Group's Consolidated Income Statement. The business segments affected by the application of the above principle are: Methane distribution services, Power distribution services, all Integrated Water Cycle services and public lighting services.

Analysis of operations in the Gas segment

As'of 30 June 2013the gas segment showed growth compared to the same period of the previous financial year in absolute terms of the contribution to the Group's EBITDA. The acquisition of AcegasAps led to a decrease in percentage market share of 3,2 points:

(mln/€)	31-Dec-12	31-Dec-13	Abs. Var.	% Var.
Hera EBITDA	240.7	238.0	-2.7	-1.1%
AcegasAps EBITDA	-	38.2	+38.2	+100.0%
Group EBITDA	**240.7**	**276.2**	**+35.5**	**+14.7%**
Consolidated EBITDA	662.1	830.7	+168.6	+25.5%
Percentage weight	36.4%	33.2%	-3.2 p.p.	

The following table contains the main quantitative indicators for the segment , including AcegasAps's abroad trade operations:

Quantative data	31-Dec-12	31-Dec-13	Abs. Var.	% Var.
Number of customers (in thousands)	1,116.3	1,221.2	+104.9	+9.4%
Volumes of gas distributed (millions of cubic metres)	2,360.1	2,878.4	+518.3	+22.0%
Volumes of gas sold (millions of cubic metres)	3,478.9	3,185.1	-293.8	-8.4%
- of which trading volumes	*1,396.0*	*956.4*	*-439.6*	*-31.5%*
Volumes of heat supplied (Gwht)	526.0	531.9	+5.9	+1.1%

The ditributed volumes rose from2.360,1 million cubic metres in 2012 to 2.878,4 in 2013, resulting in an increase of 518,3 million cubic metres (+22,0%); this rise is wholly due to the integration of AcegasAps for 522,8 million cubi metres. Hera's performance, decresing by 4,5 millioni cubic metres (-0,5%), show a better trend in national distribution, down by 2.1% in 2012.

Moreover, during the last quarter of 2013, markedly high temperatures were registered, turning out to be among the mildest seasons over the last thirty years based on Dayly Degree (-19% compared to last thirty years).

Yearly results for 2013 show growth for +1% Daily Degree but still lower than average historical data: such trend was confirmed by gas and heating data.

Gas volumes sold went from 3.478,9 million cubic metres in 2012 to 3.185,1 inthe same period of 2013, with a decrease of 293,8 million cubic metres (-8,4%). The main factors which have led to the such scenario:

- Theintegration of AcegasAps for 197,3 million cubic metres;
- The notable decrease in volumes sold for Trading operations (-31,5%), linked to lower volumes for the thermo-electric market and the progressive alignment between prices of the VTP and those of the Northern European HUBs on the wholesale market;

- The decrease in volumes sold by Hera to final customers (-51,6 million cubic metres -2,5%), linked to the aforementioned climate trends in the last quarter of 2013.

Volumes sold went from 526,3 GWht in 2012 to 531,9 on 31 december 2013, (+1,1%) due to the addition of AcegasAps accounting for 7,1 GWht; Hera's share shows a slight decrese compared to previous year's results (-1,1; or -0,2%), one again due to the mild cliamate which characterised 2013's last quarter, however such factor was balanced by an expansion of the customer base.

The gas customer pool, based on supply request, rose by 104.900 delivery points, 111.600 from Acegas, whereas hera lost 6.6 thousand points (-0,6%).

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

Income statement (€/mln)	31-Dec-12	% Inc.	31-Dec-13	% Inc.	Abs. Var.	% Var.
Revenues	1,769.3		1,695.6		-73.7	-4.2%
Operating costs	(1,459.7)	-82.5%	(1,326.9)	-78.3%	-132.8	-9.1%
Personnel costs	(77.8)	-4.4%	(97.7)	-5.8%	+19.9	+25.6%
Capitalised costs	9.0	0.5%	5.1	0.3%	-3.9	-43.4%
EBITDA	**240.7**	**13.6%**	**276.2**	**16.3%**	**+35.5**	**+14.7%**

The Group's revenues wentdown from 1.769,3 million in 2012 to 1.695,6 million euro, with a 73,7 million fall (-4,2%); among main causes:

- Theintegration of AcegasAps for 154,8 million euro;
- lesser revenues linked to trading operations for approx. 180,0 million euro, due to the mentioneddecrease in volumes;
- lower revenues for for final customer sales (-€46,3 mln), due both to lower volumes sold and to lower raw matter costs, in turn consequence of the Authority for Power, Gas and Water's reform, deriving from the gradual shift from oil indexing to spot market indexing.
- lower connection revenues, both in gas distribution as well as in Teleriscaldamento, caused by the estate market's slow growth rate.
- higher revenues in gas distribution services.

The aforementioned trading and seles activities are also reflected in lower operating costs, despite the integration of AcegasAps for103,3 million euro: Hera's opeerating costs fell by €236,2 mln, with a proportional decrease in revenues.

Hera's gross operating margin decreased by 2,7 million euro (-1,1%), down from 240,7 to 238,0 million euro due to the following factors:(i) lower margins for trading, (ii) lower margins for sales partly linked to smaller volumes, and (iii) lower margins resulting from changes in the regulatory and market conditions of dei Energy Efficiency Credit; these factors were partially balanced bythe higher margins of remote heating service, linked to cost saving on gas supply for heat production and heat consumption.

The integration of AcegasAps contributed to the gross operating margin of the Group's Gas segment for 38,2 million euro.

Compared to the same period of 2012, AcegasAps fell by 3,3 million euro (-7,9%) in gross operating margin (EBITDA), mainly due to lower demand for distribution caused by a number of non-recurring negative items inherited in 2013 from the previous management XXX.

Overall volumes sold by the AcegasAps Group account for 197,3 million cubic metres compared to 217,7 in 2012; the fall, amounting to 20.4 million cubic metres (-9.4%) was mainly due to the unrenewed agreements with a few large and no longer profitable clients, as well as to milder weather conditions in the reference territory, compared to the same period of 2012. AcegasAps-distributed volumes rose by 0.4%,, from 520.5 to 522.8 million cubic metres as a consequence of the acquisition of Gorizia-based AcegasAsp.

The Gross Operating Margin in the group's total Gas segment increased by 35.5 million euro (+14.7%), going from 240.7 to 276.2 million euro.

Analysis of operations in the Electricity segment

The Electricity segment in 2013, showed improvement compared to 2012, both in terms of results as well as in terms of actual margins, as shown in the table below:

(mln/€)	31-Dec-12	31-Dec-13	Abs. Var.	% Var.
Hera EBITDA	62.3	72.8	+10.5	+17.0%
AcegasAps EBITDA	-	12.7	+12.7	+100.0%
Group EBITDA	**62.3**	**85.5**	**+23.2**	**+37.3%**
Consolidated EBITDA	662.1	830.7	+168.6	+25.5%
Percentage weight	9.4%	10.3%	+0.9 p.p.	

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

Quantative data	31-Dec-12	31-Dec-13	Abs. Var.	% Var.
Number of customers (in thousands)	541.1	719.2	+178.1	+32.9%
Volumi venduti (Gw/h)	9,535.0	9,425.0	-110.0	-1.2%
Volumes distributed (Gw/h)	2,233.4	2,970.6	+737.2	+33.0%

Sold power volumes went from 9.535.0 GWh to 9.425,0 as of 31st december 2013, decresing by 1.2%. The integration of AcegasAps, accounting for 499.4 Gwh, has partly counterbalanced hera's lower performance (-609.4 GWh; -6.4%), caused by the permanent low demand for power in Italy which fell by -3,5% compared to previous year, regardless the customer pool increasing by +10,6% in the same period. Gas customer pool supply request went from 541.100 to 719.200, of which 120.500 were brought in by AcegasAps, while HERA accounted for 57.600 new contracts.

Distributed volumes rose by 33.0%; Acegas accounts for 769.2 GWh while Hera fell by 32.0 Gwh (-1.4%) due to the aforementioned drop in demand.

The main results of the segment are given below:

Income statement (€/mln)	31-Dec-12	% Inc.	31-Dec-13	% Inc.	Abs. Var.	% Var.
Revenues	1,678.4		1,521.7		-156.7	-9.3%
Operating costs	(1,599.9)	-95.3%	(1,410.8)	-92.7%	-189.1	-11.8%
Personnel costs	(24.3)	-1.4%	(32.1)	-2.1%	+7.8	+32.1%
Capitalised costs	8.0	0.5%	6.8	0.4%	-1.2	-14.9%
EBITDA	**62.3**	**3.7%**	**85.5**	**5.6%**	**+23.2**	**+37.3%**

Revenues decreased from 1678.4 million euro in 2012 to 1.521.7 million euro inthe same period of 2013, accounting for a fall by 9.3%. The main reasons are as follows:

- integration of AcegasAps for +87.6 million euro;
- lower revenues linked to trading operations (approx. -€115.6 mln) and to lower revenues in end-client sales (-€123 mln), both due to lower volumes sold and to the fall of the price of energy (PUN - Prezzo Unico Nazionale - unified national price), dropping by -16.6% compared to last year.
- lower revenues due to shrinking deamand for power production;
- broader regulation on revenues for gas supply services;
- lower revenues for connection services.

Net of the share relating to AcegasAps for €67.9 mln, Hera's operating costs decreased by €256.9 mln (-16.1%), more than offsetting lower revenues from end-customer sales and trading activities.

Hera's Gross Operating Margin increased by €10.5 mln (+17.0%), increasing from €46.0 to €54.0 mln thanks to broader margins on sales and trading operations, which offset the lower margins for power production, and thanks to higher revenues in regulated distribution services including items XXX prior to 2013.

The integration of AcegasAps contributed to the gross operating margin of the Group's Gas segment for <t0/>€12<t1/>.<t2/>7<t3/> mln.

Compared to the same period of 2012, AcegasAps fell by €3.3 mln (-20.5%), mainly due to lower connection demand, lower revenues from power distribution and lower sold volumes.

The quantities sold by the AcegasAps Group fell compared to the first half of 2012, decreasing from 914.7 GWh to 499.4 GWh, following both the loss of clients from the CEV consortium (municipalities of the Veneto consortium, with about 32.000 users) and the decrease of priority clients which passed under free market agreements. The distributed volumes confirm the reduction trend shown previously, decreasing from 814.0 Gwh to 769.2 GWh (-5.5%)..

The Gross Operative Margin for the Group went from €62.3 mln as of 31st December 2012, to €85.5 mln in 2013, accounting for 23.2 milioni di euro (+37,3%).

Analysis of operations in the Integrated Water Cycle segment

The analysis of Integrated Water Cycle, at the end of 2013, has grown compared to last year in the same period, both thanks to the integration of AcegasAps and to Hera's own expansion:

(mln/€)	31-Dec-12	31-Dec-13	Abs. Var.	% Var.
Hera EBITDA	158.3	169.3	+11.0	+6.9%
AcegasAps EBITDA	-	53.0	+53.0	+100.0%
Group EBITDA	**158.3**	**222.3**	**+64.0**	**+40.4%**
Consolidated EBITDA	662.1	830.7	+168.6	+25.5%
Percentage weight	23.9%	26.8%	+2.9 p.p.	

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

Income statement (€/mln)	31-Dec-12	% Inc.	31-Dec-13	% Inc.	Abs. Var.	% Var.
Revenues	617.1		730.5		+113.4	+18.4%
Operating costs	(355.0)	-57.5%	(388.2)	-53.2%	+33.2	+9.4%
Personnel costs	(108.3)	-17.5%	(121.9)	-16.7%	+13.6	+12.6%
Capitalised costs	4.4	0.7%	2.0	0.3%	-2.4	-53.9%
EBITDA	**158.3**	**25.7%**	**222.3**	**30.4%**	**+64.0**	**+40.4%**

Group's revenues increased by €113.4 mln (+18.4%), due to the integration of AcegasAps for €115.8 mln, regardless Hera's lower revenues (€-2,4 mln or -0.4%), caused by: (i) lower revenues from connection services, due to the estate sector persisting crisis, (ii) lower revenues from IFRIC 12 policy implementation, accounting for €-7,8 mln, and (iii) higher revenues from supply services due to the implementation of the tariffs agreed with those territorial authorities which produced full cost-coverage tariffs plans.

Hera's operating costs fell by €15.8 mln (-4.4%), compared to last year in the same period, due to lower costs as a result of the aforementioned IFRIC 12 policy implementation, to lower extraordinary costs for the 2012 summer draught emergency, to lower costs for power consumption in plants and finally to lower licence agreement tax. Integration with AcegasAps produced costs for €22.7 mln, accounting for the group's operating costs for €173.8 mln - a 9% increase compared to 30th June 2012.

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

Quantative data	31-Dec-12	31-Dec-13	Abs.Var.	% Var.
Number of customers (in thousands)	1,188.7	1,441.1	+252.4	+21.2%
Volumes sold (millions of cubic metres)				
Aqueduct	252.7	298.0	+45.3	+17.9%
Sewage	220.8	249.3	+28.5	+12.9%
Purification	217.0	248.5	+31.5	+14.5%

The Group's volumes increased thanks to the integration of AcegasAps for +45.3 mln cubic metres of aqueducts, +28.5 cubic metres of sewerage and +31.5 of purification; net of this change, Hera's aqueduct volumes decreased by 4.6%, its sewerage volumes by 4.3% and purification volumes by 3.0% both due to higher rainfall levels recorded in 2013 and to the decrease in consumption.

The gas customer pool, based on supply points, rose by 252.400 units inherited from AcegasAps.

Hera's Gross Operating Margin increased by €11.0 mln (+6,9%), going from €158.3 mln to €169.3 mln thanks to higher revenues generated by agreed tariff implementation, which includes full cost-coverage planning for management costs and by the previously mentioned lower operating costs, regardless revenues from connection services being smaller.

The integration of AcegasAps contributed to the gross operating margin of the Group's Gas segment for €53.0 mln.

Compared to the same period of 2012, AcegasAps had an increase of €8 mln (+18.0%) benefiting from the planned tariff revisions and greater operating efficiency, as well as on maintenance and energy-saving policies.

Quantities sold over 2013 were higher to those of the reference period in 2012, up from 57.9 mln cubic metres to 56.9 mln cubic metres (-1.0 mln mc; -1.7%).

The Group's EBITDA (gross operating amrgin) was €222.3 mln as of 31st December 2013, compared to €158.3 mln in the reference period of 2012, with an increase for €64.0 mln (+40.4%).

Analysis of operations in the environment segment

The Environment Segment showed an increase in the percentage margins, as shown in the table below, both as a consequence of AcegasAsp acquisition as well as to Hera's own policies and growth:

(mln/€)	31-Dec-12	31-Dec-13	Abs. Var.	% Var.
Hera EBITDA	183.5	195.2	+11.7	+6.3%
AcegasAps EBITDA	-	42.5	+42.5	+100.0%
Group EBITDA	**183.5**	**237.7**	**+54.2**	**+29.5%**
Consolidated EBITDA	662.1	830.7	+168.6	+25.5%
Percentage weight	27.7%	28.6%	+0.9 p.p.	

The Hera Group applies integrated waste full-cycle processing taking place in 72 treatment and disposal plants managed by HERAmbiente, besides 3 more plants managed by Gruppo Marche Multiservizi and two waste-to-energy plants acquired with AcegasAps. The change in the plant pool, compared to previous balances, is the result of plant optimization, mainly affecting industrial chemical-physical waste dumps. The aim has been to concentrate waste disposal in less plants, with a subsequent saturation of production capacity and related lower operating costs.

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

Income statement (€/mln)	31-Dec-12	% Inc.	31-Dec-13	% Inc.	Abs. Var.	% Var.
Revenues	737.8		872.9		+135.1	+18.3%
Operating costs	(409.1)	-55.4%	(455.1)	-52.1%	+46.0	+11.2%
Personnel costs	(153.8)	-20.8%	(183.6)	-21.0%	+29.8	+19.4%
Capitalised costs	8.6	1.2%	3.5	0.4%	-5.1	-59.0%
EBITDA	**183.5**	**24.9%**	**237.7**	**27.2%**	**+54.2**	**+29.5%**

The Group's revenues as of31st December 2013 show a gradual increase for €135.1 mln (+18.3%) compared to 2012's reference period, going from €737.8 mln to €872.9 mln, out of which the integration of AcegasAps accounts for €126.1 mln. Net of this change, Hera's increase (+€9.0 mln or +1,2%) has been due tohigher processed volumes, generated by trade expansion in central-northern italy areas , regardless oflower disposal average costs caused by strong competition on the industrial waste market, as well as by the full-capacity processing of Pozzilli waste-to-energy plant, without forgetting higher urban hygiene standards as requested.

Operating costs for the Waste Segment were €46.0 mln higher due to AcegasAps integration for €54,4 mln and to Hera's decrease by €8.3 mln.

Starting 1st january 2013, the Ferrara, Modena and Forlì waste-to-energy plants' ownership was transferred from Hera Spa to Herambiente Spa, in order to generate lower revenues with corresponding lower costs.

However, higher operating costs mainly consisted in higher processed volumes, in costs for the pozzilli plant and in extended services for separate waste collection.

In terms of collected volumes, Hera's separate waste collection for year 2013 accoutns for 54.0%, of total colelcted volumes, compared to 51.6% in the reference period of 2012.

AcegasAps' level of separated waste was equal to 42.0% in 2013 compared to 41.5% in the 2012 reference period.

A compared analysis of the volumes marketed and handled by Hera during 2013 and 2012 is given below:

Quantitative data (thousand of tonnes)	31-Dec-12	% Inc.	31-Dec-13	% Inc.	Abs. Var.	% Var.
Urban waste	1,770.6	36.5%	2,010.6	32.0%	+240.0	+13.6%
Market waste	1,558.8	32.1%	1,936.6	30.8%	+377.8	+24.2%
Wasted marketed	**3,329.4**	**68.6%**	**3,947.2**	**62.8%**	**+617.8**	**+18.6%**
Plant by-products	1,526.8	31.4%	2,339.5	37.2%	+812.7	+53.2%
Waste treated by type	**4,856.2**	**100.0%**	**6,286.7**	**100.0%**	**+1,430.5**	**+29.5%**
Landfill	1,219.4	25.1%	1,252.2	19.9%	+32.8	+2.7%
Waste-to-energy plants	955.0	19.7%	1,410.6	22.4%	+455.6	+47.7%
Selecting plant and other	320.4	6.6%	378.1	6.0%	+57.7	+18.0%
Composting and stabilisation plants	485.9	10.0%	527.8	8.4%	+41.9	+8.6%
Stabilisation and chemical-physical plants	752.4	15.5%	1,094.3	17.4%	+341.9	+45.4%
Other plants	1,123.2	23.1%	1,623.7	25.8%	+500.5	+44.6%
Waste treated by plant	**4,856.2**	**100.0%**	**6,286.8**	**100.0%**	**+1,430.6**	**+29.5%**

Quantitative data analysis shows a 18.6% increase in Group-marketed waste; integration with AcegasAps contributed for 456.200 tons, thanks to 254.500 tons of urban waste and 201.800 tons of market waste. The increase in Hera's total waste capacity by 161.600 tons is mainly due to higher market volumes (176,100 tons or +11,3%), regardless of a slight fall in urban waste (-14.500 tons or -0,8%). The increase in by-products from plants, on the other hand, needs to be put in the context of the weather conditions: specifically, the higher rainfall overall, compared to the same period the previous year, resulted in the creation of more leachate.

In relation to plant waste treatment flows, the increase affected the entire workflow and particularly the waste-to-energy compartment, of which +345.3 due to the two WTEs belonging to AcegasAps; hera's increase affected selection as a consequence of increased separate waste collection, and composting XXX for full operative capacity of new plants for digestion XXX and inertiation XXX, along with other by-product extra-production.

Hera's EBITDA showed an €11.7 mln (+6,3%) increase, going from €183.5 mln to €195.2 mln in 2013, mainly thanks to expansion and improvement of Hera's plant pool.

AcegasAsp integration in 2013 contributed for €42.5 mln to the Group'sgross operating margin.

Compared to the same period in 2012, AcegasAps increased by €6.8 mln (+25.7%) both thanks to better results in waste-to-energy plant management in lowering operating costs as well as in dealing with environmental regulation licensing issues.

Waste marketed by AcegasAps decreased by 4.6 thousand tons, down from 460.8 to 456.2 thousand tons, showing a fall in urban waste (-7.3 thousand tons), while market waste raised by +2.7 tons.

The Group's EBITDA therefore increased from €54.2 mln (+29.5%) compared to 31st December 2012, up from €183.5 mln to €237.7 mln in 2013.

Analysis of operations in the Service Segment

As of 31st December 2013, results for the Service Segment shows a decrease compared to 2012'2 reference period, going from a gross operating margin of €17.3 mln to €9.2 mln.

It should be noted that AcegasAps' Other Services segment includes public lighting, telecommunications and cemeterial services as well as management structures.

(mln/€)	31-Dec-12	31-Dec-13	Abs. Var.	% Var.
Hera EBITDA	17.3	14.0	-3.3	-18.8%
AcegasAps EBITDA	-	(4.9)	-4.9	+100.0%
Group EBITDA	**17.3**	**9.2**	**-8.1**	**-46.9%**
Consolidated EBITDA	662.1	830.7	+168.6	+25.5%
Percentage weight	2.6%	1.1%	-1.5 p.p.	

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

Income statement (€/mln)	31-Dec-12	% Inc.	31-Dec-13	% Inc.	Abs. Var.	% Var.
Revenues	98.0		194.4		+96.4	+98.4%
Operating costs	(66.1)	-67.5%	(138.8)	-71.4%	+72.7	+110.0%
Personnel costs	(17.9)	-18.2%	(47.5)	-24.4%	+29.6	+165.6%
Capitalised costs	3.3	3.3%	0.9	0.5%	-2.4	-73.7%
EBITDA	**17.3**	**17.6%**	**9.2**	**4.7%**	**-8.1**	**-46.9%**

The Group's revenues increased by €96.4 mln of which €95.7 mln from AcegasAsp integration, while Hera showed revenues going high for €0.8 mln where higher telecommunication revenues compensate for lower public lighting and cemeterial service turnover.

The increase in operating and staff costs of €104.6 mln is due to the integration of AcegasAps for €100.5 mln to AcegasAps and for €1.5 mln to Hera.

The fall in margins for Hera for €3.3 mln is mainly due to the public lighting business conditions, resulting from unrenewed provider contracts and less provider and service contracts caused by crisis-affected city councils' balances as well as the aforementioned disposal of cemeterial services.

The main Group's operating indicators, contained in the table below, show an increase by €150.200 lighting points for 66 provided municipalities, mainly due the integration of AcegasAps (177.000 lighting points for 66 provided municipalities), regardless a lower lighting points/municipality ratio across Hera's providing area.

Hera Quantative data	31-Dec-12	31-Dec-13	Abs. Var.	% Var.
Public lighting				
Lighting points (thousands)	296.3	446.5	+150.2	+50.7%
Municipalities served	58.0	124.0	+66.0	+113.8%

For 2013, integration with AcegasAps consolidated a loss of €4.3 mln regarding the Other Services area, due to the maring amount for Other Services of €17.9 mln and costs of the management structures for €12.1 mln.

It should be mentioned that the result achieved by AcegasAps Services and management, compared to the same period in 2012, has improved by €3.6 mln mainly thanks to operating cost optimization.

The Gross Operative Margin for the Group went from €9.2 mln as of 31st December 2013 to€17.3 mln in the previous year, accounting for a reduction of €8.1 mln.

1.04 Commercial policy and customer care

In the 2013 fiscal year the Group once again applied the business strategy already employed in previous years, which is divided into two main lines:

- Commercial Development
- Optimization of customer management

Commercial Development

In previous years, in the context of an increasingly open and liberalized energy services market, the successful commercial development undertaken by the Group led to an increase in the customer base contained in the portfolio, thus allowing the Group to achieve a critical mass extensive enough to ensure the sustainability of shares and competitivity in relation to the major players in the domestic energy market, generating value for both end customers and the company itself.

More intense competition in the energy services market has made it necessary to focus even more specifically on creating Value, continuing to pursue the established trajectory of business growth while simultaneously enlarging the Group's customer base.

In 2013, this objective was achieved by further developing the specific features that have long distinguished the HERA Group, and which currently demonstrate even more clearly the effectiveness of past choices, specifically:

- Proximity: maintaining close contact with customers through customer help desks (approximately 120 throughout the areas served) and the Group's extended sales structure; offering customers rapid access through the call center and online services; pursuing social responsibility and using the Company's activities to contribute to the growth of the country and local communities;
- Transparency and Value: providing a competitive and clear offering tailored to meet all customers' needs; offering services that are innovative and positioned to seize the opportunities available in the energy market through a skilled and high-quality sales network that undergoes continuous monitoring and training.
- Ease of management: a single contact point and bill for energy (gas and electricity) and water services; enabling customers to independently manage their utility accounts through HeraOnLine, the recently updated platform that is increasingly well tailored to customer's needs; easy-to-use electronic billing and direct debit for utilities.

Analyzing the dynamics of the Hera customer base over the course of the fiscal year, various trends can be identified depending on the service offered.

The first element that is worthy of note is the introduction, starting 1 January 2013, of the TARES (Waste and Service Tax), which replaced the TIA (the Environmental Hygiene Tariff) and the TARSU (the Tax for the disposal of solid urban waste). For this reason, contracts related to the management of the TIA can no longer be considered part of the Group's customer base.

For 2013 the Hera Group was awarded the contract for assessing and collecting the new tax in 73 municipalities, out of the 77 for which it managed the TIA service in 2012.

The regulated water-services market, less the Acegas-APS customers, underwent an increase due to the inertial growth of 0.1% starting in December of 2012, less than the growth in previous fiscal years as a result of a decrease that began during 2012 and attributable to the lower number of new utility connections established, a trend arising from the crisis in the real estate sector.

Very good results continue to be obtained in the electric energy market, where free market commercial activities and acquisitions continue to perform well despite the economic crisis and intense market competition.

As of 31 December 2013, Hera's customer base totaled 3,383 withdrawal points, with an increase of 537,000 units as compared to December of 2012 resulting from the positive commercial trend and the consolidation of Acegas-APS.

Withdrawal points	31/12/2013*	31/12/12	change in withdrawal points	change in withdrawal points
Gas	1.222,1	1.116,3	105,8	9,5%
EE	719,1	541,1	178,0	32,9%
Water	1.441,9	1.188,7	253,2	21,3%
TIA	n.d.	1.000,2		

Amounts in thousands

**Includes Acegas-APS (EstEnergy pro rata)*

Concerning commercial development as a separate topic, 2013 marked significant progress in the number of new customers.

Overall, the Group's commercial strategy has continued to be based on overseeing all customer segments with differentiated approaches according to the main characteristics of each individual segment, through diversified sales structures (CRM, Direct Sales and Indirect Sales) and a detailed and balanced offering portfolio that continues to be characterized by innovation and transparency.

The sales network continued to grow in 2013 as well. Hera Comm's indirect sales network in particular, which is composed of multiple channels differentiated according to the customer in question, has developed by involving an ever- increasing number of commercial partners selected in keeping with high standards of quality and in compliance with the business code of conduct for the sale of gas and electricity and subject to a constant monitoring of their work. The new Hera Comm website was also developed, implementing measures to direct user traffic in order to create a new sales channel via self-caring and enhanced brand awareness.

Some specific features of the 2013 portfolio:

- for the residential segment: retaining the offering "Prezzo Netto Hera Natura," an option displaying sensitivity to environmental issues that has proved attractive to customers, to which has been added the value-oriented service "Casa Sicura," a home insurance product covering small-scale domestic projects. The "Prezzo Fisso Hera Natura" offering continues to be associated with this offering;
- For small- and medium-sized businesses, the "Prezzo Netto Hera Lavoro", "Prezzo Sicurezza Hera" and "Prezzo Netto Impresa" offerings were confirmed;
- For the condominium segment, the "Prezzo Netto Hera Condomini" offering was introduced, along with a "Plus" version that includes the value-oriented service of replacing light bulbs in condominium common spaces;

- For the large business segment: personalized offerings based on the main energy indexes were retained and expanded;

Optimization of customer management

Since being founded, the Hera Group has consistently chosen to maximize integration between services and Group systems by establishing a single platform consisting of two main structures:

- Group invoicing and collections system
- Management channels

Group invoicing and collections system

Through its unified systems, Hera issued nearly 19 million utility bills in 2013, in keeping with the multi-service strategy that enables our customers to simplify administrative procedures and reduce the costs associated with making payments. E-billing, which was implemented in the second half of 2008, brought about a 48% increase in 2013 in the number of customers requesting that the service be activated , rising from approximately 65,000 at the end of 2012 to more than 95,000 customers in December of 2013 , thanks in part to the " Regala un albero " campaign launched in 2012 and continued throughout 2013.

The wide range of payment methods available to Hera customers for paying their bills (DD , bank tellers, post offices, Sisal and Lottomatica points, online using a credit card and in Coop Adriatica, Reno and Estense stores) gained the wide appreciation of customers in 2013 as well. The proportion of customers who opt to use direct debit has reached approximately 57% of the total customer base .

Management channels

In order to more efficiently respond to the needs expressed by final customers, in 2013 the Hera Group continued to pursue the development and improvement of the contact channels it already established in previous years. Specifically, Hera offers five contact channels:

1. Family call center
2. Company call center
3. Customer help desks
4. Web services
5. Postal correspondence

Below are listed some of the key quality parameters highlighting the accessibility of these channels from 2006 to 2013:

Average waiting time at contact centre (sec.)	2006	2007	2008	2009	2010	2011	2012	2013
residential customers	34.5	46.2	66.1	33.2	33.8	37.4	39.91	49
business customers	43.9	26.8	42.4	25.2	22.1	27.5	24.7	30.7

Number of contacts at contact centre contact centre (no.)	2006	2007	2008	2009	2010	2011	2012	2013
residential customers	1,991,264	2,375,823	2,489,180	2,428,392	2,495,000	2,488,000	2,569,000	2,812,563
business customers	59,686	105,447	115,997	152,046	282,000	430,000	498,000	517,000

Percentage of successful calls to contact centre (%)	2006	2007	2008	2009	2010	2011	2012	2013
residential customers	94.10%	94.20%	93.20%	94.20%	93.80%	93.50%	93.10%	91.40%
business customers	89.00%	97.60%	95.50%	92.60%	94.90%	93.90%	95.10%	94.70%

Average waiting time at offices (min.)	2006	2007	2008	2009	2010	2011	2012	2013
Average	23.51	21.53	18.3	14.42	14.3	10.29	9.51	11.45

Ongoing growth in the volume of contacts processed in 2013 by the Hera Group's front channels consisted of (including IVR) approx. 4.286 million contacts, an increase of 8.3% as compared to 2012 (approximately 17,000 contacts on average per day). Contact channels (excluding IVR) have given rise to 1.33 service requests per average contact (in 2012 the ratio was 1.29). The total number of requests created during the fiscal year increased by 11% as compared to 2012.

In 2013 as well, the call center proved to be the contact channel most frequently used by end users, handling 69% of total contacts (including IVR), followed by the help desk with 16%, the web platform with 11% and, lastly, postal correspondence with 4%.

The contemporary economic crisis, along with the increasing attention paid by end customer to issues surrounding credit and billing that make customer management more complex and time-consuming on average, have had a significant impact on the high volume of incoming contacts. Another element to highlight is that 2013 (especially in the first and last months of the year) was a year characterized by a higher concentration of contacts in limited periods / days, a phenomena that produced significant workload peaks, especially for the call center channel and help desks. The main reasons for this phenomenon were mailings sent to final customers and the Hera Group's management of the Waste and Service Tax (Tares).

As also occurred in previous years, in 2013 the Hera Group dedicated a great deal of consideration to continuously improving the services it offers its customers. To this end, the processes of training customer service operators were made more efficient and in some cases also redefined while simultaneously focusing on developing an effective structure for monitoring and supporting the skills required to carry out front-end activities. This has helped to enhance the operators' problem-solving skills and the degree of clarity characterizing the answers provided to final customers. At the same time, as a result of continuous standardization in corporate processes and the implementation of a process of updating and improving the performance of ongoing CRM activities, the talk / management time could be further reduced.

Despite the problematic issues characterizing 2013, technical indicators for the contact channels that were monitored over the course of the year displayed extremely high levels and contributed to reaching the maximum level of expressed satisfaction (for both call centers and help desks) according to a quarterly survey of quality as perceived by the final customer. The slight decrease compared to the results reported for 2012 (for example, wait times at call centers and help desks,% of calls with positive outcomes) is due nearly entirely to the specific factors cited above (i.e. Tares, mailings).

In order to make call center services even more accessible to final customers and maintain consistency with the activities carried out in previous years, in 2013 the Group proceeded to further lengthen opening hours for both businesses and families, extending them to 22.00 during the week (Monday to Friday) and to 18:00 on Saturdays.

The volumes handled by the call center channel continued to grow.

Specifically, in 2013 the residential call centers handled approx. 1,569 million calls (+8% as compared to the previous year, a total which also includes calls related to Tares), while the business call center handled approximately 373,000 calls (+5% as compared to 2012). Calls dealt with by the "Salvaguardia" service call center decreased (approx. 51,000 calls, -16% as compared to 2012).

Call center technical indicators (e.g. wait times, percentage of answered calls) met established corporate objectives and surpassed the assessment standards employed by the Authority for Electricity and Gas (AEEG). Indeed, the AEEG defines (through resolution 168 /2008) telephone wait time as the time that passes from the moment the call is answered, even if answered by an auto responder, and the beginning of the conversation with the live operator, or the end of the call if the call is terminated before conversation with the operator begins.
Using the calculation method the AEEG has established, in 2013 the wait time at Hera's call centers was at 99 seconds for residential clients and at 69 seconds for business clients. Both values are significantly lower than the target of 240 seconds specified by the AEEG.

Lastly, in relation to the above-cited Customer Satisfaction survey, there was noted an improvement in all the indicators of perceived quality (wait times, ease of accessing the service and call handling) and in particular the indicators related to "problem solving" .

In addition, Hera's choice to invest in the strategy of rationalizing, modernizing and upgrading its help desk network already initiated in 2012 was confirmed. In general, the total number of help desks throughout the Emilia Romagna region (a total of 74 desks in 2013) remained consistent over time while service was improved in terms of geographic coverage.

In 2013, four help desks were closed that were marginal in terms of overall volume handled (0.2% of overall volumes) located in areas already covered by neighboring help desk locations, while two new desks (Santa Sofia and Borgo Tossignano) were opened in areas that had not been previously covered. Measures to renew, revitalize and redevelop were carried out on important, previously existing help desk locations such as those in Savignano sul Rubicone, Cervia and Argenta. In order to improve the level of service provided to final customers, in 2013 " Lean Organization " activities continued to be pursued in relation to the Group's main help desks.

An additional 4 contact points will also be opened in the first two months of 2014.

In 2013, help desks reported an increase in contacts processed, up approx. +7 % from 2012 to reach an annual total of approx. 685,000 contacts (approx. 2,700 contacts on average per day). In the case of help desks as well, the performance achieved in 2013 surpassed established corporate goals. The average wait time (AWT) and was 8.5 % lower than established objectives while the % of clients experiencing a wait time of more than 40 minutes (FS40) was approx. 12% lower. As a result of prioritizing the workstations, the Group's main help desks also achieved excellent results this year for business customers in terms of both AWT (3:43 min.sec) and FS40 (0.6%).

The web-based channel experienced continued growth, thereby confirming its importance in overall terms. Over the last 5 years there has been an ever-increasing volume of contacts handled via the web, reaching volumes of approx. 470,500 contacts per year in 2013, up 17% from 2012 (1,860 contacts on average per day).

In 2013, the Group acted to modify the HER @ ON –LINE help desk. Specifically, this involved developing a new interface with new modes of interaction, content organization and the implementation of a new graphic look & feel in keeping with the findings of usability studies conducted in 2012 through direct interviews with final customers.

The number of customers signing up with HER @ ON -LINE during 2013 rose by 36,000 additional units (an increase on the same level as that reported for 2012), thus bringing the total number of registered customer to approx. 192,000 (+14% as compared to 2013). In 2013 the increase in the volume of online payments totaled approx. 88,000, up 23% from 2012 .

1.04.01 Customer satisfaction

One of the Group's main intangible assets is its wide and loyal customer base, whose strategic value is even more relevant for a multi-utility company that is able to offer a range of services to each one of them.

Ever since its establishment the Group has enjoyed a solid customer base, that is attentive to primary service quality and whose loyalty has been consolidated over many years of management by the municipally owned companies that later came together in the Group.

Following the mergers carried out by Hera involving companies located across the areas in which it operates, its strategic and commercial challenge has been to increment and increase the value of this asset. The quality of its multi-utility offer, along with post-sales assistance, are therefore factors to which the Group gives particular attention, monitoring its clientele's sentiment over the years with a receptive and continuously interactive approach.

Hera has significantly invested in improving the **quality of its offer**, in terms of reducing the amount of time during which its services are interrupted, providing rapid and efficient customer service, improving its measuring systems and energy metering, as well as a larger number of analyses concerning water resource quality and the environmental impact of its activities.

Over time, the quality of its **customer assistance** has progressively and constantly increased. This appears quite clearly in the reports published over the last 7 years, in terms of a lesser amount of time spent waiting at help desks, improved telephone support, more rapid customer request resolution, a more functional website and widespread use of electronic bills.
These improvements are useful both in maintaining a high degree of customer satisfaction and in reducing the Group's management costs.

The results of these activities are monitored each year by **market research** concerning **both retail and business customers**. The surveys indicate a constant increase in the degree of satisfaction as regards service quality and post-sales assistance, reaching elevated approval ratings (average rating: 7 out of 10) with a very scarce number of "low" satisfaction ratings, a greater concentration of positive reactions and a notable number of extremely positive ratings.

Unified bills, along with an improved and restructured post-sales assistance channel performance, led some time ago to a rapid recovery of a good level of customer satisfaction, which has stabilised around 7 out of 10 (this opinion is rated as "delighted"). This trend is associated with an improvement in Hera's image, it now being frequently seen as a trustworthy, transparent, attentive, innovative and sustainable company. Market research has furthermore indicated that this increased degree of satisfaction is matched by a greater impression of "convenience" and a propensity for both "cross selling" and positive "word of mouth" with other potential clients (above all in the segment defined as the "free market clientele").

These trends reinforce Hera's "multi-utility" strategy, in particular as regards the direction pursued in maintaining a "light" presence in upstream energy activities, thus remaining flexible and able to rapidly update its commercial offer, seizing the advantages offered by an ever more competitive wholesale market.

These factors are at the root of the success obtained by the Group in 2013 as well, 60 thousand further electricity clients having been gained, reaching a base that has now stabilised at over 2 million users. This result was also due to the Acegas Aps aggregation, which brought Hear a new area in which to promote a further development of its clientele.

The solidity of its customer base and its continual growth in liberalised markets represent the main confirmation of Hera's commercial strategies. This moreover brings to light the efficaciousness of the strategy it has pursued, whose priority is customer satisfaction. This "formula" has proved able to sustain the impact of direct competition with considerably sized actors, including international companies, and has laid a solid base for the continuation of its growth, notwithstanding the ever more competitive market context.

1.05 Trading and procurement policy

Macroeconomic context

In 2013 GDP fell at a slightly lower rate than in 2012 (down 1.8% versus down 2.5% for 2012) but at a much faster rate than expected at the beginning of the year. At the end of 2012, the forecasters' consensus was that GDP should drop by around 0.5%, assuming that after an awful 2012 the worst was over and underestimating the protracted effects of political uncertainty and the negative impact of public budget adjustments on the labour market, consumer spending and investment.

A similar underestimation of current trends involved also the demand for energy, both by infrastructure operators and by trade associations and the principal research centres.

Thus, the year under review represented a period where, on average, energy intensity declined considerably for all the industries. Given a 1.8% decrease in GDP expected at year-end, electricity, gas and oil products slipped to a much greater extent. Electricity consumption, in fact, slid by around 3.5% while gas consumption lost around 6.3%.

The overall decrease of energy demand was due nearly entirely to the electricity sector. In fact, during the negative phase of the past two years, energy-intensive activities, which were significant in the national mix, were abandoned at a faster pace. The most recent example is oil refining.
The freefall of the demand for electricity in the industrial sector and the further development of renewable sources penalized strongly the thermoelectric sector, which was nearly entirely responsible for the contraction of gas demand in 2013.

However, forecast demand is higher for both sectors in 2014.

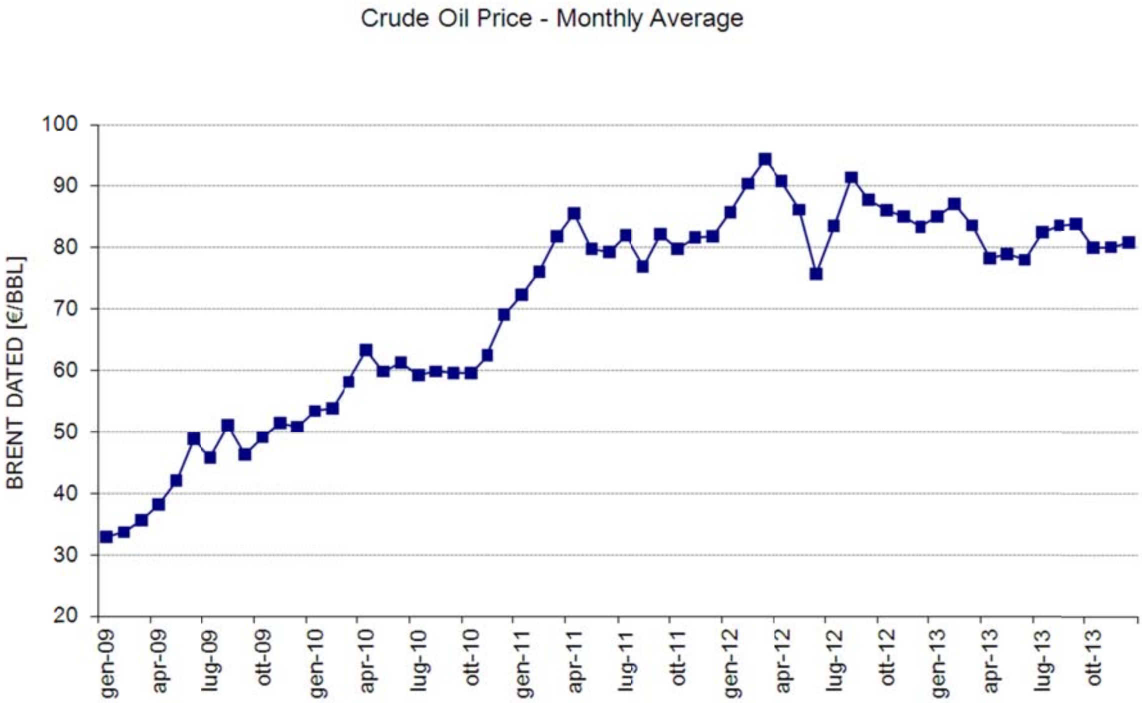
As to electricity consumption, the expected improvement for next year is in essence the result of the economic recovery. Given a GDP growth forecast of 0.7%, and a moderate increase in demand for electricity thanks to the end of the recession, consumption is expected to pick up at a rate slightly above 1%.

Also gas demand is expected to gather steam, at a rate faster than that for electricity, varying between 1% and 2.5%. In fact, assuming a higher demand for electricity, hydroelectric production that reverts to the historical mean and a limited increase of renewable capacity, compared to the past few years, plant gas consumption is expected to rebound by as much as 10%.

Reference scenario

In 2013 the average €/$ exchange rate was 1.33, up 3% on the 1.29 average for 2012.

On the oil front, 2013 saw a moderate drop, with prices straying not too far from the high levels reached in the previous two years.

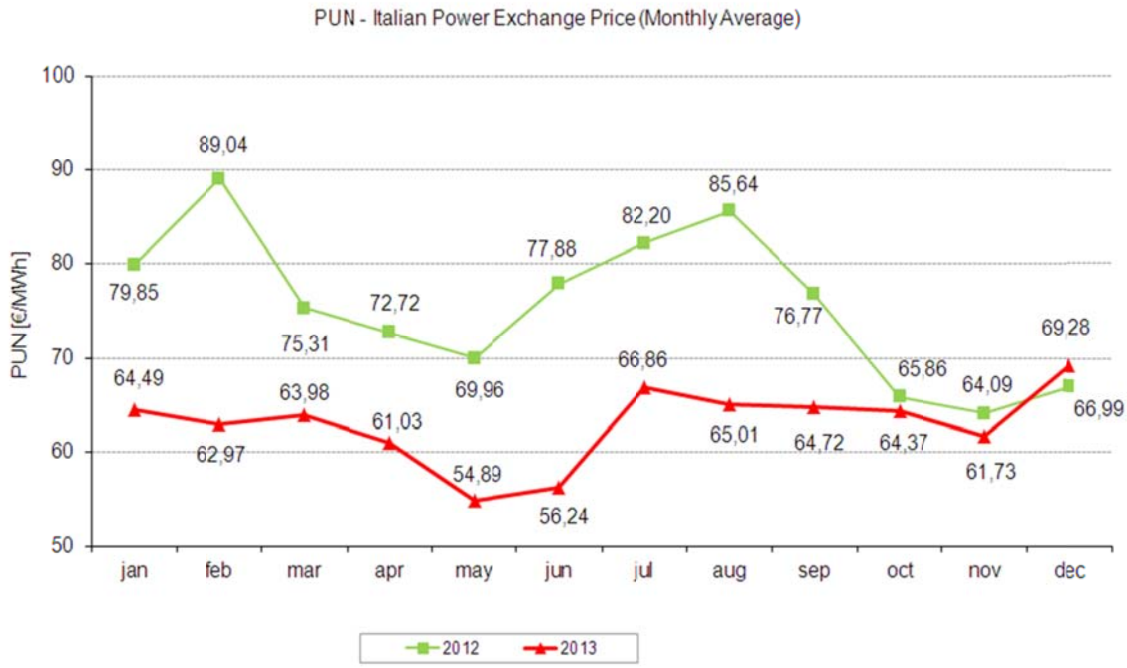


Compared to 2012, Brent Dated dropped by 2.6% on an annual basis, to an average of $108.66 a barrel.

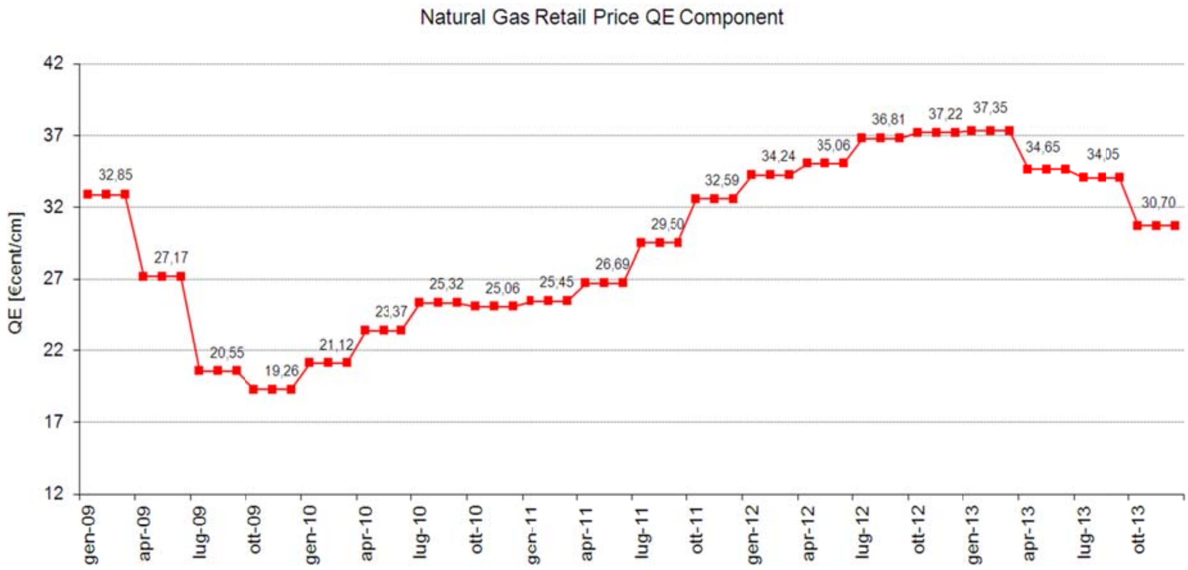
In terms of euros, in 2013 oil prices fell by 5.6% from 2012, to an average of €81.81 a barrel, with a greater decrease than that in dollars due to the appreciation of the euro against the dollar.

			change
Price Brent Dated $/bbl	108.66	111.58	*0.3%*
$/euro exchange rate	1.287	1.287	*3.0%*
Price Brent Dated euro/bbl	81.81	86.70	*-5.6%*

The continuing economic crisis in 2013 had once again significant effects on both the supply of electric energy - more specifically on domestic supply which, for the first time in years, stopped increasing – and demand, with trades on the Day Ahead Market reaching new lows. As imports were stable at the low reached in 2012, sales from production units were down sharply again (down 3.5%), in a trend that affected mainly traditional plants (down 15.3%) while renewable energy plants continued to grow at a fast pace (up 23.7%). Liquidity in the electric market jumped to 71.6%, a record high, driven by sales by market operators, which had been prompted in turn by the substantial use program imbalances by bilateral traders. The energy purchase price in the electricity market (PUN) reached a low since 2006, to €62 per MWh, down 16.6%, thereby reversing the trend of the previous two years. Selling prices showed a substantial alignment, except for Sicily, whose spread with other zones widened. In the forward market for electric energy, which witnessed a considerable increase in OTC transactions, the most-traded product by far, the Annual 2014 baseload, closed the trading year at €62.26 MWh.



Concerning the demand of natural gas, 2013 posted a new significant decrease (down 6.3%), following the equally significant drops of 2012 (down 4.2%) and 2011 (down 6.4%), reaching levels about 15 billion m^3 lower than those in the years preceding the economic crisis of 2009. The thermoelectric sector, penalized by weak electricity demand and the development of renewable sources, suffered from an even sharper contraction of gas consumption (down 15.6%). On the supply side, both national production and imports were down, by 9.5% and 8.8%, respectively. Also natural gas storage was down (level at year-end down 7.5%). In the regulated gas markets managed by GME, a total of 41.5 million MWh was traded (38.0 MWh in 2012), of which 40.8 million MWh on the Balancing Platform, which was in its second year of operation. Prices showed a general downward trend, in line with the price recorded on the PSV.



In this context, the average value of the Energy Quota (EQ) for 2013, calculated by reference to the AEEG Resolutions prevailing from time to time, was €0.3419/m^3, compared to an average value of €0.3584/m^3 in 2012.

The Green Certificates Market ended 2013 with 7,566,341certificates traded during the 48 sessions

organized by the GME, up compared to 3,806,339 GCs traded in 2012, for a total amount of about €633.5 million (about €289 million in 2012).

The European Union Allowances (EUAs) traded in 2013 were 8.86 billion units (7.21 billion EUAs in 2012).

Given an increase in volumes, due in all likelihood to the use of auctions in the distribution of allowances, the price of EUAs has been falling since 2011 (from €11.2/ton in 2011 to €5.7/ton in 2012, to €4.52/ton in 2013). The overall value of the transactions fell by 36% in 2012, compared to the previous year, dropping yet again by 40% in 2013, compared to 2012 (€2.46/ton the minimum price reached by the reference contract in April 2013).

Prices decreased to the levels of 2008 due to the substantial supply of quotas in accordance with the strict rules of the emission trading scheme (ETS) while the recession that continued also in 2013 put a brake on demand.

In 2013 the Energy Efficiency Certificates Market recorded an increase of the volumes on the market platform, compared to the previous year, with 2,814,805 of certificates traded (2,534,930 TEEs in 2012).

Regulatory developments and significant events in the wholesale gas market

Storage capacity: manner of allocation

The AEEG, in accordance with the guidelines contained in the decrees of the Minister of Economic Development of 15 February 2013 (so-called "decree on regasified LNG storage" and "decree on modulation storage"), which require the allocation of part of the storage capacity through a public auction open also to firms that do not supply the civil market, determined the new manner of allocation of storage capacity for contractual year 2013-2014 with Resolution 92/2013/R/gas of 5 March 2013.

It is worthy of note that, to this date, suppliers of civil customers are entitled to a certain amount of storage per customer served.

Storage capacities are allocated as follows:

- 6700 Mscm (millions of standard cubic meters) for modulation storage, designed first of all to supply end customers. Of these:
  - 4200, to be assigned according to the pro rata method, to supply "small" customers;
  - 2500, to be assigned through competitive auctions (auction for "peak service");
- 1700 Mscs assigned through an auction open to all requesting parties, including for purposes other than supply to final customers (auction for the "uniform service");
- 500 Mscm to industrial and regasification businesses.

Subsequently - considering the partial allocation of storage capacity with the assignment procedures completed by Stogit S.p.A., implementing AEEG's resolutions 92/2013/R/GAS and 159/2013/R/GAS, and given the need to recover at least part of the costs of unallocated storage capacity to be borne in any case by the gas system, under the current regulatory framework – with the Resolution dated 11 July 2013 310/2013/R/Gas, AEEG called for Stogit S.p.A. to provide the available capacity for interim storage services during the year.

Forward market

With decree dated 6 March 2013, the Ministry of Economic Development – based on the opinion of the competent Parliamentary Commissions and having heard the Authority for electric energy and gas – approved the Rules on the natural gas market prepared by GME, which collect in a single body both the rules of functioning of the forward market and the rules on the spot market for natural gas. Based on the provisions of article 1, paragraph 3 of Ministerial Decree of 6 March 2013, the subsequent Ministerial Decree of 9 August 2013 set the starting date of the forward market for natural gas on 2 September 2013.

Reform of terms and conditions of the standard offer market

The terms and conditions of the standard offer not only apply to civil customers but constitute a reference also for the open market in relation to commercial costs for both wholesale and retail activities, these being the only segments of the supply chain that were liberalized. Following the long consultation process related to the reform of the standard offer for gas (DCO 471/2012, 58/2013 and 106/2013), the Authority started the reform process to pass on to the final customers the benefits of the low prices prevailing in the spot market.

Following resolution 125/2013, which increased the weight of spot prices from 5% to 20% in calculating the wholesale commercial cost ("CCI") component for the April-September 2013 period, Resolution 196/2013/R/GAS of 9 May 2013 laid down the terms and conditions for the effects of the reform to become fully operational in October 2013. Such terms and conditions provide for the abandonment of oil-linked pricing, based on multi-year take-or-pay contracts, parties to which are given in turn the chance for gradual adjustments and incentives to renegotiate, and complete reference to the spot market. The impact of the reform of the CCI alone would have been markedly negative for the HERA Group; however, the decrease in revenues was substantially mitigated by the increase in retail commercial costs and the start of a campaign to migrate customers from the standard offer market to the open market.

Specifically, the main developments were as follows:

- The CCI (wholesale commercial costs) component is repealed and replaced with the Cmem (average raw material cost) component, which is 100% linked to traded spot prices on the Dutch platform TTF, pending the start of GME's forward market, and the CCR, a component to hedge the risks related to the procurement activity. The Cmem has not been determined yet, as it will depend on market quotations, even though it can be estimated at around €0.30-€0.32/SCM, compared to €0.38/SCM of the preceding CCI. The CCR was set at €0.0322/SCM for the six-month period October 2013-March 2014 and €0.0308/SCM for the six-month period April-September 2014.
- The CCRgrad component was introduced, a mechanism to mitigate gradually the impacts of the reform on the operators' procurement portfolio, which will be recognized for 3 years (compared to the two proposed during consultation): €0.05/SCM for Thermal Year 2013-2014, €0.0127/SCM for Thermal Years 2014-2015 and 2015-2016.
- The QVD component, related to retail sales, is increased in its fixed portions (by €17.35/redelivery point/year for domestic customers and €20/redelivery point/year for non-domestic customers) and in its variable ones (€0.40/SCM for domestic customers €0.25/SCM for non-domestic customers), reflecting amounts higher than those announced during consultation.
- As expected, the QS component, related to storage costs, is repealed while the QT component (related to shipping costs) continues to be in force to calculate shipping costs from the TTF to the PSV (considering that no reference can be made to the Italian spot market for price guidance).

Developments in the balancing market

With resolution 446/2013/R/Gas of 10 October 2013, the Authority changed the rules on gas balancing (resolution ARG/gas 45/11), introducing a new market session, G-1, where SNAM will be able to purchase flexible gas resources in the open market to balance the grid on G day, based on its own forecasts of balancing requirements for the system. This change from the previous arrangements (whereby only stored gas could be used for balancing purposes) is intended to reduce the costs related to SNAM's actions to balance the grid and limit the use of "non-market" interventions in times of emergency (such as the maximization of imports and use of combustible fuel plants).

This market session had already been introduced with resolution 538/2012/R/gas of last December, but had not yet been implemented at the technical level, pending further review by the Authority's Market Division on the resources to be used and the manner of supply of the resources.

It should be specified that the approved session G-1 is temporary, as currently neither users nor SNAM are prepared to manage all the flexible resources identified (imports, LNG, storage, line pack, CCGT plants to which the modulation/interruption of supply should be connected in case of gas emergencies): in fact, the Italian energy markets operator, GME, has been asked to submit a proposal by 31 January 2014 to supplement the balancing sessions (PB-GAS) in the M-GAS by 1 April 2014, when the effects of the reform reach steady state.

Until then there will be a transitional period with the participation, among all the flexible resources considered at steady state for balancing in addition to storage, only short-term imports and the linepack.

Traded products are called "daily locational", i.e. products that call for the change of shipping plans to a specific entry or exit point, to balance the grid. Initially the central counterparty will be SNAM (at steady state it will be GME) and the only offers traded will be those that offset SNAM's requirements (thus ruling out the possibility that offers matching the requirements of other users are combined between them).

The resolution supplements also the manner with which the gas imbalance price is set, so as to incentivize users to balance injections and off-takes, with the inclusion of a factor that adds/deducts a small adjustment in case of users' short/long positions. In this way, the balancing price will be adjusted for an amount of €0.03/GJ both when the imbalance is positive (the user will receive a smaller price) and negative (the user will pay a higher price). There is also a "reduced" smaller adjustment to €0.006/GJ (1/5 of the normal adjustment) for the cases where the imbalance is planned in advance.

Lastly, as operators had voiced doubts on the fact that SNAM was adequately incentivized to act prudently in the G-1 session (thus avoiding unnecessary, and even counterproductive, interventions to balance the system), the Authority requested SNAM to recommend a mechanism of incentives/penalties intended to pursue effective balancing management.

Unfortunately, the new balancing session was not off to a good start. In fact, as the new G-1 session made its debut the system went in an emergency mode, reaching the maximum price set for lack of gas, i.e. €23/GJ or €82.8/MWh. This because SNAM was unable to fill its requirements (1 million GJ) due to the limited volumes offered (30,000 GJ). This imbalance had also consequences for the price in the spot market the following day, which went up to €40/MWh.

This took place despite the slightly colder weather in the period in question, with import infrastructure still below maximum load and full storage.

Wholesalers think that this was due to the decision of the Ministry of Economic Development to set very low transmissions from storages in November and December to save the bulk for any emergency in early 2014, as well as rules on guarantees considered excessively strict, even “abusive”, which prevented a larger number of operators from participating in the market.

Considering the above, the Authority stepped in with an urgent resolution requiring SNAM to cap the offer price in the G-1 session “to limit the charges to users in relation to the lack of the amounts of gas quantities necessary in the same session”.

The cap was set as equal to the latest day ahead quotation of TTF, raised by €4/GJ. In this way the maximum price should go from €82.8 at the end of November to about €42/MWh.

This cap will remain in place until pricing mechanisms are introduced for stored gas utilized in excess of that available to users, especially with reference to the costs to replenish gas in storage to fulfil the necessary requirements.

ToP contracts: mechanism to promote renegotiation

Following resolution 196/2013/R/ GAS, concerning the mechanism to promote the renegotiation of multi-year gas procurement contracts, established in favour of operators engaged in sales, AEEG issued Resolution 447/2013/R/Gas of 10 October 2013, containing further provisions on the procedural aspects on the above renegotiation mechanism, which was adopted in connection with the revision of the terms and conditions of reference for end customers in the standard offer market.

Based on this mechanism, operators that meet certain requirements will be returned, in the next two thermal years, 40% of the difference between ToP prices and spot prices (Cmem).

The deadline for the application was 8 November 2013 and to be admitted to the mechanism it was necessary for the multi-year contracts signed in the past called for:

- Volumes to be delivered in thermal year 12/13;
- At least a five-year duration, inclusive of the two-year 2010-2012 period;
- ToP clauses (take or pay, i.e. obligation to take delivery of gas);
- Gas delivery in Italy or at a foreign delivery point with an import infrastructure implying input into the Italian grid.

Participation in the mechanism gives rise to obligations for the sales companies, chief of which the obligation to sell, directly or indirectly, in GME's forward market 70% of the volumes to which the price called "APR" is applied. However, there is no pricing obligation for gas sales. The Authority has postponed the definition of products to be sold in the forward market and, while the definition of these products is pending, the offer obligation is suspended. In addition, participants in the mechanism have to post security in Cassa Conguaglio Equalization Fund, equal to 5% of APR for 2013, and recalculated on the basis of a complex mechanism for 2014 and 2015.

The APR was set initially through an algorithm whereby the initial amount attributable to each seller admitted to the scheme is equal to the product between €0.034/cm and the volumes intended for the standard offer market (calculated as the average of the volumes served in thermal years 11/12 and 12/13 in the standard offer market). The scope of the standard offer market utilized or the composition of the market of reference is that after the so-called "Fare" decree, i.e. that for domestic customers.

The APR is updated every year on the basis of an algorithm which allows for either a lack of change or a decrease from one year to the next. Reduction occurs only when spot prices exceed ToP prices (both calculated as a two-year moving average), on an annual basis. The APR's reduction is magnified as the difference between Cmem and Ptop is re-calculated by multiplying it by a ß factor equal to 1.35. In this way, for the APR to change in the opposite direction between the first and the second year, it is necessary for the Cmem to exceed the Ptop by €0.025/cm.

It is worthy of note that, in case the APR reversal, the operators make payments to the CCSE instead of collecting payments, given their function as providers of insurance coverage against price reversals. In case of price reversal the Authority set a limit to the exposure of the sellers that participate in the mechanism, setting a floor for the APR (which can still reach - €0.101/cm).

The CCSE settles items due to the application of the mechanism starting from 2014:

- by the end of 2014 settles items up to 40% of the amounts accrued by each company;
- by the end of 2015 settles items up to 80% of the amounts accrued by each company;
- by the end of 2016 settles 100% of the amount due.

The HERA Group decided to apply for admission to the mechanism, as it is a party to a ToP contract that meet the pre-established requirements. In the last few days of the year, the Authority notified the operators considered eligible, including HERA Comm, their admission to the mechanism through resolution 579/2013.

Gas procurement for thermal year 2013-2014 and portfolio optimization

In the recent history of the gas market in Italy, 2013 marked a significant watershed, and this not only for prices constantly under the sway of excess supply but also due to the significant changes resulting from the new procedures to allocate storage capacity and the reform of the terms and conditions applicable to customers in the standard offer market.

The new market context prompted the substantial redefinition of the procurement strategy for the gas intended for the commercial activities of Hera Comm, paying special attention to ensure that the trading Company had access to market prices in real time for the industrial segment, with highly contestable customers, hedges suited to indices other than Cmem and, in the meantime, the best terms and conditions in terms of price and credit.

The best result was obtained by raising the modulated volume provided by third parties to redelivery points (REMI) and identifying, on these REMI, rank profiles provided by Hera Trading at market conditions with the timing required by Hera Comm for the optimal development of its own commercial campaign.

Hera Trading was able to use lower storage volumes, benefiting in terms of impact on working capital, managed on a spot basis the capacities held on the TAG and achieved good results from its daily portfolio optimization activity.

Regulatory developments and significant events in the wholesale market for electric energy

Italy-Slovenia market coupling agreement

Within the regulatory framework of the market coupling project between Italy and Slovenia, with resolution 560/2012/R/eel of 20 December 2012, the Regulator approved the amendments to the Master and Pentalateral agreements worked out by the working group engaged in the project and intended to confirm market coupling operations also in 2013.

Placement price of green certificates for 2013

With Resolution 17/2013/R/EFR of 24 January 2013, in keeping with the resolutions adopted in previous years for the definition of the placement price in the market for green certificates issued by the GSE, AEEG quantified and published for 2013 the average annual selling price or electric energy set in pursuance of article 13, paragraph 3, of legislative decree no. 387/03.

National energy strategy

The National Energy Strategy (NES) is a planning document prepared by the Ministry of Economic Development and circulated for public consultation in the second half of 2012. On 8 March 2013, the Ministry published the document that approved the final version of the document, as supplemented and corrected on the basis of the remarks of businesses and consumer associations.

The NES's main objective is the reduction of energy prices, the achievement of the decarbonization targets set by the EU and the improvement of Italy's energy security and independence. To reach such objectives, the following main lines of action are set out:

- promotion of energy efficiency actions, to reduce primary consumption by 4% by 2020;
- creation of European gas market, where Italy might act as a main hub;
- development of renewable energies, to the point where they will account for 23% of primary consumption, reducing excessive incentives in the meantime;
- infrastructural development of networks and the electric market, to improve their openness and efficiency;
- increase of national hydrocarbon production.

As it is a policy document for the medium-long term (from 2020 to 2050), the proposals contained therein are rather generic and the proposed actions often lack in substance and impact analysis. However, there are matters of interest for the Hera Group, particularly concerning the use of waste in energy and the attention paid to question of tenders for the gas distribution service. The fact that the NES is a "planning document" casts uncertainty on its actual potential: most proposals presented need laws and decrees to be implemented and, given the complex political situation that Italy is experiencing, it is highly likely that they will remain a dead letter.

Commencement of commercial operations of *Tamarete's* CCGT *(Combined cycle gas turbine) plant*

In April 2013 the Ortona CCGT plant commenced operations.
The plant - which is owned by Tamarete S.r.l., a Hera investee with an initial 32% shareholding which was eventually raised to 40% - is operated by the majority shareholder, BKW.
Hera Trading takes the output attributable to it on the basis of a Virtual Power Plant (VPP) agreement finalized in 2012.

Curbing of dispatching costs

Following the initial notices sent by Terna, whereby AEEG had been notified about the substantial uplift in dispatching costs due to both the "greater cost of non-penalized imbalances" and the increase in costs incurred to start the production units in the market for dispatching services (MSD), the Authority, with Resolution 285/2013/R/EEL, ordered the adoption of actions to keep the uplift in check.

Reform of the rules on effective imbalances

With Document 368/2013/R/eel of 7 August 2013 circulated for consultation, AEEG illustrated its stance on the reform of the rules on effective imbalances designed to overcome the criticalities that characterize the current imbalance pricing system.

Presently, imbalance prices that form in the market are not aligned with the price of the energy bought/sold by Terna to balance the system. This because Terna buys/sells energy in the market for dispatching services in real time and with different prices at each node (nodal prices) while imbalance prices for operators are calculated ex post on a macro-zone basis, without taking into account the "true" energy price paid by Terna at the time of balancing. Due to this regulatory inconsistency, the imbalance price does not reflect the actual cost caused to the system by the imbalance, opening arbitrage opportunities.

The Authority proposes two solutions to solve the problem. One is to calculate imbalance prices on a nodal basis, in essence by using the same algorithm as the MSD (that used by Terna to balance the system) while the other is to adjust the current-price mechanism by calculating it on the basis of dynamic zones. The Authority maintains that the former is more innovative, because it changes completely the current one but, in the meantime, it is easier and more advantageous than the latter. In fact, in addition to aligning perfectly the two prices (Terna's and the operators'), it aligns also the price of the energy bought and that of the energy sold in the presence of an imbalance (which today is priced differently, depending on whether the imbalance of the single operator is tilted in the same direction as the aggregate zone imbalance or not), thus dispensing with the dual pricing system.

Dispatching of non-plannable renewable sources

With resolution 462/2013 the Authority issued "Provisions on dispatching non-plannable renewable sources following orders no. 3565, 3566, 3567 and 3568 of 11 September 2013 by the Council of State, Sixth Chamber", in relation to imbalance pricing for non-plannable renewable energies.
Previously, the Regional Administrative Court (TAR) had stricken off both resolution 281/2012, in the part where imbalances were priced at their market value also for plants fed by renewable sources, above a 20% exempted portion of the input program, and the provision calling for this exempted portion to be gradually reduced as it "narrowed the difference between non-plannable and plannable renewable sources".
With the decisions cited in the title of the resolution in question, the State Council suspended the matters of the TAR's ruling on the first item, pending a hearing on the merits, while it upheld the vacation of the matters related to the second item. All the other provisions of resolution 281/2013 related to the security of the system continue to be in force until the ruling on the merits is handed down.

Revision of dispatching services

With consultation Document AEEG 557/2013/R/eel, AEEG published its stance on its own proposals for the revision of the Market for Dispatching Services (MSD), which are designed, among others, to set out the criteria and the general conditions at the basis of the mechanism to select and remunerate the flexibility services under article 34, paragraph 7-bis, of Law Decree 83/102, converted by Law no. 134 of 7 August 2012.

The consultation document in question follows the previous consultation document, Aeeg 508/2012/R/eel of 29 November 2012, and consists of four sections. The last section illustrates the final stances and AEEG's proposals to act on the manners of selection and remuneration of the flexibility services to operate dispatching processes.

Specifically, the fourth section of the consultation document outlines AEEG’s own solutions to revise the MSD’s design, also to improve its functioning in the current market context characterized by a significant productive growth from non-plannable renewable sources.

In particular, to ensure greater coordination among intra-day markets and the MSD, the Regulator indicates a number of criteria to allow, without reducing the level of security for the system, gate closure of the intraday market closer to real delivery time, citing also the relevant provisions contained in the soon-to-be-adopted European network code Capacity Allocation Congestion Management (CACM).

Virtual Imports

With reference to the virtual electricity importation service, the AEEG approved, with 14 November resolution 516/2013/R/ eel, the regulations that discipline the insolvency proceedings for identification of the shippers for 2014.
At the year-end, Hera Trading, as the result of the allocation auction set aside by Terna, was awarded a 10 MW allocation with reference to the German market.

Acquisition of import-export rights

Nel mese di dicembre Hera Trading ha partecipato alle aste organizzate da CASC (soggetto delegato dai gestori delle reti di trasmissione europee) per l’assegnazione dei diritti fisici di trasmissione transfrontaliera di energia elettrica sulle frontiere con Francia Svizzera e Austria, risultando assegnataria in import sulle frontiere con Francia e svizzera.

Hera Trading took part in the auctions organised by CASC (the entity delegated by the European transmission system operators) in December for the allocation of physical cross-border electricity transmission rights at the French, Swiss and Austrian borders, winning import rights across the French and Swiss borders.

Electric energy procurement and asset optimization

Concerning the electric energy business, the effects of the economic crisis, the drop in consumer spending, overcapacity and the removal of the free assignment of CO_2 for portfolio plants, had a negative impact on the results for 2013, particularly with respect to the Cogen and Tamarete plants.

The bulk of the contribution came once again from the operation of the Teverola and Sparanise plants on the MSD, even though, following Terna's interventions in the transportation system on the central-southern zone, calls to operate fell considerably.

Despite the unfavourable market condition and the progressive reduction of eligible counterparties, due to the stringent counterparty risk limits, good results were obtained once again by the trading portfolio of electric energy and environmental certificates.

The procurement of electric energy intended for commercial activities took place at market conditions through the electric energy trading portfolio, following the timing set by Hera Comm to ensure the best terms and conditions to cover sales to customers.

Risk management

Once again in 2013, 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, all the activities are centralised within the Market Operational Division.

This approach, based on the creation of a Fuels Concentration Portfolio and an Electricity Concentration/Trading Portfolio, without any duplication of responsibilities arising, allowed unified management of the homogeneous risks of both Hera Trading and Hera Comm and, in relation to the first portfolio, based on macro-hedging rather than by formulae, 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 segments;
- greater flexibility in the evaluation of procurement contracts with non-standard indexing formulae;
- greater flexibility in the offer structuring, with the ability to propose/quote indexing formulae other than those in the acquisitions portfolios;
- greater visibility of OTC commodity prices.

The work carried out within the context of the Concentration Portfolio, based on derivative financial instruments, although conducted 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) is included in the operating income of the gas segment. It is noteworthy that, due to the progressive decoupling of gas and electric energy prices from oil prices, the activity is gradually shrinking.

Credit risk represents the exposure of Hera Trading to potential losses caused by non-fulfilment of the obligations assumed by counterparties. The Control and Credit Management Policies relating to the commercial counterparties of the electricity segment became fully operational from January 2010, while that relating to the counterparties of the gas segment came into operation during 2011.

All these measures are aimed at also 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 company, which is equally-held by Hera Trading e da *Vng* (Verbundnetz gas ag) of Leipzig, never had its own staff and has always operated with services provided by the Shareholders. It has been operational in gas wholesale activities 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. Since 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.
In all these years, including 2013, the operating results achieved have been satisfactory.

Besides, in 2013, considering the developments in the European gas market, with its significant excess supply and the substantial alignment of prices in the main European Hubs, including the Italian PSV, the Shareholders agreed to start the process to liquidate the Company, given the reduced relevance of the original purpose of encouraging gas imports through the TAG gas pipeline.

Galsi Spa

Hera Trading Srl continues to have an equity investment in Galsi Spa. The company is still working on preparing the executive gas pipeline project and the associated compression and measurement stations, as well as on obtaining the necessary authorisations.
Activity continued in 2013 for the purchase of authorisations, as well as the procurement process for the timely definition of CAPEX.

On 28 May 2013, in view of the impossibility of completing the Target Activities by 30 May 2013, the Shareholders' Meeting approved the proposal to extend the deadline for taking the Final Investment Decision until 31 May 2014,
The project is still 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 2012:

- Sonatrach	41,6%
- Edison Gas	20,8%
- Enel Power	5,6%
- Hera Trading	10,4%
- SFIRS	11,6%

1.06 Financial Policy and Rating

In 2013 financial markets came under strong pressure as many countries, especially in Europe, featured an unfavourable difference between interest rates and growth rates. The actions taken to reduce public budget imbalances were not enough to reverse the pace of growth of public debt with respect to GDP.
Europe's economy improved, fostering confidence in the whole area and, as such, in financial markets. The political situation and the permanent crisis management mode prevented more effective actions or plans to reform the financial and economic system and address public debt. Overall, however, conditions are still favourable thanks to a muted systemic risk.
Luckily, many of the risks foreseen for 2013 – i.e. the Italian political situation, the continuing phase of low interest rates and significant support by the central banks, the U.S. fiscal and monetary policies, the differences between Germany and the ECB – failed to materialize, thus paving the way for an uplift of financial markets.
Given an "accommodating" monetary policy, the Eurozone's financial system was in less critical conditions than in the past; starting from December, and after months of substantial stability, the Euribor started to go up, albeit at a slow pace, due mainly to a reduction of the excess liquidity injected into the system by the BCE. This increase was expected and does not seem to be cause for intervention by the ECB, whose objective continues to be that to fuel inflation by maintaining interest rates at minimum support levels. In fact the cut of the refi rate by an additional 25 bps in November confirms the ECB's policy of keeping short-term interest rates still stable at fairly low levels.
In terms of medium- and long-term interest rates, the rise of the two-year swap rate, which was thought to exceed 1.40%, stopped well below that level, with a reaction that drove the rate down to 1.05%. Also the rise of the ten-year Italian Treasury bond (BTP) was more limited than expected, with the relevant yield fluctuating, on average, between 4.40% and 3.50%, given the continuing adjustments to public finances.
Spreads continued along the positive trend, with the difference between the BTP and the Bund reaching 200-205 bps, confirming the narrowing trend for this indicator.

However, in some countries the inadequate capitalization levels of banks exacerbates the credit crunch, in a macroeconomic context that increasingly undermines the creditworthiness of borrowers, triggering much stricter prudential mechanisms in the provision of credit.

The downgrading of Italy's sovereign credit rating by one notch, from BBB+ to BBB with negative outlook, due to weak economic prospects, did not enhance short-term volatility or produce a substantial medium-term impact. In fact, the impact of the downgrade should be muted by the high share of public debt held by residents, whose demand is rather stable. In addition, the Italian Treasury is on schedule with this year's funding, with interest rates much lower than last year.

Given the current financial and macroeconomic context, the Group continues to pursue its objective of matching its assets and liabilities, in terms of maturity and repayment schedules, and taking into consideration the current debt structure. The optimal balance between fixed- and floating-rate financing is designed to stabilize cash flows so as to guarantee margins and the certainty of cash flows from operating activities, in connection with a prudential interest risk management strategy.

To achieve a solid financial structure and to support its own growth, during the year the Group obtained €1,500 million in medium- and long-term loans which were used, among others, to refinance the puttable bonds and loans held in portfolio. In particular, at the beginning of 2013 the Group took a favourable market opportunity and issued a 5.20% fixed-rate 15-year €700 million bond. This issue re-opened the market for long-term Italian corporate bonds; the last 15-year bond issue in Italy took place in September 2010.

On 22 May 2013, a 10-year €100 million bond was issued in two different tranches, maturing in 10 and 12 years at the fixed rates of 3.375% and 3.5%, respectively.
On 30 September 2013, the Group obtained a loan from the European Investment Bank (EIB) for a total amount of €200 million to support the capital expenditure plan. The above loan will mature in 15 years, in October 2028, with the first principal instalment due on 15 October 2017.
On 4 October 2013, the Group took a favourable market opportunity and issued notes under the Euro Medium Term Notes programme in place, for a total principal amount of €500 million, maturing in October 2021, with a 3.25% coupon and annual 3.337% yield, listed on the Luxembourg stock exchange.

On 1 October 2013, the Group repaid the *"€140,000,000 1.75% Equity Linked Bonds due 2013"*, which matured on the same date.

In addition, the Group strengthened its capital structure via a new share issue for €96.7 million completed in November 2013.

The Group's financial management is based on risk mitigation, thanks to a hedging policy that calls for a non-speculative use of derivatives.
Below, a description is provided of the Group's policies and principles to manage and control such risks as liquidity risk and related default and covenant violation risk, interest rate risk and foreign exchange risk.

Liquidity risk

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

The following table represents the "worst case scenario" where assets (cash, trade receivables, etc.) are not considered and financial liabilities - principal and interest - trade payables and interest rate derivative contracts are shown. Call credit facilities are assumed to be repayable on demand while other borrowings mature on the date on which repayment can be demanded.

Worst case scenario	31.12.2013			31.12.2012		
(€/millions)	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	59	100	603	32	232	552
Bonds and others financial liabilit	242	309	158	69	107	246
Trade payables	1,192	0	0	1,166	0	0
Total	**1,494**	**409**	**760**	**1,267**	**339**	**798**

To ensure sufficient liquidity to meet its obligations for at least the next two years (time horizon of reported worst case scenario), at 31 December 2013 the Group could rely on €942 million of cash and cash equivalents, €450 million of unused committed lines of credit and substantial undrawn uncommitted lines of credit (€1,500 million).
The lines of credit and the relevant activities are not concentrated on a specific lender but are distributed among the main Italian and international banks, featuring a use much lower than the total available.

At 31 December 2013 the Group had a debt structure where long-term borrowings accounted for about 90% of the total; bonds repayable at maturity represented around 70% of the total. The average term to maturity was around 8 years, with 65% maturing over 5 years.

The expected nominal amounts to be repaid over the next five years and after five years are shown below.

Debt repayment outlays (€/millions)	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018	Over 5 years	Total
Bonds	0	0	500	0	0	2,152	2,652
Bank debt / due to others	342	328	86	66	47	311	1,179
Totale	**342**	**328**	**586**	**66**	**47**	**2,463**	**3,832**

Default risk and loan covenants

The risk lies in the possibility that loan agreements signed contain clauses that include the right of the lender to ask for the early repayment of the loan if certain conditions occur, thereby creating a potential liquidity risk.

As of 31 December 2013 a significant portion of the Group’s net borrowings included loan agreements with a set of clauses that, in keeping with international practices establish a number of restrictions. The most important of these include pari passu, negative pledge and change of control covenants. As to acceleration clauses, there are no financial covenants on debt except that no amount in excess of €150 million in debt can be rated below investment grade (BBB-) by even one rating agency.

Interest rate risk

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

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 variable rates as part of a prudential approach towards the risk of interest rate fluctuations. Interest rate risk is essentially managed with a view to obtaining predictable margins and cash flows from operating activities.

Interest rate risk management entails, from time to time, and depending on market conditions, the execution of transactions involving a combination of fixed-rate and floating-rate financial instruments as well as derivative products.

In keeping with the Hera Group’s risk policy, in 2013 the share of floating-rate borrowings rose to 47% of total borrowings. The remaining 53% consists of fixed-rate medium- and long-term borrowings which might expose the Group to changes in fair value.

The derivatives are a perfect hedge to the underlying debt and are in agreement with IFRSs.

Gross borrowings (*)	31.12.2013			31.12.2012		
(€/millions)	without derivates	with derivates	%with derivates	without derivates	with derivates	%%with derivates
fixed rate	2,762	1,911	53%	2,117	1,628	61%
floating rate	841	1,693	47%	544	1,033	39%
Total	**3,604**	**3,604**	**100%**	**2,661**	**2,661**	**100%**

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

Exchange rate risk unrelated to commodity risk

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

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

Rating

Hera S.p.A. has a "Baa1" rating by Moody's with a negative outlook and a "BBB" rating by Standard & Poor's with a stable outlook.

On 10 July 2013, following the downgrading of Italy's sovereign debt, the Group was downgraded by S&P, to "BBB" with stable outlook. On 11 October 2013, S&P confirmed the Group's rating thanks to both its solid and well-balanced business portfolio, where 50% of EBITDA is generated by regulated business and its leadership in the water, environment and gas businesses. The stable outlook reflects S&P's expectation that the Group might reach the target rating level and hat its solvency is not fully dependent on the situation of Italy as a country.

On 3 December 2013 Moody's confirmed its "Baa1" rating with negative outlook, placing the Hera Group one notch above Italy's rating (Baa2 stable outlook), because it thinks that the Company can mitigate the negative impact of the country's weak macroeconomic context, thanks to its broad diversification and moderate exposure to cyclical activities. However, the negative outlook is due to the still-critical conditions of the Italian economy and the consequent pressure that they might determine on the Group's financial profile.

Given the current macroeconomic context and the uncertainty on the country's regulatory and economic prospects the Group has further reinforced its actions and strategies outlined in the Plan to maintain, or even improve, adequate rating levels.

1.07 Research and development

The Group's research activities in 2013 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 environmental services. The Group continues its commitment to renewable energy: HEnergia, the Hera Group's new centre for the development of renewable energy, was opened in 2013.

HEnergia. This is an experimental centre for applied research into technologies for the production and utilisation of energy from renewable and alternative sources, whose construction was begun in November of 2011 in the Forlì Hera headquarters. HEnergia 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 network of data measurement and acquisition. The focus will be on the measurement of effective outputs and their development over time. The other significant aspect will involve the identification and prevention of operating problems and the assessment of actual running costs. In its initial configuration, there is a photovoltaic section and a unit devoted to the production, storage and use of hydrogen. In 2013, work on this structure was completed and experimental activities were launched and put in motion with the support of the University of Bologna.

Emerging Pollutants Project. The term "Emerging Pollutants" refers to various biologically active substances of anthropic origin which are present in personal care products and in pharmaceuticals, psychoactive substances associated with drug addiction, and the relative metabolites. Endocrine interference agents represent a particular category, which overlaps with many of the preceding. The presence of these substances in water is considered to be one of the most significant environmental problems of the last decade. In 2007, Hera launched a research project aimed at identifying the principle emerging pollutants in water systems (with particular reference to natural water destined for purification), fine tuning analytical methodologies for their quantitative identification, carrying out research on the presence of such substances in relevant water systems, and evaluating the efficacy of their removal in currently used treatment systems (purification and depuration). Collaborations have been set into place with the Istituto Superiore di Sanità, the Istituto Mario Negri and the study group "Endocrine interference agents and water intended for human consumption" (EDinwater) promoted by the Fondazione Amga based in Genoa. In 2010 the set of parameters to be monitored was defined and a control plan was put into operation. In 2011, a joint initiative with the Milan Politecnico was launched in order to identify the most suitable drinking water treatment technologies. The scope of this collaboration includes the analyses launched in 2012 concerning treatment technologies and drinking water supply chains currently in use, to assess their efficacy in removing certain micropollutants and the need for any future upgrades. The project was completed in 2013 and showed that the concentration of micropollutants coming out of the Hera Group's main drinking water treatment plants, Val di Setta (BO) and Pontelagoscuro (FE), are in almost all cases below the limits measurable by available instruments and at any rate much lower than the quality standards proposed for these substances.

Automatic Leak Detection. This project is dedicated to investigating innovative systems for automatic water leak detection, to be used in conjunction with a 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 promising. 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 design of a leak simulation tool. The tool was constructed in 2009 and installed in real utility use sites together with the acquisition tools created the previous year. The considerable mass of data collected has enabled this physical phenomenon to be defined better than it previously had been. In 2010, a tool was designed and produced to facilitate data acquisition at different connection points and under various operating conditions. In 2011, acquisitions were made in various territories which allowed further refinement of the signal analysis algorithm.
Experiments continued in the first months of 2012, with the creation of a device equipped with a hydrophone sensor whose performance will be compared with that of the (accelerometer) sensor already in use. Analyses of the data collected using this technology are ongoing.
In the course of 2013 several data acquisitions were carried out in parallel on the two types of sensor in the open-air hydraulic laboratory located at Forli's Research and Development headquarters. These acquisitions have allowed technicians to clearly identify the benefits and limitations of each technology.
In 2013 the operation of the system constructed at Riolo Terme (RA) for the detection of leaks on a city network was closely monitoring, based on a series of hydrophones applied to the hydrants. The final results will be available at the end of the observation period, which come to a close at the end of 2014.

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 between Herambiente and the Department of Engineering at the University of Bologna, and is jointly funded by the Ministry of Agricultural, Food and Forestry Policies. In 2010, work began regarding 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 began on the production of hydrogen and methane with biological procedures.
In 2012, evaluations were carried out as to the possibility of using 1) hydrogen produced in traditional PEM combustible cells and 2) solid residues of combined hydrogen and methane bio-production, such as compost/fertilizers for agriculture, and any necessary pre-treatments. The project was successfully completed at the end of 2013, experimentally demonstrating that, by using certain bacterial strains, it is possible to obtain a combined production of hydrogen and methane with an energetic output higher than that which can be obtained using a traditional anaerobic digestion process.

Automatic Plant Management. The project, developed in collaboration with ENEA, involves the development of a system for the automatic management of the main operating parameters of water-treatment plants. The system's task is to maintain the process conditions of a given plant at maximum efficiency, depending on the composition of the incoming waste water (depuration plants) or untreated water (drinking water treatment plants). In 2008, work began at the Calderara di Reno - Bologna depuration plant, chosen as a test site. In 2009, analysis and control instruments were installed at the site and field-data acquisition began. The data acquired in 2010 confirm previous knowledge concerning continuous-flow sludge treatment, and reveal the existence of new characteristics in the signals relating to the quantities monitored, helping to differentiate between standard operation and 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. In 2012 a prototype depuration plant to scale was installed at the Trebbo di Reno (BO) purifier, and the rationale and policies for controls to be implemented in the system were identified. In 2013 tests were carried out on the Trebbo di

Reno plant, with satisfactory results. At the same time, an additional prototype was installed at the Calderara di Reno (BO) plant.

Modeling water cycle plants. The purpose of this project is to develop mathematical models for the simulation of depuration plant hydraulics and processes. The objective is to acquire the instruments and know-how necessary to begin coordinating the mathematical modeling of water-treatment plants for the Group. In 2009, preliminary work was carried out to develop a model of the sample site and to select calculation software from those commercially available. During 2010, at the end of the evaluation phase, software licenses were acquired. In 2011 modeling work within the Group was begun, and is currently still in the pilot phase.

Within the scope of this activity, in 2012 the Group equipped itself with sophisticated instruments capable of carrying out specific laboratory analyses for the calculation of magnitudes and parameters useful for modeling. During 2013 the model for the Santerno depuration plant in Imola was set up, drawing on the data provided by the innovative instruments installed in the plant and a detailed characterization of waste waters and biological sludge carried out in the Group's laboratories.

Energy Recovery in Water Treatment Plants. In 2010, the possibility of energy recovery from water treatment plants began to be investigated, 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. Two other studies were launched in 2011: the first concerns energy recovery from the mains water supply using In Pipe Turbine (IPT) or Pump As Turbine (PAT) systems; the second project involves thermal energy recovery from the mains water supply using low-enthalpy heat-pump systems. In the wake of these studies, and following additional data analysis and field verifications carried out in the first half of 2012, a decision was made to continue with pre-feasibility studies for an application at an aqueduct pressure reduction substation in the Municipality of Bologna, to optimise potential energy recovery. During 2013 the study was further developed in collaboration with some of the major Italian companies operating in this sector.

Characterisation and analysis of polyethylene pipes under normal operating conditions. Polyethylene pipes used for the mains water supply have a higher rupture index than pipes made of other materials. In order to examine the causes of this situation in greater detail, a project was launched to carry out 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 breaks, identifying their principal causes and designing improvement plans. The project has been developed in collaboration with LyondellBasell, one of the world's leading manufacturers of polyolefins, and with the Plastics Testing Laboratory Foundation in the Department of Chemistry, Materials and Chemical Engineering at the Milan Politecnico. In 2010, samples were taken from section of pipeline where ruptures had occurred, and a visual analysis was made of these test pieces; statistical analysis of the ruptures and laboratory analyses began to be carried out. Laboratory tests were carried out in 2011 for the precise characterisation of the fractures, and the results of these tests will serve as the basis for defining action and improvement plans. The results of the research carried out were presented at WaterLossEurope 2012, the most important international event organized by IWA regarding water leakage issues.

In the first half of 2013, Advanced Polymer Materials, a spin-off of the University of Ferrara, was given some samples for chemical-physical, rheological and thermo-mechanical analysis. The results of these tests served to precisely define the new quality parameters and criteria to be included in the new revision of the technical specifications for purchasing polyethylene pipes.

1.08 Human resources and organisation

Company organisation and group structure

Human resources

As of 31 December 2013, the Hera Group had 8,219 permanent employees (consolidated companies), with the following breakdown by role: managers (154), middle managers (458), employees (4,211) and workers (3,396). This workforce was the result of the following changes: new hires (+145), departures (-259). Also note that the new hires were made essentially as a result of qualitative turnover involving the addition of more qualified staff.

Organisation

The Hera model is distinguished in the multi-utility landscape for having created an industrial and operational integration based on a Holding which, through Central Departments dedicated to planning, support and control, ensures an integrated Group vision and favours the exploitation of synergies and, through General Departments, ensures the direction and coordination of the strategic business areas for which they are responsible, and ensures the operational management of the Group's activities through the specific business lines.

The Energy & Utility sector is increasingly characterised by rapid changes, with competitive dynamics and a regulatory context oriented towards specialisation, distinguished by a few key elements (Water and environmental services regulations, Public tenders for services, Regional regulation, ...)

In order to respond to these demands, in January 2013 the Group adopted an organisational model in the area of the Operations General Department, designed to obtain additional benefits from the specialisation of the single businesses managed, acting furthermore to improve relations with stakeholders in terms of organicity, standardisation and proactivity.

The operative model of the Hera Group therefore continues to be defined by a search for the best possible balance between its business sector prospective and its well-established relations with local communities, using all available operational mechanisms (organisation, processes, resources and systems) to seek the utmost efficacy and efficiency for its services.

Furthermore, as at 1st January 2013, the merger by incorporation of Acegas-Aps in the Hera Group became effective, whose fundamental organisational articulation was approved in May 2013, and it was defined in keeping with the organisational model set up in the Group's analogous reference areas.

Analyzing organisational changes in terms of business area, within the area of the Operations General Department, three Departments were created with vertical responsibility in relation to the various services managed: Water, Energy and Waste Management, and two Departments that display transversal features: the Customer Technical Services Department, which manages technical services directly related to end users in the Hera Group's territory, and the Technology and Development Department, which has absorbed centralised engineering activities as well as those involving remote control, laboratories, and the overall coordination of the regulated services.

Lastly, seven Territorial Areas have been created focused on safeguarding relations with the respective communities and major local Stakeholders, and that use a proactive organic approach that is consistent with the Sustainability Report and is intended to guarantee coordinated, harmonised and prioritised interactions.

In parallel, in order to develop greater protection of the activities most closely focused on the Company's business areas, and once again with a view to the orientation of the internal client, a new organisational configuration of the Central Departments has been defined and implemented, in particular with:

- a hierarchical (activities and resources) reallocation of functions previously allocated to the Territorial Business Unit/Operative Structures (Procurement and Tender Contracts, and Personnel and Organisation);

- a reorganisation of the Quality, Safety and Environment Department.

Furthermore, as of 1st January the corporate structure of Famula On Line Spa was dismantled and its activities were integrated into Hera Spa, together with the concomitant creation of the Information Systems Department, organisationally situated in the Services and Information Systems Central Department.

As regards the Administration, Finance and Control Department, an organisational revision of the function of Management Control was implemented, aimed at developing greater protection of the activities most closely focused on the Company's business areas, and of the Administrative Department, aimed at optimising and integrating the Group's administrative processes.

As regards the Development and Market General Department, the following changes of note occurred:

- the reorganization of the Marketing and Indirect Sales Department of Hera Comm, aimed at more completely integrating marketing activities and developing the sales areas with a view to segment and channel;

- the reorganisation of the Acantho Technical Department, aimed at defining a structure more orientated towards the services offered than to internal processes;

- the new organisational configuration of Hera Trading, in particular with the creation of the General Management within which support activities and staff also converged.

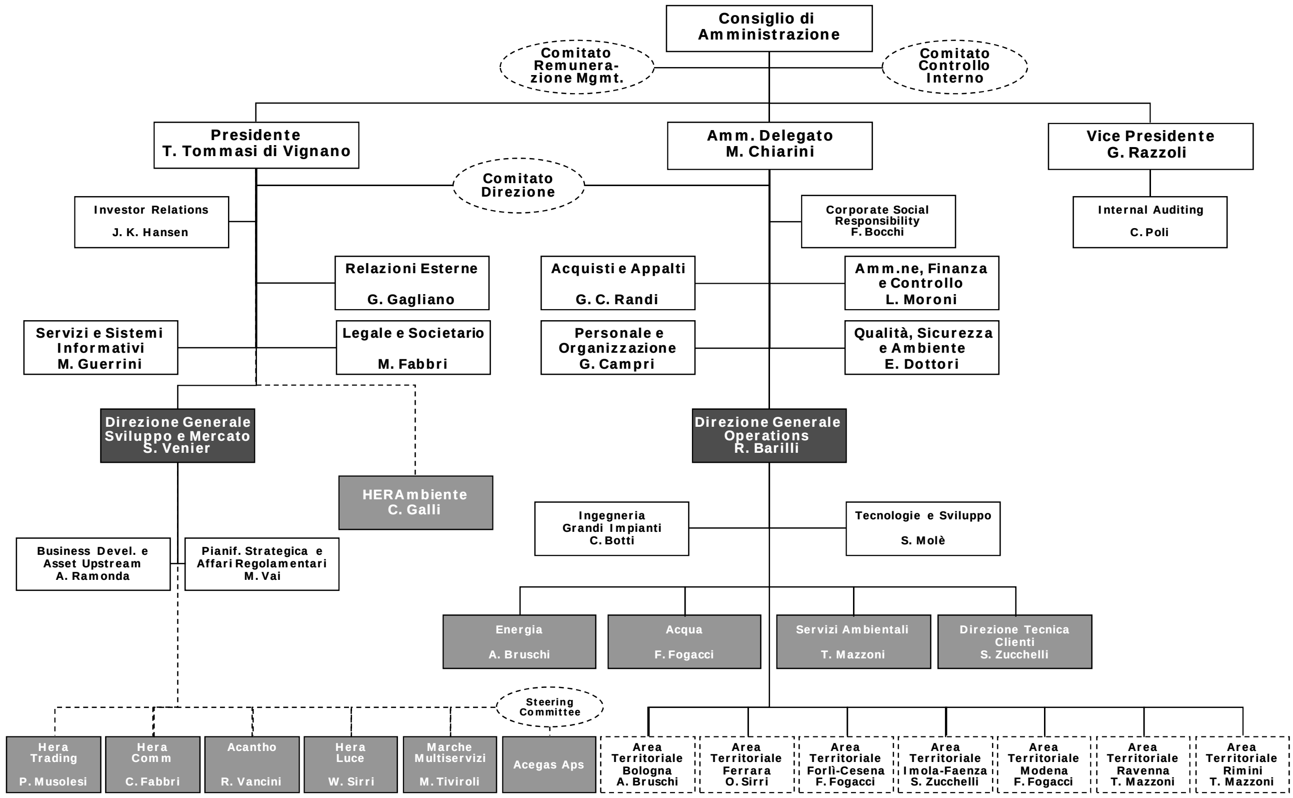
As regards Herambiente Spa, an additional articulation of the sales structures of the Market Department was introduced to further encourage a focus on the end client and guarantee greater efficiency in the approach to the competitive market in the area of special waste. Back office activities have furthermore been centralised in the Customer Service function of Market Department, with the objective of obtaining efficiency benefits in fulfilling administrative activities pertaining to contract management.

The process of logistics management was also further optimised, by way of simplifying the activities involved in the allocation of dry and humid non-hazardous waste, centralised in the Logistics function of the Operational Services Department. Moreover, preparatory activities were concluded for the establishment of the Pozzilli Thermoelectric Power Plant facility, which has been operational since 1st July 2013, and directly manages the activities previously managed by Energonut Spa.

As of 1 October 2013 the transition of the company Nestambiente from Acegas-APS to Herambiente was finally completed, with the consequent transfer of associated activities and resources related to the commercialization of waste and the management of Environmental Decontamination for the North-East territory (Padua Trieste) as well as the management of the Padua storage facility.

In 2013 a further transversal developmental phase of the Lean Organization methodology, oriented towards the circulation of approaches and competencies, including the use of additional communication and organisational development tools, was also launched.

The Macrostructure of the Group, operative as of 1st January 2013, is therefore as follows:



Two Committees oversee the management of the Company:

Operating committee: this committee's task is to examine and disseminate policies, strategies and operational planning at the Group level, and to encourage integration among the various structures;

Management committee: every three months, this committee examines management performance and progress on projects included in the balanced scorecard;

For the promotion and development of strong local roots, since the end of 2009 each Territory has made use of a Territorial Committee composed of members representing the local area (including the President him/herself), joined the Manager responsible for the local Territorial Area. The Committee periodically focuses on several key issues such as monitoring customer satisfaction and the quality and sustainability of services offered. The Committee is also in charge of supporting the Group's top management in its interactions with public authorities and other local stakeholders.

Industrial relations

Following the presentation regarding the evolution of the organizational model of the Operations General Department, which took place in late 2012, meetings with the Statutory Auditors coordinating body have been implemented at the central level; in these meetings, the detailed organization of the individual "units" has been examined.

Following an initial meeting at the beginning of 2013 in which the project was broadly outlined, the new Pronto Intervento Reti model was presented to the Statutory Auditors coordinating body in July.

Immediately following the presentation that took place at the central level, in keeping with the agreement entered into by the Parties, from the end of July 2013 to early January 2014 local meetings (Bologna, Ferrara, Forlì-Cesena, Imola, Modena, Ravenna and Rimini) were initiated to compare the organization of traceability.

These comparisons showed a substantial convergence among the positions, leading the parties involved to agree on several Meeting Minutes that emphasized the most relevant aspects regarding implementation procedures and the organization's audit trail.

At the central level as well, the parties agreed on a mid-path Meeting Minutes. The new model has therefore been activated in each local territory according to various schedules.

In October 2013, Nuova Geovis Spa was incorporated into Herambiente Spa.

In accordance with the provisions of Chemical Industry collective labor agreement regarding the safety of workers and the protection of plants, an agreement regarding the essential services that must be ensured in the event of a strike for the plants located in the Via Baiona, Ravenna organizational structure was signed between Herambiente and the labour unions.

In the six months between June and December of 2013, at the conclusion of the numerous meetings held at the local level, 6 Reports of Agreement have been signed with the trade unions (for the territories of Ferrara, Forlì-Cesena, Modena, Ravenna, Rimini and Bologna) that regulate the installation and use of GPS devices on Environment Sector vehicles and containers.

In the month of July an experimental definition was reached of an Agreement regarding the use of the DST WASTE system with the local and corporate Trade Union organizations of the Environmental Department, in order to ensure better maintenance of company vehicles for the collection of waste.

In September of 2013, in accordance with the provisions of the Integrative Collective Agreement regarding the harmonization of allowances and the economic and regulatory conditions established in the Hera Group, an agreement has been signed with the Trade Union organizations of the Environment Department for phasing out certain benefits (Ex SAT).

With regard to the signing of a new Tenders Protocol, the definition of a new Industrial Relations Protocol with the National Trade Unions organizations involved negotiation with the Statutory Auditors coordinating body regarding the performance bonus, as well as the harmonization of the Cafeteria and business travel allowances; after multiple meetings the negotiations came to a standstill due to the declaration of an industrial action surrounding the renewal of the water and gas collective labour agreement.

With the signing of the draft collective labour agreement for employees of the Gas and Water Sector that took place 14 January 2014, after the halt declared by the National Trade Union organizations, negotiations resumed with the aim of completing discussion within the first two month period.

The technical Monitoring Board for organizational innovation and work quality (LaborHERA) met 3 times and was active at the local level on issues relating to the safety standards for the Depuration Plant in Via Gramicia, Ferrara.

Hera continues to collaborate with Employers' Associations, taking part in committees and delegations dealing with national collective labour agreements in the gas, water, environmental services and electricity sectors:

In November, through the drafting of a Report of Agreement, the Statute of the Medical Benefits Fund for Environmental Services (FASDA) employees was signed with Federambiente.

Development

Activities continued in the formation and diffusion of the Group's Leadership Model which was defined in 2010 with the aim of identifying prospective and distinctive behaviour for Hera Group management and involved a series of initiatives being implemented for all managers and middle managers. The main initiatives included: training workshops, sessions about team management, and thematic seminars on the four key elements of the Model.

Group Managers and Middle managers have participated in training courses dedicated to deepening their understanding of several key elements of the Leadership Model. In particular, from June 2012 to June 2013 multiple events were dedicated to the detailed exploration of the key element "Managing Complexity" and its two fundamental skills: flexibility and decision-making. At the end of these twelve months, a focus seminar on Complexity Management dedicated to Executives and Managers was held.

From June 2013 to June 2014, the focus shifted to detailed exploration of the key element "Orientation toward Excellence" and its distinctive skills: Tending toward excellence and Identifying with the company: the training program, which also involves colleagues from AcegasAps, was launched in October 2013 and is scheduled to end in June 2014.

Thematic newsletters entitled "Leadership Tips" are sent to managers and middle managers on a trimestral basis, in which the key skills addressed in the course of in-person events are explored in detail.

The programmes dedicated to managerial development and development of potential, in line with diversity and inclusion projects, continued to be supported by individual coaching courses, consistent with the development of the skills set out in the Leadership Model and with the coaching model implemented by the Group.

In the first half of 2013, a listening initiative was set up targeting all the members of the Operations General Department, following the reorganization carried out at the beginning of 2013; in order to activate potential trajectories of improvement, moreover, meetings devoted to each individual department were held, during which detailed results were presented and analyzed.

In the second half of 2013, the V internal climate survey was carried out, involving the participation of AcegasAps colleagues as well.

With the same scope as the previous survey of 2011, redemption reached 66% and ESI was found to equal 63 (a decrease of one point as compared to the previous 2011 edition); the value of ESI when taking into account the overall Group datum is 61.

The participants in the first edition of the development of potential project (begun in 2008), who took part in developmental paths mainly characterized by transversal skill acquisition, were involved in inter-corporate experiential paths in Italian and foreign businesses and best practices by competence areas, and presented the results of their experiences to Management Committee.

The second edition, begun in the second half of 2011, involved 94 resources and the initiative's aims included nurturing and extending the potential of the Group's existing young resources. Several training initiatives were set into motion in 2011 and 2012; in particular, a training initiative involving all 94 resources was carried out in November 2012 with the aim of introducing the contents of the Leadership Model and providing opportunities and suggestions for professional self-development. The participants were furthermore given the opportunity to take advantage, upon individual request, of a session of telephone coaching in order to further explore the issues discussed during the initiative, and to share tools and techniques for self-development; this activity came to a conclusion in the first trimester of 2013. Furthermore, at the beginning of 2013 an ad hoc session of the Higher Education course "Regulation and Markets in Public Utility Services" was held for 25 of these resources. They were also given the opportunity to participate in a brief experience in individual coaching, aimed at defining a Strategy for personal excellence.

Beginning in October 2013, a modular set of activities was launched that will end in the first half of 2014: "The pathway to excellence," which employs different educational modes: classroom, experiential activities, distance learning (such as Webinar-online interactive seminars), moments of individual reflection and self-development.

In December 2012 the project "Positive Return Policies," presented in October 2011 for the funding competition pursuant to Art. 9 of Law 53/2000 "Measures to reconcile life times and work times", was awarded partial funding by the Presidency of the Council of Ministers amounting to EUR 257,000, obtained thanks to the innovative and socially relevant character of the proposed measures. The funded activities were launched on 19 March 2013 and will continue until 18 March 2015. The project's main objectives include the development of actions to reconcile work and life and support tools for employees taking advantage of maternity, paternity or parental leave.

In order to facilitate employees' return to work, internal training and a brief session of coaching/counselling is scheduled: in the fourth quarter of 2013, multiple employees have participated in group coaching initiatives aimed at valorising their personal and organizational potentials. In addition, in late 2013 an initiative counselling-oriented listening skills initiative was launched targeting employees returned to work following a period of family care leave.

Thanks to the financing project, the number of available corporate day-care centres throughout the Group's geographical area of activity was increased.

A training seminar aimed at raising awareness on issues related to the recognition of diversity was held in June 2013, and was also extended to local institutions.

Furthermore, a collaboration with the Province of Bologna was set under way in the month of June, for an efficient identification of qualified home care services for Group employees thanks to an extended database called Madreperla.

An e-learning course dedicated to Time Management was internally structured during the first semester, and will be made available to all employees beginning in the month of July.

650 employees have already spontaneously requested to be enrolled.

Training

In the area of training, the first activities and initiatives that should be noted fall under the responsibility of Heracademy, the Hera Group's Corporate University, namely the creation of the workshop entitled "Utilities, levels of government, citizens: how to collaborate in infrastructure development?" (Ferrara, January 2013) and "Smart Communities and Local Development: objectives, actors, value creation" (Modena, July 2013). Further activities to be noted within Heracademy's sphere of activities include the further diffusion of the Hera project "Hera teaches you a trade... in school" (Modena, ITIS E. Fermi, December 2013).

In the field of Corporate Social Responsibility, the training initiative "The Sustainable City" was implemented, aimed at raising the awareness of all workers regarding their understanding of the Sustainability Report, through the use of animated software (gamification) and the creation of "virtual" classrooms and "traditional" classrooms with internal facilitators; the training course has achieved almost total coverage of the workforce (about 90%), with significant results in terms of innovation and involvement.

In 2013 as well, full continuity was granted to training activities carried out in fulfilment of legal obligations (fire prevention, first aid, safety supervisors, etc.), with particular attention to training in the area of work-related stress and training required by the State-Regions Agreement for work equipment with nearly 49,000 hours of overall training offered on matters pertaining to Quality, Safety and Environment.

The intense training and professional refresher courses continued as usual 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 impact.

With respect to the training initiatives created in collaboration with Alma Mater - University of Bologna and Alma Graduate School, special note should be given to the creation of the advanced training course entitled "Regulation and markets in public utility services" (First quarter of 2013), and the creation of the course "Development of Managerial Skills" (between July and November 2013).

In addition, as part of institutional and managerial training programs, the Group continued to offer training in the Lean Organization method and knowledge of the English language.

In several areas of the company educational interventions focused on customer orientation, customer service communication techniques and advanced sales techniques were created.

With respect to the Information Systems sector, educational interventions were carried out in association with the SSA (Sviluppo Sistemi Ambiente, Environmental Systems Development) project and the ESA (Evoluzione Sistemi Ambiente, Environmental Systems Evolution) project.

With regard to knowledge management activities, in 2013 the group continued to offer the School of Trades through the publication of the fifteenth publication, titled "Managing User Plants." The School of Trades, now in its ninth year, is a consolidation corporate project aimed at valorising the technical and operational characteristics of the Hera Group, in order to increase the awareness of professional conduct and the transferability of skills from one operator to another; along these lines, activities associated with the "Hera teaches you a trade ... in school" project were initiated within several Technical Institutes in Emilia-Romagna (Forlì, Modena and Ravenna).

There were roughly 38,624 participants in training activities, and 98% of the Group's employees was involved in at least one training activity.

The total financial investment incurred in 2013, excluding costs associated with trainee staff and internal trainers, was Euro 817,000, a figure slightly higher than that reported for the previous year.

These figures confirm the Hera Group's significant commitment, both economically speaking and with respect to other resources, to continually developing and maximising the potential of its human capital.

Type of Training	Person-hours
Professional and specialist training	64,543
Quality, safety and environment	48,992
Institutional and managerial training	48,249
IT	10,841
Totale	**172,625**

1.09 Information systems

The Group's activities are managed through complex information systems that support its most important business processes, whether operational or commercial and administrative.

The activity carried out in 2013 was characterised, at a group level, by continuity in the activities of integration, consolidation and applicational and infrastructural optimisation of the Group's various companies, defined on the basis of the changes in company structure that were implemented in the previous financial years.

With respect to the Group's business requirements, any possible unavailability or failure to upgrade its information systems would represent a potential risk factor that the Group has mitigated by way of specific controls governed by the Information System Department.

The guidelines through which the Information Systems Department's interventions are developed are indicated in the Business Plan and in the Budget, in particular:

- guaranteeing compliance with the sector's regulatory requisites;
- supporting business;
- guaranteeing process and system efficiency and improving service levels;
- reducing risks in the area of technology and the security of the systems managed

Continuous and timely efforts continue in bringing the information systems into line with sector regulations, and the important process of updating the information systems to comply with regulatory obligations regarding the separation of distribution and sales processes (for companies operating in the electricity and gas sectors - "unbundling") also continues.

Furthermore, the process of functional, architectural and infrastructural evolution of the main systems serving the company's Business continues, with respect to which a consistent improvement in performance has been reached. New functionalities have been activated in support of business, among which functions that support activities of collection and disposal in the Environmental sector, a new rapid response technical call centre for network services: electricity, gas and water; and new business intelligence tools.

The process of adapting the systems for the management of Salvaguardia market contracts has been initiated following Hera Comm's winning the call for tenders for the period 2014-2016.

In addition, the integration of several companies within the waste management systems of the Group was completed.

Interventions aimed at guaranteeing a continual increase in process efficiency also continued, concerning for example processes in reading management, and commercial processes.

Some of the most significant activities include those involved in important technology upgrades, to ensure that the Group's systems are updated according to the latest technical/functional levels available on the market, while keeping the impact on Business to a minimum.

The plan was launched to harmonize Acegas Aps Systems information systems with those of the Group, which during 2013 already reported the completion of the first phase of migration into Hera's Core Business Area.

The information systems ensured service continuity, implementing configurations in High availability (HA) for the main systems, minimizing impact due to new projects and fulfilling ordinary maintenance and system-development requests in accordance with agreed-upon priorities.

In the course of 2013, there were other important results, such as:

- the completion of the improvement projects planned in 2013 for the Information Systems Department, including the evolution of the management tools used in the trouble-ticketing process and performance indicators within the Information Systems Department (key performance indicators - KPIs)
- full compliance with annual service level agreements (SLA) relating to the infrastructural and applicational management.
- confirmation of the ISO 9001 quality certification

The Group implements specific controls in the area of information confidentiality and security, both through internal policies and using tools for the management and control of access to systems, as well as through specific contract agreements with Group suppliers.

The Information Systems Department has dedicated a special team to preventing and monitoring information attacks on the Company's systems, and specific solutions have been adopted for information security management and control.

As a further safeguard for this specific set of risk problems, the Group periodically carries out vulnerability assessments.

With regard to infrastructures, the stabilisation and reinforcement of the data centre also continues.

1.10 Quality, safety and environment

For Hera, 2013 has been a year of significant organizational change. The reorganization project also involved the Central Department for Quality, Safety and Environment (CDQSE), which at the beginning of the year was supplemented by the "QSE Security and System Management," extending and completing the areas of responsibility of the CDQSE to include aspects of physical and logical security. In the month of October, an innovative and significant organizational change took place in the CDQSE, both in the QSE as well as the PPS, in keeping with the organizational model defined by HERA SpA.
This new Structure was presented to the Company's other Departments and all the subsidiaries, within the framework of specific meetings, illustrating the new organizational model that involves the following structures:

- Two staff structures:
  - **QSE Privacy and Regulations Internal Control**
  - **QSE safety and system management**
- Two line structures
  - **QSE Coordination**
  - **Unified prevention and protection service (PPS)**

Both of these lines are in turn organized as follows:

- a staff structure: Specialized technical support;
- Three line structures whose areas of reference are: Central Organs and DCSSI, Development and Market General Department and Operations General Department.

In this context of deep restructuring of corporate processes, the management system has demonstrated its consistency by ensuring the maintenance of the processes being managed and certifications. The key findings include:

- The **maintenance of the certification for the "integrated" system, ISO 9001, ISO 14001 and OHSAS 18001**, for Hera SpA and many of the Group companies, with very satisfactory results. The validity of this certification audit system, recalibrated in 2012 according to a process-oriented methodology, was confirmed.
- **ISO 17025**: In June, the Group Laboratories maintained their Accredia accreditation;
- **SA8000 Certification**: the certification granted to Management Systems that are compliant with issues pertaining to Social Responsibility was achieved in March 2013 and confirmed following the certificate check in September 2013. In this context, the CDQSE plays an active role, together with the CSR, DCPO and the DCAA.
- **EHS project**: The activities related to this project continue to follow the evolutionary pathway of Company Information Systems in the area of Health, Safety and Environment. The aim is to implement a management system relating to Health, Safety and Environment that operates in synergy with the Group's other enterprise applications. Specifically, the sub-system regarding the management of health monitoring was brought into production, proving satisfactory to all users, who recognized the validity of the solution that was implemented.
- **ISRS**: within DCQSE and in cooperation with DNV, in 2012 a multi-year project to assess the level of "compliance" of integrated management systems in order to promote the implementation of management systems that are effective and appropriate to the type of business. This work continued during 2013, involving, on an experimental basis, the Unified prevention and protection service.

- **ACEGAS-APS**: during the year, there was collaboration between the company and the DCQSE regarding various areas such as:
    - An ISRS assessment process, primarily aimed at providing useful elements for the development of the OHSAS 18001 management system;
    - an evaluation of the conformity of the forms used as compared to the Holding form, and the associated opportunities for compliance for both Privacy and QSE legislation as well as privacy audit activities;
    - Risk assessment process;
- **SAP Audit Management**: in 2013, for the first year, the planning of internal audits and management of the results was carried out entirely through the use of this information system.
- **Energy Efficiency, ISO 50001 certification and Energy Management activities**: energy certification was begun for Hera SpA, which involved all the corporate structures, and the preliminary assessment conducted in the month of December was successfully passed.
- **Security**: logical security, in 2013 the DCQSE presented the results of the analysis carried out on the security of information in the Risk Committee, with a possible intervention plan that was subsequently incorporated into the Business Plan.

QSE Coordination

During 2013, in conjunction with the Purchasing and Procurement Department, a further highly significant training campaign intended for company representatives was carried out, to focus attention on issues concerning supplier performance control, with particular emphasis given on this occasion to social responsibility.

As part of the Hera Spa certification audit, a total of 7 minor NCs and 119 observations, made during the course of 2012 at Territorial Operational Structures were reexamined in relation to each line and discussed with the Certification Body and all corrective actions were effectively completed.

All of these activities took place in addition to the routine ones planned and implemented by the DCQSE in order to maintain the Group's Integrated Management System, including activities aimed at verifying the coherence and QSE conformity of procedures and instructions drafted by various corporate structures, updating the system documentation, QSE manual, system procedures, and risk assessment and environmental analysis documents.

"Unified prevention and protection service"

With regard to Health and Safety, in 2013 two projects, "Work Related Stress" and "Machinery Equipment" came to a satisfactory conclusion, part of the wide-ranging and articulated project "A year for safety in the Hera Group".

As a result of the new DGO organization in force since 1 January, 2013, updating was carried out on all risk assessment documents in keeping with a new line-oriented logic. Also in the course of 2013 an update was carried out on the P.GRP 019 group procedure regarding the process of threat identification and risk assessment. As planned, site inspections were carried out in workplace sites in collaboration with the occupational physicians and representatives of safety projects (RLS).

In the month of December, the initiative "Safety is not a game" which was launched in 2011 as part of the" A year for safety in the Hera Group" project was recognized as a best practice by the Permanent Advisory Commission of the Ministry of Labor and Social Policy.

The analysis of data on accidents showed an overall result in line with the established objectives and representing an improvement over results for the same period last year, thus confirming the positive trend began a few years ago.

A comparison with 2012 reveals a decrease in the overall number of injuries (154 in 2012 and 139 in 2013), and therefore in the Accident Frequency Index (22.70 in 2012 - 20.37 in 2013). As regards the number of days of absence due to injuries, an improvement can be seen here as well (4,908 in 2012 - 4,598 in 2013) and therefore a reduction in the parameter of the Severity Rate (0.72 in 2012 and - 0.67 in 2013).

A detailed analysis of data concerning how these injuries occurred shows that slips/falls and injuries sustained in transit (between work and the home) represent the two primary causes of injury (30.2% and 23.0% of the total, respectively). Injuries sustained in car accidents on the job instead represent 10.8% of overall cases.

One aspect that still shows room for improvement is the ratio between reported Near Misses and effective accidents which, although consistent with the target set for 2013 (ratio> 90%) is lower than the value reported for the same period of last year (Ratio Near Misses/injuries = 115% during 2012 - Ratio Near Miss / Accident = 94% in 2013).

QSE Privacy and Regulations Internal Control

In 2013, the Group continued to control and further develop the Privacy regulations, which play an increasingly central role in the overall activity of overseeing significant aspects of quality, safety and environment.

The DCQSE has gained increasing weight as a normative reference in relation to legal requirements relating to workplace health and safety, environmental protection, quality and privacy, resulting in the dissemination and verification of the impact produced by 52 new measures; in-depth regulatory and issue-based interpretative opinions were prepared regarding both specific issues highlighted by the operating lines, as well as through the regulatory assessment of operational procedures and instructions for the various corporate owner processes, through monitoring both the content of tender reports and intercompany contracts. 23 in-depth regulatory examinations were also carried out, focused on specific impacts brought about by either the issuing of new regulations or the adoption of new technologies that impact on the processing of personal data.

With a view to the ever greater integration with the Quality, Safety and Environment system, sample audits were programmed and planned in the management of the video surveillance of the water treatment plants in Bologna, in Acantho privacy management, in the management of Hera comm call center and help desk service providers using the SAP audit management tool.

In a collaboration with the DCPO, a realignment of the positions was carried out for the responsible privacy and structures entrusted with reorganization as well as subsidiary companies, following which one of the most important activities carried out was the classroom training of 87 handling managers and 66 system administrators, for a total of 612 hours of classroom training.

Still in relation to the control phase, 10 audits were conducted in the area of privacy audits, including 2 audits of Hera Comm external suppliers. The centralized analysis of risk associated with the processing of Hera Spa personal data was completed, using a methodology that had already been extensively tested in relation to safety logic.

QSE safety and system management

The new Structure presented the results of the Analysis of Risks for Information Security to the Hera Group's Risk Committee, along with an articulated proposal for an Intervention Plan to bring the recorded risk level below the threshold established by the Committee. These interventions are slated to be incorporated into the

Business Plan, and their efficiency will be measured year by year by QSE Security and System Management, through a periodic revision of the Risk Analysis.

The Guidelines and Security Policies have been revised and brought into line with the most recent evolutions of the regulatory framework concerning Privacy and the regulation of the recent introduction of Wi-Fi in the Company.

The Auditing activities carried out by QSE Security and System Management have been reconciled with the methods and tools used in the Department. The Auditors followed a specific training course dedicated to "ISO 19011 Auditing Techniques" and the use of the SAP audit management tool. During the first semester, the QSE Security and System Management carried out a total of 6 audits, successfully applying these new methods and tools.

Lastly, a Technical Audit was carried out on the security of the information infrastructure of the Remote Centre for Fluid Networks, whose results were shared with the Technical Services and Operations Department and led to the drafting of a plan for improvement.

1.11 Report on corporate governance and ownership structures - article 123-bis of the TUF

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 on 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 environmental services, water, gas and electricity businesses, with more than 8,500 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, and since 1 January 2013, following the integration with the Acegas-Aps Group, in the areas of Padua and Trieste as well.
Hera's goal is to become 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 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 shared conduct represent the strategic and cultural framework within which the industrial 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 or 25 March 2013.

a) Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the TUF

The share capital is Euro.1,421,342,617, fully subscribed and paid-up, and consists of no. 1,421,342,617 ordinary shares with a par value of Euro1 each.

Share Capital Structure

Type of share	Number of shares	% of share capital	Listed	Rights and obligations
Ordinary shares		100%	MTA of Borsa Italiana S.p.A.	Ordinary shares give holders dividend and voting rights provided for by law.

Taking effect beginning July 1 2014, there is a planned increase in share capital of 1,489,538,745 Euros following the completion of the merger through incorporation of Amga – Azienda Multiservizi Spa. into in Hera Spa

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 other Public Authorities, or consortiums or joint-stock companies including Municipalities, Provinces or Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000, or other Public Authorities hold, even indirectly, the 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 local 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

Declarer	Direct shareholder	% of the share capital
Municipality of Bologna	Municipality of Bologna	10.73%
Municipality of Modena	HSST-Mo Spa	9.82%
Municipality of Imola	CON.AMI	7.40%
Municipality of Ravenna	Ravenna Holding Spa	6.11%
Municipality of Trieste	Municipality of Trieste	5.05%
Municipality of Padua	Municipality of Padua	5.04%
Lazard Asset Management L.L.C.	Lazard Asset Management L.L.C.	2.013%*
Carimonte Holding Spa	Carimonte Holding Spa	2.00%

***** Source: Thomson Reuter, updated 13 December 2013.

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 entities 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)

In accordance with Article 122 of the TUF, there is a Voting Trust and Share Transfer Rules Agreement in existence between 124 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, and was subsequently modified, effective from 1 January 2013, following the aggregation with the Acegas-Aps Group.

There is also a Voting Trust Agreement in existence between 68 public shareholders concerning 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, renewed on 21 February 2013 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.

Finally, there is a Consultation Agreement in existence, signed on 10 February 2012 by two public shareholders of Hera, which provides for the joint appointment of one member of the Executive Committee of Hera.

f) Mandates to increase share capital and authorisations to purchase treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the TUF)

The shareholders' meeting of 30 April 2013 gave authorisation, within the limits laid out 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 Euro1 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, planning to allot a maximum amount of 40,000,000 to the purchase;
ii. the purchases and all the provisional acts concerning the treasury shares can take place at a price that does not result in negative economic consequences for the company, and should take place in compliance with the legal norms, regulations and prescriptions established by the Financial Services Authority and/or Borsa Italiana S.p.A., anticipating a maximum investment of 40.000.000 Euros
iii. use of the treasury shares purchased within the scope of transactions representing investment opportunities or other transactions involving the allocation or disposal of treasury shares;

It is also stated that the number of treasury shares in the portfolio at the close of the 2013 financial year was 9,878,873.

3. Compliance (pursuant to Article 123-bis, paragraph 2, 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 the adoption of the principles contained in the Code is not demanded by any legal obligation, the Company agreed to the principles of the Code, and to the modifications and integrations approved by the Committee for Corporate Governance of the Borsa Italiana in December 2011, 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, www.borsaitaliana.it.

4. Board of Directors;

a) Appointment and replacement (pursuant to Article 123-bis, paragraph 1, letter l) of the TUF)

The Shareholders' Meeting on 29 April 2011 nominated a Board of Directors composed of 18 members, currently in office until the approval of the statements relative to the 2013 financial year, on the basis of the provisions of the Articles of Association effective until 31 December 2012 stipulating that the administrative body was composed of 18 members nominated on the basis of lists, establishing in particular that 14 of the 18 members to be elected were chosen from the majority list and and that the remaining 4 members were chosen from the minority list that obtained the highest number of votes and that was not connected in any way, not even indirectly, with the shareholders proposing the majority list.

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 332 of 31 May 1994, converted from Law no. 474 of July 30 1994.

The shareholders' meeting of 15 October 2012, within the framework of the process of aggregation with the Acegas-APS Group, adopted a new text defining its Articles of Association, effective as of 01 January 2013, stipulating that the Board of Directors be composed of 20 members, and consequently nominated two new administrators, effective as of the same date. Article 17 of this new text stipulates that, while the nomination system and the prerequisites necessary for each candidate remain unchanged, that 16 members of the Board of Directors be chosen from the majority list and the remaining 4 members from other lists.

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The aforementioned Meeting also resolved as to the insertion in the Articles of Association of a specific Transitory Clause that stipulates a number of amendments to paragraphs 16.1, 17.2 and 21.3 of the Articles of Association, effective as of the date of the ordinary shareholders' meeting to approve the financial statements for the year ending 31 December 2013. In particular, the main objective of these changes was to reducing and containing the operational costs of the adminstrative body. Specifically, the amendment of paragraph 16.1 provides for the reduction of the number of members of the Board of Directors, from 20 to 15; the amendment of paragraph 17.2 consists in the reduction, from 16 to 12, of the number of members of the Board of Directors taken from the list of candidates for the election of the Board of Directors that obtained the highest number of votes, and in the resulting reduction, from 4 to 3, of the number of remaining members chosen from the non-majority lists.

The shareholders' meeting held to approve the financial statements for the year ending 31 December 2013 will also be called on to decide on an additional reduction in the number of members of the Board of Directors from 15 to 14, proceeding to consequently amend paragraph 16.1 of the Articles of Association as modified by the Transitory Clause. If this modification is approved, paragraph 16.2 of the Articles of Association will be consequently modified, reducing from 12 to 11 the number of members of the Board of Directors taken from the list of candidates for the election of the Board of Directors that obtained the highest number of votes. It was also deliberated that the composition of the Board of Directors must comply with existing law regarding gender balance, beginning from the first renewal of the body following the date Law 120/2012 comes into effect and thus effective as the shareholders' meeting held to approve the financial statements for the year ending 31 December 2013, and with reference to the first three consecutive mandates.

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, a 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 must be made available to the public from the registered officesand the website www.gruppohera.it, no less than 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, in full respect of principles of gender balance established by the law. If, for any reason, no candidates are available, the Board, in full respect of principles of gender balance established by the law and 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, renewed on 21 February 2013 by five minority shareholders of Hera S.p.A., which provides for the appointment of members of the Board of Directors.

Plans of succession

The Board of Directors, as regards executive director nomination procedures, that are determined by public shareholders and the evaluations that can be traced to the latter, does not consider it necessary to elaborate a plan of succession for the aforementioned directors.If the executive directors are removed from office, the functions of President as legal representative will immediately be taken on by the Vice President; the Board of Directors will have the authority to co-opt new directors to take the place of those removed and will be called on to decide how to distribute the proxies. The first meeting held will act to subsequently fill 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 and defining the nature and the level of risk compatible with the issuer's strategic objectives, the Company's Articles of Association provide that the Board of Directors be 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 Euro500,000 (five hundred thousand);
X. purchase and/or sale of properties with a value exceeding Euro500,000 (five hundred thousand);
XI. provision of sureties, liens and/or other real guarantees with a value exceeding Euro500,000 (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 Euro25,000,000.

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, financial and asset-based 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. The 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 13 occasions in 2013. All the directors took part in 4 of these meetings, while almost all of them took part in the other 9; all the current statutory auditors took part in 10 of the meetings, while almost all of them took part in 3. The average length of the meetings of the Board of Directors was approximately 1 hours and forty-five minutes.

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 12 and 13 meetings in 2012 respectively.
The Head of Legal and Corporate Affairs, in his capacity as Secretary of the Board of Directors, attended all of the meetings of the Board of Directors.

When so required, the managers responsible for the various departmental areas participate in the meetings of the Board of Directors, to refer on matters falling under their competence that are part of the agenda.

With regard to the current financial year, 3 meetings of the Board of Directors have been held as at 20 March 2014; all of the directors and almost all of the statutory auditors took part in one of the sessions, while in the other two almost all of the directors and all of the statutory auditors participated. As at 20 March 2014, 4 meetings of the Board of Directors have already been scheduled for the remainder 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 the Corporate Governance Code then in force, 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 Euro1,000,000.00;
   - "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 Committee for Internal Control and risk management.

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 provides that, effective as of the date in which the Shareholders' meeting will be held to approve the financial statement for the year ending 31 December 2013, the Board of Directors will be composed of 15 or 14 members, if the modifications to the Articles of Association subjected to the approval of the Shareholders' meeting held to approve the financial statement for the year ending 31 December 2013 are approved.

On 26 February 2014, the Board of Directors, in conformity with the provisions of Article 1.C.1. letter g) of the Code, evaluated the size, composition and functioning of the Board itself and its committees, and confirms its positive judgement with regard to the functioning of the Board.

This evaluation was carried out with the support of external consultants, governance experts and administrative body consultancy services, and is based on the following criteria:

- interview with the directors;
- analysis of international best practices, and comparison with the working practices of the Board of Directors;
- examination of the company documents.

Here below is outlined the current composition of the Board of Directors. The personal and professional details of each director are available on the website www.gruppohera.it [HYPERLINK: http://www.gruppohera.it/].

First and Last name	role	title
Tomaso Tommasi di Vignano	President	Chief Executive Officer
Maurizio Chiarini	Chief Executive Officer	Chief Executive Officer
Giorgio Razzoli	Vice President	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
Stefano Manara ****	Director	Non-executive Independent Director
Luca Mandrioli	Director	Non-executive Independent Director
Daniele Montroni **	Director	Non-executive Independent Director
Giovanni Perissinotto*	Director	Non-executive Independent Director
Cesare Pillon*	Director	Non-executive 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

* in office since 1 January 2013 ** outgoing as of 14 March 2013 *** died on 18 March 2013 **** co-opted on 28 August 2013

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.

The Board of Directors ensures that its own members participate in initiatives aimed at increasing their own knowledge of Hera's sector of activities, its company dynamics and their developments, as well as the regulatory reference frame.

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, without neglecting 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 make 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, 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, 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. promote jurisdiction, conservative, restraining and executive actions, request summary judgements 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 Euro 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 Euro100,000.00 (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 - also in association with other companies, up to a limit of Euro2,000,000.00 (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 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 pre-qualification stage; submit bids up to an amount of Euro25,000,000.00 (twenty-five million) for each individual transaction - in cases of urgency, the decision concerning amounts exceeding Euro25,000,000.00 (twenty-five million) will be taken in association with the Group 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 Euro 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 every responsibility;
30. to appoint lawyers and attorneys for dispute proceedings of any judicial degree; conclude transactions up to a maximum of Euro5,000,000.00 (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 Euro100,000.00 (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 into account 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 make 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 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 organisational 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 Euro1,000,000.00 (one million) for each individual transaction; request the use of tranches of financing, up to the amount of Euro3,000,000.00 (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 Euro250,000,000.00 (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 Euro500,000.00 (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 relative 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 pre-qualification stage; submit bids up to an amount of Euro25,000,000.00 (twenty-five million) for each individual transaction - in cases of urgency, the decision concerning amounts exceeding Euro25,000,000.00 (twenty-five million) will be taken in association with the Group 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;
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 relating to know-how, trademarks and patents - also in association with other companies, up to a limit of Euro2,000,000.00 (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 Euro100,000.00 (one hundred thousand) for each transaction;
23. to conclude transactions up to an amount of Euro5,000,000.00 (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 Euro15,000,000.00 (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 Euro8,000,000.00 (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 those 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 the health and safety of all the company's workers during work hours, 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 and IT Systems Central Department: Marcello Guerrini
    - General Operations Department, in particular Large Plant Engineering and Research & Development: Roberto Barilli
    - Energy Department: Angelo Bruschi
    - Water Department: Franco Fogacci
    - Environmental Services Department: Tiziano Mazzoni
    - Technical Customer Management Department: Susanna Zucchelli
    - Purchases and Contracts Department: Giancarlo Randi
28. the CEO is responsible for overseeing 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 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 into account 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 Chairman, the appointment, removal and remuneration of the Internal Control Officer.

Hence both the Chairman and the CEO are executive directors.

Neither of the two executive directors can be described as the principal supervisor for the management of the company (chief executive officer).

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, so as to guarantee the timeliness and completeness of pre-council briefing, ensures that each director and statutory auditor has at their disposal all of the information and documentation necessary for discussing the items on the agenda of the meetings of the Board of Directors at least three days before the meeting, with the exception of 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)

The Board of Directors, appointed during the Shareholders' Meeting of 29 April 2011, in office until the natural expiration of the administrative body's term, and therefore until the approval of the financial statements as of 31 December 2013, as provided for by Article 23.3 of the Articles of Association, at its meeting of 2 May 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.

As of 24 January 2013, following the merger through acquisition of Acegas-APS Holding Srl in Hera Spa, the BoA of Hera passed a resolution to nominate a further member of the Executive committee, represented by councillor Giovanni Perissinotto, jointly appointed by the shareholders of the Municipality of Padua and the Municipality of Trieste.

The Executive Committee, as of 24 January 2013, is therefore composed of the following 4 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.
- Giovanni Perissinotto - member of the Executive Committee.

With regard to the annual definition of the Group business plan and the budget 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 Euro 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 Euro 100,000 and up to Euro 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 Euro 100,000 and up to Euro 500,000;
4. to settle disputes and/or waive credits of an amount exceeding Euro 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 Euro1,000,000 and up to Euro5,000,000; request the drawdown of tranches of loans, for an amount of more than Euro3,000,000 and up to Euro 5,000,000 per individual contract;
6. as to the stipulation, amendment and termination of contracts for investments relating to:
   - works and supplies necessary for the transformation and maintenance of properties and plants for an amount exceeding Euro15,000,000;
   - purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, with a value exceeding Euro8,000,000.

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 5 times in 2012; 4 of these meetings were attended by all the members, and 1 by nearly all the members. The average duration of the meetings of the Executive Committee was approximately one hour.

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 issuer directly or indirectly, including via subsidiary or trust companies or third parties; they do not exercise significant influence over the issuer; they are not party to any shareholders' agreement whereby one or more parties may exercise control or significant influence over the issuer;

b) they are not currently, nor have they been in the last three financial years, important representatives of the issuer, one of its subsidiaries with strategic importance or one of the companies subject to joint control together with the issuer, or of a company or body which, also together with others as a result of shareholders' agreements, controls the issuer 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 issuer, one of its subsidiaries or any of the related important representatives;
   - with a party who, alone or with others as a result of shareholders' agreements, controls the issuer, 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 issuer or from a subsidiary or parent company, significant remuneration in addition to the "fixed" emolument of the issuer's non-executive directors and the remuneration for participation in internal committees, 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 issuer 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 issuer'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.

The Board of Statutory Auditors, in conformity with the provisions contained in Article 3 of the Code, 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.

Induction

As occurred in the past for the process of appointing Board members, in this three-uear period moments of more in-depth consideration, both specific and as part of Board meetings, were set up. On the occassion of the next renewal of the Board od Directors, the Group will intensify this activity in order to ensure that the new Board members acquire a suitable understanding of the main issues facing the Company in a more expedited fashion.

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 authorization and management within the Group;
iii) governing the procedures for external communication in terms of documentation, notices issued, interviews given, statements made and meetings conducted.

Additionally, 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 these parties.

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 through the procedure adopted by Hera S.p.A. Hera S.p.A. has identified the Legal and Corporate Affairs Department as the entity responsible for receiving, managing and disseminating this type of information to the market.

The appointed entity will utilize 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 of 1 April 2006 Hera S.p.A. set up the "Register of Individuals who, as a result of work or professional activities, or in relation to the functions performed, have access on a regular or occasional basis to privileged information", this being understood as 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 internal committees, established pursuant to the Borsa Italiana Spa's Code of Conduct, represent an internal organ of the Board of Directors with the role of consulting and making proposals; their composition is available on the www.gruppohera.it website.
When intercating with the Board of Directors, these committees function on the basis of internal regulations and/or communicational rules designed to guarantee that they function correctly and efficently.
The Board of Directors, renewed on 29 April 2011, redefined the composition of the afore-mentioned committees at its meeting of 2 May 2011.

a) Appointments Committee

It was decided that the Board of Directors would fulfil the functions of the Appointments Committee, also in view of the fact that members of the Board of Directors are appointed by the shareholders through the list voting system during the shareholders' meeting.

b) Remuneration Committee

In 2013, the Remuneration Committee handled matters relating to remuneration policies, subject to approval by the Board of Directors at the time of the 2013 financial statements. For information relating to this Section, please refer to the Remuneration Report pursuant to Article 123-ter of the Tuf.
Per le informazioni relative alla presente Sezione si rinvia alla Relazione sulla remunerazione ex art. 123-*ter* TUF.

c) Controls and Risks Committee

Composition and functioning of the Controls and Risks 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 4 November 2002 meeting to set up the Internal Control Committee. This Committee, whose composition was renewed on 2 May 2011, is made up of Giorgio Razzoli as Chairman, Fabio Giuliani, Rossella Saoncella and Luca Mandrioli. At least one member of the Internal Control Committee has experience in accounting and financial matters judged adequate by the Board of Directors at the time of the appointment. Subsequently, during the course of the Company's Board of Directors meeting that took place 17 December 2012, in application of updates to the Code of Self-Discipline, the Internal Control Committee took on the additional function of Risk Management Committee in order to manage the Company's risks and support the administrative body in associated assessments and decisions.
The Controls and Risks Committee met 7 times in 2013; all of the meetings were attended by all the members. The average length of the meetings of the Internal Control Committee was approximately 50 minutes.

Functions assigned to the Controls and Risks Committee

The Controls and Risks Committee is tasked with supporting the decisions and assessments of the Board of Directors in relation to the internal control and risk management system and concerning the approval of periodic financial reports through adequate surveying and evaluative activities.

In carrying out its supportive role in relation to the Board of Directors, the Committee therefore expresses its judgment concerning:

a) the definition of the guidelines of the internal control and risk management system in such a way that the primary risks faced by HERA and its subsidiaries are identified correctly and properly measured, managed and monitored, determining moreover the compatibility criteria of such risks with healthy and proper corporate management;
b) at least on a bi-annual basis, the adequacy and effectiveness of the internal control and risk management system in relation to the characteristics of the enterprise and the risk profile it has assumed;
c) at least on an annual basis, the work plan drafted by the Supervisor of the Internal Auditing Structure in consultation with the Board of Statutory Auditors and the Directors in charge of the internal control and risk management system.

In addition, in order to aid the Board of Directors, the Committee specifically:

a) together with the Appointed Manager in charge of drafting corporate financial documents and in consultation with the legal auditor and Board of Statutory Auditors, evaluates the proper use of accounting principles and their homogeneity in relation to drafting balance sheets and financial statements more generally;
b) expresses its judgment regarding specific aspects of the identification of primary corporate risks;
c) analyses periodic reports concerning the assessment of the internal control and risk management system as well as those drafted on at least a bi-annual basis by the Supervisor of the Internal Auditing Structure;
d) communicates to the Board of Directors its preventative judgment regarding the proposals developed by the Directors in charge of the internal control and risk management system in relation to measures regarding the appointment and dismissal of the Supervisor of the Internal Auditing Structure, allotting this figure adequate resources for the completion of his or her responsibilities as well as establishing appropriate remuneration in keeping with corporate policies;
e) monitors the autonomy, effectiveness and efficiency of the Internal Auditing Structure;
f) evaluates the findings of the Internal Auditing Structure Supervisor's reports, of statements from the Board of Statutory Auditors and each of its individual members, of reports and any possible management letters from Independent Auditors, and of surveys and investigations carried out by other committees of the company and third parties;
g) may ask the Internal Auditing Structure to perform checks on specific operational areas, contextually communicating the results to the president of the Board of Statutory Auditors;
h) communicates to the Board of Directors about the activities performed by and the adequacy of the internal control and risk management system at least on the occasion of the annual and bi-annual approval of the financial statement.

During the course of the meetings held during 2012 financial year, which were duly recorded, the following measures were carried out:

- drafting a proposal to the Board of Directors regarding the Guidelines for the Hera GRoup's internal control and risk management system.
- conducting a study of a prospective ERM model for the Hera Group;
- evaluating the effectiveness of the Internal Control System;
- drafting the periodical reports of the Department of Internal Auditing;
- drafting the periodical reports of the Control and Risks Committee;
- analysing the areas governed by Law 262/2005.

The Committee also examined the audit reports, conducted regular meetings with the Board of Statutory Auditors and the Independent Auditors, met with the Administration, Finance and Control General Director, and drafted the 2014 Business Plan and budget of the Internal Auditing Department Management.

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 Controls and Risks Committee had access to the information and business functions necessary for carrying out its duties.

d) Ethics Committee

Composition and functioning

During its meeting of 12 September 2007, the Board of Directors of Hera S.p.A. established 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 for the Company in 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.

In 2013, following a second three-year application period, the Code of Ethics was newly subjected to assessment and updating, in keeping with Article 79 of the Code itself. This second update was carried out with an emphasis on the greater involvement of the workers, with the aim of outlining criteria of conduct that enjoy the most possible shared consensus within the Group.

The Ethics Committee met 8 times in 2013; 7 of these meetings were attended by all the members, and 1 by a majority of members. The average duration of the meetings of the Ethics Committee was approximately one hour and twenty minutes.

Functions of the Ethics Committee

The Ethics Committee is charged with monitoring diffusion, implementation and compliance with the principles of the Code of Ethics. Since 2008, the year the Code of Ethics came into effect, an Ethics Committee has been established that is subject to policies of "whistleblowing" designed to provide a direct and dedicated channel between the Committee and all the stakeholders potentially interested in making reports about any behavior in violation of the Code and the values promoted by the Group that may occur.

During the course of the meetings held during the fiscal year, the Committee resolved 25 reports, in addtion to analyzing the following measures were taken: analysis of the reports received by the Committee, assessment of the operations the scope of dissemination of Model 231 and of the Code by the Group's companies.

7. Internal Control and Risk Management System

The Hera Group is committed to promoting and maintaining a suitable internal control and risk management system understood as a collection of regulations, procedures and organizational structures aimed at allowing the business to be run in a manner that is consistent with the objectives established by the Board of Directors through the identification, evaluation, management and monitoring of the primary risks.

In its meeting of 24 July 2013, the Hera S.p.A. Board of Directors approved the guidelines for the Hera Group's Internal Control and Risk Management System, which constitute the basic regulatory framework within which the Hera Group adopts uniform organizational and managerial rules to govern internal control and risk management, valorising the role of strategic direction provided by the parent company's Board of Directors while simultaneously providing an explicit definition of the responsibilities and duties assigned to each actor involved in implementing the control system.

The Internal Control and Risk Management System is integrated into the broader organizational and corporate governance structures adopted by Hera and adequately takes into consideration the recommendations laid out by Borsa Italiana S.p.A's Code of Conduct for Listed Companies, the reference models and existing national and international best practices.

On 24 March 2011, the Board of Directors of Hera S.p.A. created the Hera Group Risk Committee, defining its components, aims and operational modes.

The Hera S.p.A President and CEO oversee, within their scope of responsibility, the functionality of the internal control and risk management system.

The Risk Committee meets periodically multiple times throughout the year and comprises:

- Hera S.p.A President;
- Hera S.p.A CEO;
- Vice Presidente di Hera Spa;
- Development and Market General Director;
- Administration, Finance and Control General Director;
- Supervisor of Energetic Risks Analysis and Control - Development and Market General Director.

Additionally, in relation to specific domains of responsibility, the following may also participate:

- Hera Comm Srl CEO;
- Hera Trading Srl;
- Legal and Corporate Central Director;
- Quality, Safety and Environment Central Director;
- Information Services and Systems Central Director.

In relation to specific types of risk requiring analysis, the Risk Committee may request the participation of other relevant company components.

The Risk Committee represents the main body in charge of guiding, monitoring and providing information about strategies of risk management and is responsible for:

- defining the general guidelines for the Risk Management process;
- providing for the mapping and monitoring of corporate risks;
- ensuring the definition of Risk Policies and measurement parameters to be submitted for approval by the Hera S.p.A. Board of Directors;
- providing for the bi-annual accounting submitted to the Hera S.p.A. Board of Directors;
- defining and ensuring information protocols directed to the Controls and Risks Committee, the Internal Auditing Management and the Board of Statutory Auditors.

Over the course of 2013, the Hera S.p.A Board of Directors has scheduled an update for the internal control and risk management system guidelines that will enable, in keeping with established best practices, the government of risk management strategies in a manner that is coherent and compatible with the achievement of the company's strategic objectives.

In relation to 2013, and following the quarterly reports released by the Controls and Risks Committee, the Board of Directors has approved the adequacy and efficacy of the internal control and risk management system in relation to the features of the company and the type of risk undertaken;

a) The risk management and internal control system in relation to the financial information process

Introduction

In relation to the financial information process, the internal control and risk management system, as part of the larger internal control and risk management integrated system, is aimed at ensuring the dependability, reliability, accuracy and timeliness of the Group's financial information.

In relation to Hera's financial information process, the internal control and risk management system is inspired by the CoSO Framework (issued by the Committee of Sponsoring Organizations of the Treadway Commission) an internationally recognized model for the analysis, implementation and evaluation of internal control and risk management systems.

The definition of the internal control and risk management system in relation to the financial information process was set out in keeping with applicable norms and regulations:

- Legislative Decree no. 58 of 24 February 1998 (Tuf);
- Law no. 262 of 28 December 2005 (and subsequent modifications, including the legislative decree to assimilate the Transparency Directive, approved on 30 October 2007) regarding the drafting of corporate financial documents;
- Consob Issuers' Regulation of 4 May 2007 "Statement of the Appointed Manager in charge of drafting corporate financial documents and of the designated administrative bodies in relation to financial and consolidated financial statements as well as to the biannual report, in compliance with article 154-bis of the Tuf";
- Consob Issuers' Regulation of 6 April 2009 "Assimilation of the Transparency Directive 2004/109/EC concerning the harmonization of transparency requirements in relation to information about the issuers whose movable assets are allowed to enter negotiations in a regulated market, modifying directive 2001/34/EC";
- the Civil Code, which extends responsibility to the Appointed Managers in charge of drafting corporate financial documents (Article 2434 c.c.) for corporate management, for disloyalty crime originating from conferred or promised utility (Article 2635 c.c.) and for the crime of obstructing the functions of public and surveillance authorities (Article 2638 c.c.);
- Legislative Decree no. 231/2001 that references the above-mentioned regulations of the Civil Code and the administrative responsibility of legal subjects for crimes committed against the Public Administration and includes the Appointed Manager in charge of drafting corporate financial documents among the Apical Subjects.

Moreover, in the implementation of the system, the Group has taken under consideration the recommendations provided by some authorities in the sector (Andaf, AIIA and Confindustria) concerning the activities of the Appointed Manager.

Description of the primary features of the internal control and risk management system in relation to the financial information process

In accordance with Article 154-bis of the Tuf, the figure of the Appointed Manager for drafting corporate financial documents (hereafter indicated as "Appointed Manager") has been introduced into the Company's corporate governance structure.

As part of the internal control and risk management system pertaining to the financial information process, the Appointed Manager has set up an administrative and financial control Model - Regulation of the Appointed Manager for drafting corporate financial documents (hereafter also "The Model") approved by the Hera spa Board of Directors in the meeting held 15 May 2013, outlining the adopted method and associated roles and responsibilities in relation to defining, implementing, monitoring and updating the financial-administrative procedural system over time and in assessing its adequacy and effectiveness.

Hera's administrative and financial control Model defines a methodological approach for the internal control and risk management system in relation to financial information processes that is structured through the following steps:

1) *carrying out financial-administrative Risk Assessment;*
2) identifying controls and updates for the financial-administrative procedures;
3) periodically evaluating the financial-administrative procedures and the controls they contain.

Step 1: financial-administrative Risk Assessment

Financial-administrative Risk Assessment represents the process of identifying the risks connected to the financial statement and is carried out under the supervision of the Appointed Manager, at least on an annual basis.

This process aims at identifying the set of objectives that the system seeks to pursue in order to ensure a truthful and accurate representation. These objectives comprise financial statement "declarations" (existence and occurrence, completeness, rights and obligations, assessment/surveying, presentation and information) and additional control objectives (such as, for instance, the separation of duties and responsibilities, the documentation and traceability of operations, compliance with authorizational restrictions, etc.).

Risk Assessments concentrates on those areas of the financial statement where potential effects on financial information have been located in relation to the failure to achieve these control objectives.

As part of the process of financial-administrative Risk Assessment, managed by the Appointed Manager, the following tasks are carried out at least bi-annually:

- a review and update of the list of subsidiary companies considered relevant in view of the proper functioning of the Group financial and administrative control system;
- a review and update of the list of corporate processes that have been identified as relevant in view of the proper functioning of the Group financial and administrative control system;
- a review of the overall adequacy of the current Financial and Administrative Control Model.

The process for determining the scope of the Companies and "relevant" processes in terms of their potential impact on the financial statement is aimed at identifying, in reference to the Group consolidated financial statement, the balance sheet entries, the Subsidiary Companies and processes to be considered relevant on the basis of evaluations performed using quantitative and qualitative parameters, represented by:

- quantitative threshold values used to compare both the accounts contained in the consolidated financial statement and the relative contribution of subsidiary companies within the Group;
- qualitative assessments made on the basis of knowledge about the current corporate situation and specific risk factors contained in financial-administrative processes.

Step 2: Identifying controls and updates for the financial-administrative procedures

An identification of the necessary checks for mitigating the risks that were identified in the previous step is carried out taking into consideration the control objectives associated with the financial statement. In particular, balance sheet entries classified as relevant and their underlying corporate processes are connected in order to identify the proper controls for meeting the objectives of the internal control system for financial information.

The Entities involved in the process and in charge of implementing the financial and administrative control system on at least a bi-annual basis, verify, for their specific areas of responsibility, the updating of the design and implementation of control activities detected within the financial-administrative procedures in terms of:

- correspondence between the description of controls and the evidence used to support them in relation to the operational activities being carried out, the information systems in use and the company's organizational structure;
- proper identification of the Figures in charge of the process, activities and controls identified.

The results of periodical updates applied to procedures and associated controls are communicated by the Entities to the Appointed Manager. The Entities provide for updating/modifying the financial-administrative procedures in relation to the areas under their managerial responsibility.

Whenever, following the financial-administrative Risk Assessment operations, significant control activities are identified which are not governed in whole or part by the body of Hera S.p.A.'s financial-administrative procedures, the various Entities, in coordination with the Appointed Manager, are tasked with providing for supplementing the existing procedures.

Step 3: Periodic evaluation of financial-administrative procedures and the controls they contain

The periodic evaluation activities of the financial and administrative control system are carried out at least bi-annually with a view to ensuring sufficient financial information for the preparation of individual and consolidated annual financial statements and the abbreviated bi-annual consolidated financial statement.

The identified controls are subsequently subject to an assessment of their adequacy and actual effectiveness through specific testing activities according to the best practices established for the sphere in question; in reference to automatic checks, the assessment of adequacy and actual effectiveness also applies to general IT controls whenever these applications are used to support processes considered to be relevant.

The testing activities carried out by the Appointed Manager are aimed at verifying:

- the design and implementation of existing activities and controls, that is to say, the capacity of the described control and its attributes to adequately cover the risks and identified control objectives as well as correlated accounting postulates;
- the operational effectiveness of existing activities and controls, that is to say, that the check was actually performed as described in the "control plan" and that the figure in charge of controls has maintained adequate traceability and proof of the performed control.

In the course of these activities, the Appointed Manager evaluates at each given time what degree of involvement, of the Figures in charge of the Entities and of contact persons within the Subsidiary Companies, is necessary for carrying out assessment activities.

On a bi-annual basis, at the end of the evaluation process, the Hera Spa Appointed Manager and CEO receive specific internal statements from Hera Group subsidiary companies and relevant connected companies in reference to the completeness and reliability of information flows directed toward the Appointed Manager for the purposes of preparing the financial statement.

On a bi-annual basis, the Appointed Manager will define a series of reports synthesizing the results of the assessments of controls in relation to the risks previously identified on the basis of the outcomes of the monitoring activities performed. The assessment of controls may involve the identification of compensatory controls, correctional actions or improvement plans connected to any possible issues identified.

After having been shared with the CEO, the Executive Summary will be communicated to Hera Spa's Board of Statutory Auditors, the Controls and Risks Committee and the Board of Directors.

Roles and functions involved

The internal control and risk management system concerning financial information is governed by the Appointed Manager in charge of drafting corporate financial documents who, in agreement with the CEO, is responsible for planning, implementing, monitoring, and updating the financial and administrative control Model as well as assessing its application, and releasing a statement concerning the bi-annual and annual financial statement, including the consolidated financial statement.

The Appointed Manager is additionally responsible for establishing adequate financial-administrative procedures for the creation of the financial and consolidated financial statement as well as any other financial communication, ensuring that they are updated and promoting their dissemination and an awareness of them.

In performing his or her activities, the Appointed Manager:

- is supported by a specific function called "Compliance 262," part of the the staff of the Administration, Finance and Control Group Director, established by SO no. 49 of 30 October 2013, and effective as of 1 November 2013;
- is supported by the Figures responsible for the Entities involved, who, within their areas of responsibility, ensure the completeness and reliability of information flows directed toward the Appointed Manager for the purposes of preparing the financial statement;
- coordinates the activities of the Administrative Managers of the relevant subsidiaries who are tasked with implementing, within their companies, and together with the delegated bodies, an adequate financial control system to safeguard the administrative-financial processes;
- initiates a reciprocal information exchange with the Controls and Risks Committee and the Board of Directors, communicating about the activities performed and the adequacy of the financial and administrative control system.

Lastly, the Board of Statutory Auditors and Supervisory Board are informed about the adequacy and reliability of the financial-administrative system.

b) Administrator in charge of the internal control and risk management system

Following the Hera S.p.A. Board of Directors resolution of 17 December 2012, the President and CEO, within the scope and limits of their respective mandates and the reporting lines of the various corporate structures, have been tasked with supervising both the functioning of the internal control system, as established by the resolution of 2 May 2011, and risk management, following the adoption of the new Code of Self-Discipline.

The President and CEO, in keeping with their mandates:

- ensure that the Risk Committee identifies the main corporate risks, taking into account 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 and Risk Management 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,

The corporate heads may request that the Internal Auditing Manager carry out operations concerning risk assessment, controls design, and compliance with internal rules and procedures.

c) Internal auditing department manager

In order to ensure that the internal control and risk management system functions adequately, the Internal Auditing department, whose manager reports directly to the Vice President, ensures that the internal control system is always adequate, fully operational and functions in such a way as to achieve an acceptable level of overall risk.

The Internal Auditing Manager provides a report on his or her activities, every three months or whenever he or she considers it necessary, to the CEO, the Chairman of the Board of Directors, the Internal Controls and Risk Management Committee and the Board of Statutory Auditors. He or she is hierarchically independent of the heads of operational divisions and may have direct access to all information necessary for the performance of his or her duties.

Through the establishment of an adequate Risk Assessment and three-yearly Audit Plan:

- provides a synthetic and comparative assessment of the primary risk areas and associated control systems, performing updates through the meetings that take place with management;
- according to the varying level of risk of corporate processes, identifies the priorities the duties of the Internal Auditing department.

d) 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 of one of its organisational units with financial and operational 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 committed 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 updating, 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 preventive control procedures and activities to prevent commission of the offences referred to in the aforementioned 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 with strategic importance.

Consequently, the Board of Directors set up the supervisory board, renewed 2 May 2011, 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 the aforementioned duties are entrusted, including the task of periodically reporting to the corporate bodies of Hera S.p.A. on the implementation of said model.

The supervisory board met on 6 occasions in 2013 and all of these meetings were attended by all the members.

The average length of the meetings of the Supervisory Board was approximately one hour and twenty 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 that followed 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 verifying compliance with the protocols adopted.

e) 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.

f) Appointed Manager in charge of drafting corporate financial reports and other corporate roles and functions.

In compliance with the provisions of the Tuf and the Company's Articles of Association, in consultation with the Board of Statutory Auditors, the Board of Directors resolved on 4 March 2010 to appoint Dr. Luca Moroni, covering the role of Finance and Control Administration Central Director, to the post of Appointed Manager in charge of drafting corporate financial reports. He is in possession of the professional qualifications set forth in Article 29 of the Company's Articles of Association, in compliance with the Tuf (Article 154-bis, paragraph 1).

The Appointed Manager is tasked with establishing adequate financial and administrative procedures for the creation of the financial statement and consolidated financial statement as well as any other financial communication. To this end, the Appointed Manager will have access to a dedicated budget approved by the Board of Directors and an adequate organizational structure (in terms of quantity and quality of resources) dedicated to the preparation/updating of financial-administrative procedures and periodical assessment activities concerning the suitability and actual application of financial-administrative rules and procedures. If the internal resources prove to be insufficient for the suitable management of these activities, the Appointed Manager is permitted to exercise the power of expenditure granted to him or her.

The Board of Directors verify that the Appointed Manager has access to adequate powers and means to carry out the tasks entrusted to him or her by Article 154-bis, and also monitor that financial and administrative procedures are being followed.

The Appointed Manager communicates and exchanges information with all the administrative and control bodies of the Company and of the Group's subsidiaries, including but not limited to:

- Board of Directors;
- Controls and Risks Committee;
- Directors in charge of the internal control and risk management system;
- Board of Statutory Auditors;
- Independent Auditor;
- Supervisory Board pursuant to Legislative Decree no. 231/01;
- Internal Auditing Manager;
- Investor Relations Manager.

g) Coordination among the subjects involved in the internal control and risk management system.

The Issuer has established the following systematic coordination modes for the various subjects involved in the internal control and risk management system:

- periodic coordination meetings focused in particular on the process of drafting financial information and the activities of assessing, monitoring and containing (economic-financial, operational and compliance) risks;
- information flows among the subjects involved in the internal control and risk management system;
- periodic reports to the Board of Directors;
- establishment of a Risk Committee with the aim of outlining guidelines for, monitoring and informing about risk management strategies. *

In particular, the following types of coordination meeting are specified:

- the Board of Statutory Auditors with the Controls and Risks Committee, the Independent Auditor, the Appointed Manager in charge of drafting corporate financial reports, and the Internal Auditing Manager;
- the Board of Statutory Auditors with the Supervisory Board pursuant to Legislative Decree 231;
- the Directors in charge of the internal control and risk management system with the Chairman of the Controls and Risks Committee.

8. Appointment of the 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 or other Public Agencies or Authorities, as well as consortiums or joint-stock companies directly or indirectly controlled by the same, contribute to presenting 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. 18775 of 29 January 2014), at least 1% of the shares with voting rights.

Starting from the first renewal of the organ following the date on which Law 120/2012 comes into effect, and thus effective as of the date of the shareholders' meeting held to approve the financial statement for the fiscal year ending 31 December 2013, and in reference to the first three consecutive mandates, the composition of the Board of Stautory Auditors must guarantee compliance with the regulation in force regarding gender balance.

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, incompatibility or forfeiture as 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 the 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 sitting Statutory Auditor, his or her place is taken by the alternate Auditor belonging to the same list as the Auditor to be replaced, in compliance with the principles of proper representation of minorities and of gender balance.

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 statement for the 2013 financial year.

Effective 09 July 2012, the alternate statutory auditor Stefano Ceccacci has provided notice of his resignation; the Shareholders' Meeting of 15 October 2012 appointed Massimo Spina to replace the resigning member, who will remain in office until the regular end of his term, that is, the day of the Meeting convened to approve the financial statement for the financial year ending 31 December 2013.

The Board of Statutory Auditors, in compliance with the provisions contained in Article 10 of the Code, has assessed the correct application of the verification procedures and criteria adopted for evaluating the independence of its members, including for the purposes of Article 144-novies of the Issuers' Regulation.

Here below is outlined the current composition of the Board of Directors. The personal and professional details of each director are available on the website www.gruppohera.it [HYPERLINK: http://www.gruppohera.it/].

Name and surname	Office
Sergio Santi (**)	Chairman
Elis Dall'Olio (*)	Standing auditor
Antonio Venturini (*)	Standing auditor
Massimo Spina (***)	Alternate auditor
Roberto Piccone (*)	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. (***) appointed by the shareholders' meeting of 15 October 2011 to replace the alternate statutory auditor, Dr. Stefano Ceccacci.

The Board of Statutory Auditors met 17 times in 2013; 11 of these meetings were attended by all statutory auditors, while 6 attended by almost all of them. The average duration of the meetings of the Board of Statutory Auditors was approximately two hours.

There is a voting trust and share transfer rules agreement in place 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, renewed on 21 February 2013 by five minority shareholders of Hera S.p.A., concerning the appointment of members of the Board of Statutory Auditors.

In carrying out its activities, the Board of Statutory Auditors coordinates with the Internal Audit Department and the Controls and Risks Committee.

9. Relations with shareholders

To enable shareholders to understand the Company more fully, the Company has established a suitable department dedicated to relations with investors, headed by and entrusted to Jens Klint Hansen (the investor relator can be contacted by telephone on +39 051 287737 or by email at ir@gruppohera.it [HYPERLINK: mailto:ir@gruppohera.it]).

10. 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 into account 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 organizational requirements. The new, updated version is published on the Company's website at www.gruppohera.it [HYPERLINK: http://www.gruppohera.it]

During 2013 a single official meeting took place on 30 April to which 17 board members took part.

Table 1: structure of the Board of Directors and Committees

Consiglio di Amministrazione											Comitato Contr. e Rischi		Comitato Remun.		Comitato Nomine		Comitato Esecutivo		Comitato Etico	
Carica	Componenti	In carica dal	In carica fino a	Lista	Esec.	Non esec.	Indip. da Codice	Indip. da TUF	(%) **	N. altri incarichi ***	****	**	****	**	****	**	****	**	****	**
Presidente	Tomaso Tommasi di Vignano	01/01/2012	Appr. Bil. 2013	M	X				100%	1							X	80%		
Amm. Del.	Maurizio Chiarini	01/01/2012	Appr. Bil. 2013	M	X				100%	-							X	100%		
vice pres.	Giorgio Razzoli	01/01/2012	Appr. Bil. 2013	M		X	X	X	100%	1	X	100%	X	100%			X	100%	X	100%
Amm.re	Mara Bernardini	01/01/2012	Appr. Bil. 2013	M		X	X	X	92%	-										
Amm.re	Filippo Brandolini	01/01/2012	Appr. Bil. 2013	M		X	X	X	92%	-										
Amm.re	Marco Cammelli	01/01/2012	Appr. Bil. 2013	m		X	X	X	92%	-			X	100%						
Amm.re	Luigi Castagna	01/01/2012	Appr. Bil. 2013	M		X	X	X	100%	-										
Amm.re	Pier Giuseppe Dolcini	01/01/2012	Appr. Bil. 2013	m		X	X	X	92%	-										
Amm.re	Enrico Giovannetti	01/01/2012	Appr. Bil. 2013	m		X	X	X	92%	-										
Amm.re	Fabio Giuliani	01/01/2012	Appr. Bil. 2013	M		X	X	X	100%	-	X	100%			Non presente					
Amm.re	Luca Mandrioli	01/01/2012	Appr. Bil. 2013	M		X	X	X	92%	-	X	100%								
Amm.re	Stefano Manara	28/08/2013	Appr. Bil. 2013	M		X	X	X	100%	-			X	100%						
Amm.re	Giovanni Perissinotto	01/01/2013	Appr. Bil. 2013	M		X	X	X	92%	-							X	100%		
Amm.re	Cesare Pillon [1)]	01/01/2013	Appr. Bil. 2013	M		X			100%	1										
Amm.re	Mauro Roda	01/01/2012	Appr. Bil. 2013	M		X	X	X	92%	-										
Amm.re	Roberto Sacchetti	01/01/2012	Appr. Bil. 2013	M		X	X	X	100%	-										
Amm.re	Rossella Saoncella	01/01/2012	Appr. Bil. 2013	M		X	X	X	92%	-	X	100%								
Amm.re	Bruno Tani	01/01/2012	Appr. Bil. 2013	m		X	X	X	100%	-			X	100%						
Amm.re	Giancarlo Tonelli	01/01/2012	Appr. Bil. 2013	M		X	X	X	61%	-										
Amministratori cessati durante l'esercizio di riferimento																				
Amm.re	Valeriano Fantini	01/01/2012	18/03/2013	M		X	X	X	50%	-					Non presente					
Amm.re	Daniele Montroni	27/06/2012	14/03/2013	M		X	X	X	100%	-			X	-	Non presente					
Indicare il *quorum* richiesto per la presentazione delle liste in occasione dell'ultima nomina: le liste possono essere presentate da Soci che rappresentino almeno l'1% delle azioni aventi diritto di voto nell'assemblea ordinaria.																				
N. riunioni svolte durante l'esercizio di riferimento				CDA: 13			CCR: 7		CR: 3			CN: /				CE: 5			CEtico: 8	

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 percentage of attendance by directors 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, a member of the Board of Directors, belongs to the Committee.*

Table 2: structure of the Board of Statutory Auditors

Collegio Sindacale							
Carica	Componenti	In carica dal	In carica fino a	Lista (M/m)*	Indipendenza da Codice	** (%)	Numero altri incarichi ***
Presidente	Santi Sergio	01-gen-13	Appr. Bil. 2013	m	X	100%	-
Sindaco effettivo	Dall'Olio Elis	01-gen-13	Appr. Bil. 2013	M	X	92%	-
Sindaco effettivo	Venturini Antonio	01-gen-13	Appr. Bil. 2013	M	X	84%	-
Sindaco supplente	Massimo Spina	01-gen-13	Appr. Bil. 2013	m	X	-	-
Sindaco supplente	Picone Roberto	01-gen-13	Appr. Bil. 2013	M	X	-	-
Indicare il quorum richiesto per la presentazione delle liste in occasione dell'ultima nomina:							
l'articolo 26 dello statuto specifica che (i) i Comuni, le Province e i Consorzi costituiti ai sensi dell'art. 31 del d.lgs. n. 267/2000 o altri Enti o Autorità Pubbliche, nonchè i consorzi o le società di capitali controllate direttamente o indirettamente dagli stessi concorrono a presentare un'unica lista e (ii) i soci diversi da quelli indicati sub (i) possono presentare liste purché rappresentino almeno il 3% delle azioni aventi diritto di voto. Ai sensi della vigente normativa tale percentuale è ridotta all'1% (Delibera Consob n. 18775 del 29/01/2013)							
Numero riunioni svolte durante l'Esercizio di riferimento: 17							

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 percentage of attendance by statutory auditors at the Board of Statutory Auditors meeting (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.*

1.12 Performance of the Parent Company in 2013

The table below shows key operating figures for the year:

(€/millions)	2012	2013	Abs. Change	% Change
Revenues	1,546.5	1,540.8	(5.7)	-0.4%
EBITDA	341.1	339.5	(1.6)	-0.5%
Operating profit (EBIT)	169.4	165.8	(3.6)	-2.1%
Net profit	116.2	143.6	27.5	23.7%

The analysis of the performance should take into account the current organization of the Group, where the overall results are allocated between the Parent Company and the different sales, operating and maintenance companies engaged in specific businesses. The increase in net profit on the previous year's was due to the effective management of subsidiaries, including AcegasAps, which became part of the Group starting 1 January 2013.

The table below provides a summary of key reclassified financial and cash flow data as of 31 December 2013 as compared with the corresponding figures for the previous year:

Analysis of invested capital and sources of financing	31-dec-12 as adjusted*	%	31-dic-13	%	Abs. Change	% Change
Net non-current assets	3,415.7	107.9%	3,696.1	108.2%	280.4	8.2%
Net working capital	4.7	0.1%	(17.4)	-0.5%	(22.1)	-469.8%
Gross invested capital	**3,420.4**	**108.0%**	**3,678.7**	**107.7%**	**258.3**	**7.6%**
Miscellaneous provisions	(254.7)	-8.0%	(262.0)	-7.7%	(7.3)	2.8%
Net capital invested	**3,165.7**	**100.0%**	**3,416.7**	**100.0%**	**251.0**	**7.9%**
Shareholders' equity	1,680.9	53.1%	2,083.9	61.0%	403.0	24.0%
Net debt	1,484.8	46.9%	1,332.8	39.0%	(152.0)	-10.2%
Sources of financing	**3,165.7**	**100.0%**	**3,416.7**	**100.0%**	**251.0**	**7.9%**

Net invested capital rose by €251 million on 31 December 2012, from €3,165.7 million to €3,416.7 million. **Net non-current assets** as of 31 December 2013 amounted to €3,696.1 million, up €280.4 million on the comparable amount at 31 December 2012, in relation to the capital expenditure described more extensively in the Group's report on operations. **Net working capital** was negative for approximately €17.4 million. **Provisions** went up from €254.7 million to €262 million, up €7.3 million. Equity grew from €1,680.9 million to €2,083.9 million. Based on the above, **net borrowings** improved, going from €1,484 million at 31 December 2012 to €1,332.8 million at 31 December 2013.

*The comparative data were adjusted to reflect the changes discussed in paragraph 3.03.01 Explanatory notes Hera S.p.A. in "Adjustment summary".

1.13 Resolutions on the Parent Company's results for the year

Hera S.p.A.'s body of shareholders:

- having regard to the Board of Directors' report on operations;
- having regard to the Board of Statutory Auditors' report;
- having regard to the independent auditors' opinion;
- having reviewed the accounts for the year ended 31 December 2013, which reported a net profit of €143,647,034.30;

hereby resolves

- to approve the Hera S.p.A.'s financial statements as of and for the year ended 31 December 2013 and the Report on operations prepared by the Board of Directors;

- to allocate the profit for the financial year 1 January 2013 – 31 December 2013 of €143,647,034.30 as follows:
  - €7,182,351.72 to the legal reserve,
  - €127,920,835.53 to the shareholders as dividends, representing €0.9 per share, allocating to the extraordinary reserve any excess dividend attributable to any shares held in treasury on the ex-dividend date.
  - €8,543,847.05 to the extraordinary reserve

- to pay dividends, pursuant to article 83-terdecies TUF, on 5 June to shareholders of record as of 4 June 2014, for dividend coupon no. 12, with 2 June 2014 as the ex-dividend date.

CHAPTER 2

CHAPTER 2

Hera Group Consolidated Financial Statements

2.01 Financial Statements

2.01.01 Income Statement

thousands of euros	notes	2013	2012 as ajusted *
Revenues	4	4,579,681	4,492,748
Other operating revenues	5	271,660	203,577
Use of raw materials and consumables	6	(2,454,762)	(2,726,044)
Service costs	7	(1,040,482)	(912,712)
Personnel costs	8	(482,703)	(382,033)
Amortisation, depreciation,provisions	9	(414,929)	(326,589)
Other operating costs	10	(60,902)	(46,827)
Capitalised costs	11	18,240	33,372
Operating profit		**415,803**	**335,492**
Portion of profits (loss) pertaining to associated companies	12	4,912	5,405
Financial income	13	109,603	114,608
Financial expense	13	(269,577)	(248,714)
Total financial operations		**(155,062)**	**(128,701)**
Other non-recurring non-operating income	14	45,225	6,667
Pre-tax profit		**305,966**	**213,458**
Taxes for the period	15	(124,258)	(79,064)
of which non recurring			*18,217*
Net profit for the period		**181,708**	**134,394**
Attributable to:			
Shareholders of the Parent Company		164,934	118,686
Non-controlling interests		16,774	15,708
Earnings per share	**16**		
basic		**0.122**	**0.108**
diluted		**0.118**	**0.102**

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.

** The comparative data were adjusted to reflect the changes outlined in the paragraph "adjustment summary" in the paragraph "Explanatory notes".*

2.01.02 Statement of comprehensive income

thousands of euros	*2013*	*2012* as ajusted *
Net profit / (loss) for the period	**181.708**	**134.394**
Items reclassifiable to the income statement		
Change in the fair value of derivatives for the period	5.682	3.288
Tax effect related to the other reclassifiable items of the comprehensive income statement	(1.796)	(846)
other components of statement of comprehensive income valued with equity method	210	190
Items not reclassifiable to the income statement		
Actuarial gains/(losses) post-employment benefits	(7.026)	(18.248)
Tax effect related to the other not reclassifiable items of the comprehensive income statement	1.721	4.598
other components of statement of comprehensive income valued with equity method	(6)	
Total comprehensive income/(loss) for the period	**180.493**	**123.376**
Attributable to:		
Shareholders of the Parent Company	162.988	108.926
Non-controlling interests	17.505	14.450

** The comparative data were adjusted to reflect the changes outlined in the paragraph "adjustment summary", as well as the amendments in IAS 1 revised as illustrated in the paragraph "financial statements".*

2.01.03 Statement of financial position

thousands of euros	*notes*	*31-dic-2013*	*31-dic-2012 as ajusted **	*01-gen-2012 as ajusted **
ASSETS				
Non-current assets				
Property,plant and equipment	17	2.129.221	1.947.597	1.884.476
Intangible assets	18	2.546.160	1.855.966	1.802.521
Property investments	19	2.999	0	0
Goodwill	20	378.564	378.391	377.760
Non-controlling interests	21	140.114	139.730	135.865
Financial assets	22	52.640	17.557	11.039
Deferred tax assets	23	152.006	111.451	105.503
Financial instruments - derivatives	24	37.560	88.568	80.548
Total non-current assets		**5.439.264**	**4.539.260**	**4.397.712**
Current assets				
Inventories	25	77.813	71.822	72.761
Trade receivables	26	1.397.839	1.307.961	1.250.360
Contract work in progress	27	22.835	20.635	22.390
Financial assets	22	72.229	47.286	42.945
Financial instruments - derivatives	24	11.385	34.199	40.642
Current tax assets	28	29.919	30.882	6.164
Other current assets	29	237.246	209.108	211.833
Cash and cash equivalents	22	942.347	424.162	415.189
Total current assets		**2.791.613**	**2.146.055**	**2.062.284**
Non-current assets held for sale	**30**	**3.300**	**14.154**	**10.606**
TOTAL ASSETS		**8.234.177**	**6.699.469**	**6.470.602**

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thousands of euros		*31-dic-2013*	*31-dic-2012 as ajusted **	*01-gen-2012 as ajusted **
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital and reserves	31			
Share capital		1.410.357	1.101.201	1.105.340
Reserves		585.115	517.355	524.838
Profit / (loss) for the period		164.934	118.686	104.630
Group equity		**2.160.406**	**1.737.242**	**1.734.808**
Non-controlling interests		145.317	141.380	141.912
Total equity		**2.305.723**	**1.878.622**	**1.876.720**
Non-current liabilities				
Borrowings – maturing beyond 12 months	32	3.277.462	2.440.994	2.405.262
Post-employment benefits	33	145.355	112.962	94.980
Provisions for risks and charges	34	315.067	251.897	227.055
Deferrred tax liabilities	23	74.716	75.211	75.981
Finance lease payments - maturing beyond 12 months	35	15.527	13.356	5.277
Financial instruments - derivatives	24	30.828	32.963	17.657
Total non-current liabilities		**3.858.955**	**2.927.383**	**2.826.212**
Current liabilities				
Banks and other borrowings – maturing within 12 months	32	383.181	317.560	118.467
Finance lease payments - maturing within 12 months	35	1.972	3.767	3.683
Trade payables	36	1.192.426	1.165.838	1.229.242
Current tax liabilities	28	6.722	18.010	36.315
Other current liabilities	37	469.877	350.060	332.253
Financial instruments - derivatives	24	15.321	38.229	47.710
Total current liabilities		**2.069.499**	**1.893.464**	**1.767.670**
TOTAL LIABILITIES		**5.928.454**	**4.820.847**	**4.593.882**
TOTAL EQUITY AND LIABILITIES		**8.234.177**	**6.699.469**	**6.470.602**

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.

** The comparative data were adjusted to reflect the changes outlined in the paragraph "adjustment summary" in the paragraph "Explanatory notes".*

2.01.04 Cash flow statement

thousands of euros	*notes*	*31-Dec-2013*	*31-Dec-2012*
Pre-tax profit		**305,966**	**213,458**
Adjustments to reconcile net profit to the cashflow from operating activities:			
Amortisation and impairment of property, plant and equipment		165,100	136,866
Amortisation and impairment of intangible assets		150,906	102,861
Effect of valuation using the equity method		(4,912)	(5,405)
Allocations to provisions		100,373	88,243
Financial expense / (Income)		159,974	134,106
Bargain purchases		(45,225)	(6,667)
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)		(9,424)	(9,158)
Change in provisions for risks and charges		(44,043)	(25,349)
Change in provisions for employee benefits		(6,569)	(7,514)
Total cash flow before changes in net working capital		**772,146**	**621,441**
(Increase) / Decrease in inventories		2,534	(616)
(Increase) / Decrease in trade receivables		89,643	(93,854)
Increase / (Decrease) in trade payables		(155,205)	(83,188)
(Increase) / Decrease in other current assets/ liabilities		18,030	33,493
Change in working capitals		**(44,998)**	**(144,165)**
Dividends collected		4,271	4,030
Interests income and other financial income collected		43,519	36,543
Interests expense and other financial charges paid		(134,251)	(145,400)
Taxes paid		(137,596)	(129,334)
Cash flow from (for) operating activities (a)		**503,091**	**243,115**
Investments in property, plant and development		(118,971)	(126,089)
Investments in intangible fixed assets		(189,393)	(152,145)
Investments in companies and business units net of cash and cash equivalents	38	4,369	(21,372)
Sale price of property,plant and equipment and intangible assets (including lease-back transactions)		4,021	22,960
Divestments of investments	38	1,751	(1,916)
(Increase) / Decrease in other investment activities		(23,059)	(9,089)
Cash flow from (for) investing activities (b)		**(321,282)**	**(287,651)**
New issues of long-term bonds		546,683	250,310
Repayments and other net changes in borrowings		(172,548)	(65,423)
Lease finance payments		(4,664)	(6,309)
Investments in consolidated companies	38	(5,500)	(3,972)
Increase in share capital		98,178	0
Dividends paid out to Hera shareholders and non-controlling interests		(131,341)	(116,785)
Change in treasury shares		6,093	(4,312)
Other minor changes		(525)	0
Cash flow from (for) financing activities (c)		**336,376**	**53,509**
Effect of change in exchange rates on cash and cash equivalents		**0**	**0**
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)		**518,185**	**8,973**
Cash and cash equivalents at the beginning of the year		424,162	415,189
Cash and cash equivalents at the end of the year		942,347	424,162

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 2.02.03 of these consolidated financial statements.

2.01.05 Statement of changes in equity

thousands of euros	Share capital	Reserves	Reserves for derivative instruments recognised at fair value	Actuarial gains/(losses) post-employment benefits	Profit for the year	Equity	Non-controlling interests	Total
Balance at 1 January 2012	**1.105.340**	**535.591**	**-8.606**		**104.590**	**1.736.915**	**142.431**	**1.879.346**
Applicazione retrospettiva IAS 19 *revised*		-68		-2.079	40		-519	
Balance at 1 January 2012 (as ajusted)	**1.105.340**	**535.523**	**-8.606**	**-2.079**	**104.630**	**1.734.808**	**141.912**	**1.876.720**
Profit for the year					118.686	**118.686**	15.708	**134.394**
<u>Other components of comprehensive income at 31 December 2012:</u>								
fair value of derivatives, change in the year			2.613			**2.613**	-171	**2.442**
Actuarial gains/(losses) post-employment benefits				-12.563		**-12.563**	-1.087	**-13.650**
other components of statement of comprehensive income valued with equity method		190				**190**		**190**
Total comprehensive income for the year		**190**	**2.613**	**-12.563**	**118.686**	**108.926**	**14.450**	**123.376**
change in treasury shares	-4.139	-173				**-4.312**		**-4.312**
variazione interessenza partecipativa		-2.930				**-2.930**	-1.042	**-3.972**
change in scope of consolidation		80				**80**	703	**783**
other movements		-8				**-8**	-1	**-9**
<u>Allocation of 2011 profit:</u>								
- dividends paid out		-16.925			-82.397	**-99.322**	-14.642	**-113.964**
- allocation to other reserves		5.460			-5.460	**0**		**0**
- undistributed profits to retained earnings		16.773			-16.773	**0**		**0**
Balance at 31 December 2012 (as ajusted)	**1.101.201**	**537.990**	**-5.993**	**-14.642**	**118.686**	**1.737.242**	**141.380**	**1.878.622**
Balance at 31 December 2012 (as ajusted)	**1.101.201**	**537.990**	**-5.993**	**-14.642**	**118.686**	**1.737.242**	**141.380**	**1.878.622**
Profit for the year					164.934	**164.934**	16.774	**181.708**
<u>Other components of comprehensive income at 31 December 2013:</u>								
fair value of derivatives, change in the year			2.713			**2.713**	1.173	**3.886**
Actuarial gains/(losses) post-employment benefits				-4.863		**-4.863**	-442	**-5.305**
other components of statement of comprehensive income valued with equity method		204				**204**		**204**
Total comprehensive income for the year		**204**	**2.713**	**-4.863**	**164.934**	**162.988**	**17.505**	**180.493**
change in treasury shares	3.264	1.786				**5.050**		**5.050**
AcegasAps Group acquisition	227.680	51.725				**279.405**	-15	**279.390**
aumento Capitale Sociale in opzione	78.212	19.966				**98.178**		**98.178**
variazione interessenza partecipativa		-2.610				**-2.610**	-2.890	**-5.500**
change in scope of consolidation						**0**	640	**640**
other movements		-35				**-35**	-5	**-40**
<u>Allocation of 2012 profit:</u>								
- dividends paid out		-10.430			-109.382	**-119.812**	-11.298	**-131.110**
- allocation to other reserves		6.817			-6.817	**0**		**0**
- undistributed profits to retained earnings		2.487			-2.487	**0**		**0**
Balance at 31 December 2013	**1.410.357**	**607.900**	**-3.280**	**-19.505**	**164.934**	**2.160.406**	**145.317**	**2.305.723**

2.02 Financial statements - Resolution 15519 of 2006

2.02.01 Income statement

thousands of euros	Notes	31-dic-2013	A	B	C	D	Total	%	31/12/2012 as adjusted *	A	B	C	D	Total	%
			of which related parties							*of which related parties*					
Income Statement															
Revenues	4	4.579.681		61.309	325.508	10.288	397.105	*8,7*	4.492.748		33.163	115.462	13.566	162.191	*3,6*
Other operating revenues	5	271.660		1.562	880	178	2.620	*1,0*	203.577		213	682	193	1.088	*0,5*
Use of raw materials and consumables (net of changes to raw materials inventories and stocks)	6	(2.454.762)		(32.681)	(462)	(39.135)	(72.278)	*2,9*	(2.726.044)		(55.613)	(234)	(38.373)	(94.220)	*3,5*
Service costs	7	(1.040.482)		(13.522)	(24.910)	(38.564)	(76.996)	*7,4*	(912.712)	(6)	(10.868)	(14.924)	(44.065)	(69.863)	*7,7*
Personnel costs	8	(482.703)				(1.003)	(1.003)	*0,2*	(382.033)				(898)	(898)	*0,2*
Amortisation and provisions	9	(414.929)							(326.589)						
Other operating costs	10	(60.902)		(32)	(4.358)	(407)	(4.797)	*7,9*	(46.827)		(57)	(968)	(1.258)	(2.283)	*4,9*
Capitalised costs	11	18.240							33.372						
Operating profit		**415.803**	**0**	**16.636**	**296.658**	**(68.643)**	**244.651**		**335.492**	**(6)**	**(33.162)**	**100.018**	**(70.835)**	**(3.985)**	
Portion of profits (loss) pertaining to associated companies	12	4.912		4.912			4.912	*100,0*	5.405		5.405			5.405	*100,0*
Financial income	13	109.603		5.727		107	5.834	*5,3*	114.608		1.248		179	1.427	*1,2*
Financial expense	13	(269.577)		(391)	(436)	(11.123)	(11.950)	*4,4*	(248.714)			(2)	(61)	(63)	*0,0*
Total financial operations		**(155.062)**	**0**	**10.248**	**-436**	**(11.016)**	**(1.204)**		**(128.701)**	**0**	**6.653**	**(2)**	**118**	**6.769**	
Other non-recurring non-operating income	14	**45.225**		**419**			**419**	*0,9*	**6.667**						
Pre-tax profit		**305.966**	**0**	**26.884**	**296.222**	**(79.659)**	**243.447**		**213.458**	**(6)**	**(26.509)**	**100.016**	**(70.717)**	**2.784**	
Taxes for the period	15	(124.258)							(79.064)						
of which non-recurrent									18.217						
Net profit for the period		**181.708**	**0**	**26.884**	**296.222**	**-79.659**	**243.447**		**134.394**	**(6)**	**(26.509)**	**100.016**	**(70.717)**	**2.784**	
Attributable to:															
Shareholders of the Parent Company		164.934							118.686						
Non-controlling interests		16.774							15.708						
Earnings per share	16														
basic		**0,122**							**0,108**						
diluted		**0,118**							**0,102**						

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 euros	Notes	31-dec-2013	*of which related parties* A	B	C	D	Total	%	31December 2012 as adjusted *	*of which related parties* A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property,plant and equipment	17	2.129.221							1.947.597						
Intangible assets	18	2.546.160							1.855.966						
Property investments	19	2.999							0						
Goodwill	20	378.564							378.391						
Non-controlling interests	21	140.114	173	107.285		22.103	129.561	92,5	139.730	41	106.460		32.930	139.431	99,8
Financial assets	22	52.640	0	27.209	22.507		49.716	94,4	17.557	36	17.139			17.175	97,8
Deferred tax assets	23	152.006							111.451						
Financial instruments - derivatives	24	37.560							88.568						
		5.439.264	**173**	**134.494**	**22.507**	**22.103**	**179.277**		**4.539.260**	**77**	**123.599**	**0**	**32.930**	**156.606**	
Current assets															
Inventories	25	77.813							71.822						
Trade receivables	26	1.397.839	28	14.827	59.989	16.303	91.147	6,5	1.307.961	33	12.471	17.815	14.782	45.101	3,4
Contract work in progress	27	22.835							20.635						
Financial assets	22	72.229		47.870	535		48.405	67,0	47.286		35.386		204	35.590	75,3
Financial instruments - derivatives	24	11.385							34.199						
Current tax assets	28	29.919							30.882						
Other current assets	29	237.246		1.650	428	18.212	20.290	8,6	209.108		2.198	967	16.260	19.425	9,3
Cash and cash equivalents	22	942.347							424.162						
		2.791.613	28	64.347	60.952	34.515	159.842		2.146.055	33	50.055	18.782	31.246	100.116	
Non-current assets held for sale	30	**3.300**							**14.154**						
TOTAL ASSETS		**8.234.177**	**201,00**	**198.841**	**83.459**	**56.618**	**339.119**		**6.699.469**	**110,00**	**173.654**	**18.782**	**64.176**	**256.722**	
thousands of euros	Notes	31-dec-2013	*of which related parties* A	B	C	D	Total	%	31December 2012 as adjusted *	*of which related parties* A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	31														
Share capital		1.410.357							1.101.201						
Reserves		585.115							517.342						
Profit / (loss) for the period		164.934							118.686						
Group equity		**2.160.406**							**1.737.229**						
Non-controlling interests		145.317							141.393						
Total equity		**2.305.723**							**1.878.622**						
Non-current liabilities															
Borrowings – maturing beyond 12 months	32	3.277.462			7.399		7.399	0,2	2.440.994						
Post-employment benefits	33	145.355							112.962						
Provisions for risks and charges	34	315.067							251.897						
Deferrred tax liabilities	23	74.716							75.211						
Finance lease payments - maturing beyond 12 months	35	15.527							13.356						
Financial instruments - derivatives	24	30.828							32.963						
		3.858.955	**0**	**0**	**7.399**	**0**	**7.399**		**2.927.383**						
Current liabilities															
Banks and other borrowings – maturing within 12 months	32	383.181		840	1.146		1.986	0,5	317.560						
Finance lease payments - maturing beyond 12 months	35	1.972							3.767						
Trade payables	36	1.192.426	(3)	12.627	19.760	33.348	65.732	5,5	1.165.838	(3)	14.766	10.787	27.517	53.067	4,6
Current tax liabilities	28	6.722							18.010						
Other current liabilities	37	469.877		811	6.777	3.242	10.830	2,3	350.060		105	3.459	2.209	5.773	1,6
Financial instruments - derivatives	24	15.321							38.229						
		2.069.499	**(3)**	**14.278**	**27.683**	**36.590**	**78.548**		**1.893.464**	**(3)**	**14.871**	**14.246**	**29.726**	**58.840**	
Total liabilities		**5.928.454**	**(3)**	**14.278**	**35.082**	**36.590**	**85.947**		**4.820.847**	**(3)**	**14.871**	**14.246**	**29.726**	**58.840**	
TOTAL EQUITY AND LIABILITIES		**8.234.177**	**(3)**	**14.278**	**35.082**	**36.590**	**85.947**		**6.699.469**	**(3)**	**14.871**	**14.246**	**29.726**	**58.840**	

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 euros	31-dic-2013	of which related parties
Pre-tax profit	**305.966**	
Adjustments to reconcile net profit to the cashflow from operating activities:		
Amortisation and impairment of property, plant and equipment	165.100	
Amortisation and impairment of intangible assets	150.906	
Effect of valuation using the equity method	(4.912)	
Allocations to provisions	100.373	
Financial expense / (Income)	159.974	
Bargain purchases	(45.225)	
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)	(9.424)	
Change in provisions for risks and charges	(44.043)	
Change in provisions for employee benefits	(6.569)	
Total cash flow before changes in net working capital	**772.146**	
(Increase) / Decrease in inventories	2.534	
(Increase) / Decrease in trade receivables	89.643	(8.129)
Increase / (Decrease) in trade payables	(155.205)	(3.452)
(Increase) / Decrease in other current assets/ liabilities	18.030	4.442
Change in working capitals	**(44.998)**	
Dividends collected	4.271	3.962
Interests income and other financial income collected	43.519	2.702
Interests expense and other financial charges paid	(134.251)	(773)
Taxes paid	(137.596)	
Cash flow from (for) operating activities (a)	**503.091**	
Investments in property, plant and development	(118.971)	
Investments in intangible fixed assets	(189.393)	
Investments in companies and business units net of cash and cash equivalents	4.369	(3.902)
Sale price of property,plant and equipment and intangible assets (including lease-back transations)	4.021	
Divestments of investments	1.751	1.710
(Increase) / Decrease in other investment activities	(23.059)	(20.322)
Cash flow from (for) investing activities (b)	**(321.282)**	
New issues of long-term bonds	546.683	
Repayments and other net changes in borrowings	(172.548)	(375)
Lease finance payments	(4.664)	
Investments in consolidated companies	(5.500)	
Share capital increase	98.178	
Dividends paid out to Hera shareholders and non-controlling interests	(131.341)	(65.204)
Change in treasury shares	6.093	
Other minor changes	(525)	
Cash flow from (for) financing activities (c)	**336.376**	
Effect of change in exchange rates on cash and cash equivalents (d)	**0**	
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)	**518.185**	
Cash and cash equivalents at the beginning of the year	424.162	
Cash and cash equivalents at the end of the year	942.347	

2.03.01 Consolidated explanatory notes

Hera S.p.A. (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 2013 consolidated financial statements, comprised of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated cash flow statement, consolidated statement of changes in equity and explanatory notes, have been prepared in application of Regulation (EC) No. 1606/2002 of 19 July 2002, in observance of International Accounting Financial Reporting Standards (hereinafter IFRSs), issued by the International Accounting Standard Board (IASB) and endorsed 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 conditions, operating results and cash flows 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. To this end, it is noted that the Statement of financial position at 31 December 2012 and at 1 January 2012, the Income statement and the Statement of comprehensive income for 2012 were adjusted as illustrated in the paragraph "Adjustment summary" of these Notes.

Financial statement formats

The formats used are the same as those used for the consolidated financial statements as of and for the year ended 31 December 2012, with the exception of the Statement of consolidated income which reflects the distinction between components that may be reclassified subsequently to profit and loss and those that will never be reclassified to profit and loss, in accordance with the amendments to IAS 1 introduced by Regulation 475/2012 (as illustrated in the paragraph "Accounting standards, amendments and interpretations applied as of 1 January 2013"). A vertical format has been used for the income statement, with individual items analysed by type. We believe that this type of presentation, which is also used by our major *competitors* and is in line with international practice, best represents company results.

The Statement of comprehensive income is presented in a separate document from the income statement, as permitted by *IAS 1*revised, distinguishing that may be reclassified subsequently to profit and loss and those that will never be reclassified to profit and loss. The other components of comprehensive income are shown separately also in the Statement of changes in equity.

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

The Cash flow statement has been prepared using the indirect method, as allowed by IAS 7.

In the financial statements any non-recurring costs and revenues are indicated separately.

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, highlighting the most significant balances 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 IAS/IFRSs, have been audited by PricewaterhouseCoopers S.p.A..

These consolidated financial statements as at 31 December 2013 were drawn up by the Board of Directors and approved by the same at the meeting held on 22 March 2014.

Scope of consolidation

The consolidated financial statements as at 31 December 2013 include the financial statements of the Parent Company Hera S.p.A. and those of its subsidiaries. These include the accounts of entities held jointly by the Group and other partners.

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.

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

Significant investments in associated companies, on which a significant influence is exercised, are valued with the equity method. Those of an insignificant size are instead carried at cost. Subsidiaries and associated companies that are not consolidated, or accounted for with the equity method, are reported in note 21.

Companies held exclusively for future sale are excluded from consolidation and valued at their fair value or, if fair value cannot be determined, at cost. These investments are recorded as separate items.
The table below shows changes in the scope of consolidation from the previous financial year.

Changes in the scope of consolidation

Subsidiaries

Consolidated companies	Companies no longer consolidated	Notes
AcegasAps Spa		Fully consolidated
AcegasAps Service Srl		Fully consolidated
CST Srl		Fully consolidated
	Eris Scarl	Sold
Est Reti Elettriche Spa		Fully consolidated [(1)]
	Famula on line into liquidation Spa	Discontinued
	Hera Servizi Cimiteriali Srl	Sold
	Hera Servizi Funerari Srl	Sold
Iniziative Ambientali Srl		Fully consolidated
Insigna Srl		Fully consolidated
NestAmbiente Srl		Fully consolidated
Rila Gas AD		Fully consolidated
SiGas d.o.o		Fully consolidated
Sinergie Spa		Fully consolidated
Società Italiana Lining Srl		Fully consolidated
Trieste Onoranze e Trasporti Funebri Srl		Fully consolidated
Tri-Generazione Srl		Fully consolidated

[(1)]: company consolidated with the proportionate method until 12 December 2013, when control was obtained.

Jointly controlled entities

Consolidated companies	Companies no longer consolidated	Notes
Aristea Scarl		Proportionate consolidation
Estenergy Spa		Proportionate consolidation
	Estpiù Spa	Sold [(2)]
Isontina Reti Gas Spa		Proportionate consolidation

[(2)]: company acquired from the AcegasAps Group and sold on 12 December 2013.

Associated companies

Consolidated companies	Companies no longer consolidated	Notes
Elettrogorizia Spa		Consolidated with the equity method
	Modena Network Spa	Merged (3)
	Refri Srl	Sold

(3): control obtained on 19 April 2013.

The main changes in the scope of consolidation were due entirely to the business combination with the AcegasAps Group, which is discussed extensively in the Report on operations and in the following notes.

Effective 1 January 2013, Hera Spa acquired the assets of Famula On-Line Spa, a company engaged in organization, planning, production sales and consulting in the areas of information technology, computer services and data processing. On the same date, liquidation proceedings began for Famula On-Line S.p.A. On 21 June 2013 the shareholders approved the liquidation accounts and the relevant distribution plan. As such, this company is no longer consolidated. On 25 June 2013, the company was stricken off the Companies Register.

On 19 April 2013 Acantho S.p.A. purchased an additional 10% of Modena Network S.p.A. from Sorgea S.r.l., thereby increasing its equity stake to 40%. Subsequently, effective 1 November 2013 Modena Network S.p.A. was merged with and into Acantho S.p.A.. As both companies have the same shareholder base (Hera S.p.A., Con.Ami and Aimag S.p.A.), the shares representing the 40% stake held in Modena Network by Acantho were retired while the holders of the remaining 60% were given the acquiror's shares on the basis of the swap exchange ratio. The cash outlay for the acquisition was €230 thousand while the business combination resulted in an asset write-up for €239 thousand.

On 19 June 2013 Herambiente S.p.A. sold its stake in Refri S.r.l. to Unieco Costruzioni Meccaniche S.r.l., with the resulting exit of this company from the scope of consolidation. The disposal price, amounting to €2,300 thousand, resulted in a loss of €137 thousand.

On 1 August 2013 the parent company, Hera S.p.A., sold to the Municipality of Bologna its stake in Hera Servizi Cimiteriali S.r.l.. Following this sale, Hera Servizi Cimiteriali left the scope of consolidation. The sale price, amounting to €20 thousand, entailed a loss of €588 thousand.

On 30 October 2013, Hera Comm S.r.l. sold its 51% stake in Eris S.c.a.r.l. to the minority shareholder Arco Lavori S.c.a.r.l.. The sale price, amounting to €307 thousand, resulted in a gain of €25 thousand.

On 12 December 2013, AcegasAps acquired from Eni S.p.A. 70% of Est Reti Elettriche S.p.A., becoming the company's sole and controlling shareholder. The cash outlay for this acquisition amounted to €11,685 thousand and the business combination resulted in a bargain purchase gain of €1,266 thousand.

On 12 December 2013 AcegasAps sold its 30% stake in EstPiù S.p.A. which, accordingly, exited the scope of consolidation of the Hera Group. The sale price, amounting to €3,960 thousand, resulted in a gain of €3,132 thousand.

The lists of the companies included in the scope of consolidation are shown at the end of these notes.

Changes in equity investments

On 19 Herambiente S.p.A. acquired the 49% equity interest held in Nuova Geovis S.p.A. by Unieco Costruzioni Meccaniche S.r.l., thus becoming the company's sole shareholder, for €5,000 thousand. In addition, on 5 August 2013, Herambiente S.p.A. acquired the equity investments held by the Municipalities of Galliera and Baricella (for a combined stake of 40%) in Gal.A. S.p.A., thus becoming the company's sole shareholder, for a total amount of €500 thousand. In both cases the difference between the adjustment of these minority stakes and their fair value was recognized directly in equity and attributed to the parent company's shareholders. Eventually, effective 31 December 2013, both companies were merged with and into Herambiente S.p.A..

On 30 September 2013 AcegasAps acquired from Eni S.p.A. a 20% stake in Isontina Reti Gas S.p.A., a company controlled jointly by both counterparties. Following this transaction, both became equal owner with a 50% equity interest. In the absence of changes in the governance structure, both will have joint control. The cash outlay for the equity stake was €3,686 thousand and the transaction did not entail significant effects on consolidated equity.

Effective 1 October 2013, AcegasAps sold to Herambiente S.p.A. its equity stake in Nestambiente S.r.l..

On 13 December 2013, Edoardo Zecca S.r.l. sold its 20% equity interest in Tamarete S.r.l. to the company's remaining equity owners - BKW Italia S.p.A. and Hera S.p.A. - in proportion to their holdings. Following this transaction, the Group's equity interest rose from 32% to 40%, with a significant influence on Tamarete.

Reorganization within the scope of consolidation

Effective 1 April 2013, Hera Comm S.r.l. acquired from Lombardi S.r.l. the operation providing heating fuel to several buildings in the Modena area. On the same date, it sold the same operation to Gruppo Hera Energie S.r.l.. The selling price of €34 thousand included goodwill for €174 thousand.

Summary of the effects of the business combinations with the AcegasAps Group

On 25 July 2012 Hera S.p.A. and Acegas APS Holding S.R.L., a company with a 62.691% controlling interest in Acegas-APS S.p.A., a listed multi-utility operating in the north-east of Italy, entered into a master agreement to lay down the procedures to complete a business combination between the two Groups. Under this plan, as of 1 January 2013 Acegas APS Holding S.R.L. merged with and into Hera S.p.A., which in turn obtained the 62.691% equity interest in Acegas APS S.p.A.. On 2 January 2013, Hera S.p.A. launched a mandatory purchase and exchange offer on all he shares of AcegasAps that it did not own to delist the company. On 3 May 2013, the closing date of the offer, Hera S.p.A. became the sole shareholder of AcegasAps, increasing its equity interest in this company from 62.691% to 99.784%, with the remaining shares represented by treasury shares.

This business combination was accounted for in accordance with IFRS3, effective 1 January 2013, the date of acquisition of control of the AcegasAps Group by the Hera Group.

In 2013, in application of IFRS 3, retrospective adjustments were made – on the basis of detailed analyses conducted by the management with the help of independent experts – to the provisional amounts recorded on the date of acquisition, so as to reflect the new information obtained on events and circumstances after the acquisition.

In particular, analyses were performed to determine the fair value of assets or liabilities and contingent liabilities on the basis of new information on facts and circumstances existing on the date of acquisition, recognizing, where applicable, any adjustments to contingent liabilities. The valuation period ended 31 December 2013.

The table below shows the assets and liabilities acquired recognized at their fair value. As illustrated below, the comparison with the fair value and the total price paid for the acquisition determine a bargain purchase gain which, according to the standards of reference, was recognized under “Other non-operating revenues” for €43,540 thousand.

	Carrying amount	Adjustments to *fair value*	Fair value acquired assets and liabilities
Property, plant and equipment	216.865		216.865
Intangible assets	636.587		636.587
Investment property	3.107		3.107
Investments	12.406		12.406
Financial assets	26.242		26.242
Deferred tax assets	23.508	12.908	36.416
Inventories	9.449		9.449
Trade receivables	248.428		248.428
Work in process under contract	137		137
Financial assets	15.084		15.084
Current tax assets	4.993		4.993
Other current assets	35.615		35.615
Cash ad cash equivalents	26.413		26.413
Borrowings – due beyond 12 months	(254.537)		(254.537)
Post-employment and other benefits	(22.784)	(4.247)	(27.031)
Provisions	(26.230)	(39.927)	(66.157)
Deferred tax liabilities	(1.684)		(1.684)
Finance leases payable - due beyond 12 months	(59)		(59)
Banks and borrowings - due beyond 12 months	(288.792)		(288.792)
Finance leases payable - due within 12 months	(15)		(15)
Trade payables	(184.376)		(184.376)
Current tax liabilities	(3.502)		(3.502)
Other current liabilities	(113.052)		(113.052)
Total net assets acquired			**332.537**
Fair Value aordinary shares issued **(*)**			279.587
Cash payment **(*)**			9.425
Non-controlling interest			(15)
Total amount of business combination			**288.997**
Bargain purchase gain			**43.540**

(*): Detals payment for acquisition of AcegasAps SpA

Merger of AcegasAps Holding Srl with and into Hera SpA	
Fair Value ordinary shares issued	175.928
Cash payment	3.407
Share exchange and purchase offer - phase I (articles 102 and 106, paragraphs 1 and 2-bis, Consolidated Law on Finance)	
Fair Value ordinary shares issued	84.279
Cash payment	4.515
Share exchange and purchase offer - phase II (art. 108, paragraph 2, Consolidated Law on Finance)	
Fair Value ordinary shares issued	16.322
Cash payment	1.283
Share exchange and purchase offer - phase III (articles 111 and 108, paragraph 1, Consolidated Law on Finance)	
Fair Value ordinary shares issued	3.058
Cash payment	220
Total fair value ordinary shares issued	**279.587**
Total cash payment	**9.425**

The Company's management – thanks also to the support of independent experts and as required by IFRS 3 revised, which requires that all business combinations be accounted for as acquisitions – determined the fair value of the assets and liabilities obtained as a result of the abovementioned business combination.
Concerning the determination of the fair value of the property, plant and equipment and the intangible assets acquired, which considered also their recoverable amount (on the basis of the business plan of the acquired company), no significant differences came to light with respect to the carrying amounts previously recognized in the consolidated financial statements of the AcegasAps Group; as such, no further adjustment were made and no additional assets were recognized.
Determination of the fair value of the liabilities assumed resulted in the recognition of a greater amount for defined-benefit plans for employees, by about €4,247 thousand, and the relevant tax effect, for about €1,168 thousand, with the latter accounted for as deferred tax assets. These amounts refer to the carrying amounts of the "Premungas" and "Coke allowance" funds, which are in line with the policies of the Hera Group.

Based on the information available on the date of acquisition, i.e. at 1 January 2013, management's review led to the identification of certain contingent liabilities related to obligations arisen prior to the date of acquisition which could be measured with an adequate level of reliability, thanks also to analyses performed by independent consultants. As provided for by IFRS 3 revised, these contingent liabilities were recognized at their fair value as provisions, in a departure from IAS 37, which does not permit their recognitions. In particular:

- €7,384 thousand related to the potential negative outcome of the current dispute with INPS on the lawfulness of the exemption of State-owned companies and public agencies from the payment of contributions for unemployment benefits (CIG, CIGS), involuntary unemployment and sick leave. At 1 January 2013 the AcegasAps Group had provisions for €4.7 million, compared to assessment notices of €12 million received from INPS and still suspended. The amount recognized reflects the maximum potential amount that the AcegasAps Group would pay INPS in case of loss. The status of the dispute does not make it possible to determine its possible outcome and the likelihood of loss;
- €19,500 thousand, related to potential greater costs that might be incurred for non-routine maintenance activities in the landfill in Ponte San Nicolò (Padua). Following the flood of November 2010, and the changed conditions in the market for waste, there are significant uncertainties on the actual feasibility of the project. The amount recognized is the best estimate of the costs that might be incurred for the transfer of waste; such costs are due in essence to the write-down of the investments recognized as property, plant and equipment and to anything that the AcegasAps Group might be required to disburse, in the presence of the continuing obligation to dispose of the leachate produced by the landfill;
- €11,300 thousand, due to the contingent liability related to existing obligations (guarantee on financial exposure given by Acegas S.p.A.) in case of abandonment of the operations run by the foreign subsidiaries Rilagas (Bulgaria) and Sigas (Serbia). In particular, during the business combination phase different likelihood scenarios were developed, incorporating the main business variables (investments related to the projects to build the gas distribution networks and the relevant commercial development) and an appropriate execution risk, considering the possible quantitative and/or time limitations related to the market conditions of both countries;

  €1,743 thousand, related to the potential unfavorable resolution of certain commercial disputes.

Other minor business combinations

As indicated in the previous paragraph on "Changes in the scope of consolidation", during the year the Company acquired control of Est Reti Elettriche and Modena Network S.r.l.. The table below summarizes the effects of both transactions:

€ / 000	Acquisition Est Reti Elettriche SpA	Acquisition Modena Network SpA
Carrying amount net assets acquired	**12.951**	**1.910**
Adjustments to fair value :		
Intangible assets		
Property, plant and equipment		293
Deferred tax assets/(liabilities)		
Fair value acquired net assets	**12.951**	**2.203**
Fair value transferred shares		
Cash payment	11.685	230
Cost of acquisition	**11.685**	**230**
Non-controlling interests acquired	0	866
Fair value equity interest held	0	1.107
Value of business combination	**11.685**	**2.203**
Effects deriving from acquisition:		
- recognition of goodwill		
- change in scope of consolidation		
- bargain purchase gain	1.266	

Adjustment summary

As of 1 January 013, the Hera Group applies the amendments to IAS 19 revised, governing the recognition and valuation of employee benefits, introduced by EU Regulation 475/2012. The most important amendment for the Group's accounts is the elimination of the "corridor method" as an option to account for actuarial gains and losses. As these amendments are applicable retrospectively, in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the statement of financial position as of 1 January 2012 and as of 31 December 2012 was restated, together with the income statement and he comprehensive income statement for 2012, given that the actuarial gains for the period were reversed, recognizing in equity the cumulative amount of actuarial gains and losses not previously recognized due to the application of the corridor method.

Below the adjusted income statement and comprehensive income statement for 2012 are shown, together with the statement of financial position as of 1 January 2012 and as of 31 December 2012.

Adjusted income statement for the year ended 31 December 2012

thousands of euros	2012	Adjusted as of IAS 19r	2012 as adjusted
Revenues	4,492,748		4,492,748
Other operating revenues	203,577		203,577
Use of raw materials and consumables	(2,726,044)		(2,726,044)
Service costs	(912,712)		(912,712)
Personnel costs	(382,082)	49	(382,033)
Amortisation, depreciation,provisions	(326,589)		(326,589)
Other operating costs	(46,827)		(46,827)
Capitalised costs	33,372		33,372
Operating profit	**335,443**	**49**	**335,492**
Portion of profits (loss) pertaining to associated cor	5,405		5,405
Financial income	114,608		114,608
Financial expense	(248,714)		(248,714)
Total financial operations	**(128,701)**		**(128,701)**
Financial income	6,667		6,667
Pre-tax profit	**213,409**	**49**	**213,458**
Taxes for the period	(79,051)	(13)	(79,064)
Net profit for the year	**134,358**	**36**	**134,394**
Attributable to:			
Shareholders of the Parent Company	118,658	28	118,686
Non-controlling interests	15,700	8	15,708
Earnings per share			
basic	**0.108**		**0.108**
diluted	**0.102**		**0.102**

Comprehensive income statement adjusted as of 31 December 2012

thousands of euros	2012	2012 as adjusted
Net Profit / (loss) for the year	**134,358**	**134,394**
Items reclassifiable to the income statement		
fair value of derivatives, change in the year	3,288	3,288
Tax effect related to the other reclassifiable items of the comprehensive income statement	(846)	(846)
Change in the fair value of derivatives for the period for companies measured with the equity method	190	190
Items not reclassifiable to the income statement		
Actuarial gains/(losses) post-employment benefits		(18,248)
Tax effect related to the other not reclassifiable items of the comprehensive income statement		4,598
Total comprehensive income/ (loss) for the year	**136,990**	**123,376**
Attributable to:		
Shareholders of the Parent Company	121,461	108,926
Non-controlling interests	15,529	14,450

Statement of financial position adjusted as of 31 December 2012 and related balances as of 1 January 2012

thousands of euros	31-Dec-2012	Adjusted as of IAS 19r	31-dic-2012 as adjusted	01-Jan-2012	Adjusted as of IAS 19r	01-gen-2012 rettificato
SHAREHOLDERS' EQUITY AND LIABILITIES						
Share capital and reserves						
Share capital	1,101,201		1,101,201	1,105,340		1,105,340
Reserves	532,025	(14,670)	517,355	526,985	(2,147)	524,838
Profit / (loss) for the year	118,658	28	118,686	104,590	40	104,630
Group equity	**1,751,884**		**1,737,242**	**1,736,915**		**1,734,808**
Non-controlling interests	142,978	(1,598)	141,380	142,431	(519)	141,912
Total equity	**1,894,862**		**1,878,622**	**1,879,346**		**1,876,720**
Non-current liabilities						
Borrowings – maturing beyond 12 months	2,440,994		2,440,994	2,405,262		2,405,262
Post-employment benefits	91,366	21,596	112,962	91,595	3,385	94,980
Provisions for risks and charges	251,897		251,897	227,055		227,055
Deferrred tax liabilities	78,114	(2,903)	75,211	76,057	(76)	75,981
Finance lease payments - maturing beyond 12 months	13,356		13,356	5,277		5,277
Financial instruments - derivatives	32,963		32,963	17,657		17,657
Total non-current liabilities	**2,908,690**		**2,927,383**	**2,822,903**		**2,826,212**
Current liabilities						
Banks and other borrowings – maturing within 12 months	317,560		317,560	118,467		118,467
Finance lease payments - maturing within 12 months	3,767		3,767	3,683		3,683
Trade payables	1,165,838		1,165,838	1,229,242		1,229,242
Current tax liabilities	20,463	(2,453)	18,010	36,998	(683)	36,315
Other current liabilities	350,060		350,060	332,253		332,253
Financial instruments - derivatives	38,229		38,229	47,710		47,710
Total current liabilities	**1,895,917**		**1,893,464**	**1,768,353**		**1,767,670**
TOTAL LIABILITIES	**4,804,607**		**4,820,847**	**4,591,256**		**4,593,882**
TOTAL EQUITY AND LIABILITIES	**6,699,469**		**6,699,469**	**6,470,602**		**6,470,602**

Accounting policies 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 IFRSs.

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 first-time 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 equity only if it related to acquisitions prior to 31 March 2004.

The total of capital and reserves of subsidiaries pertaining to non-controlling interests is recorded within equity in the line item "non-controlling interests". The portion of the consolidated result relating to non-controlling interests is recorded in the account “Non-controlling interests”.

The valuation of the financial statement items has been carried out on the basis of the general criteria of prudence and on an accrual basis, with a view of 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 accounting policies and principles were the same as those adopted in the previous year, considering the new accounting standards reported in the paragraph “Accounting standards, amendments and interpretations applied as of 1 January 2013” and the new accounting standards following the acquisition of the AcegasAps Group, as illustrated hereinbelow. 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 non-controlling interests are recognised as *equity investments.* Therefore, for purchases of additional shares after control is attained, the difference between the cost of acquisition and the book value of the shares purchased from non-controlling interests is recognized in equity.

The assets and liabilities of foreign companies denominated in currencies other than the euro which are included in the scope of consolidation are translated using the exchange rates prevailing on the balance sheet date. Income and expenses are translated at the average exchange rate for the year. Exchange rate differences are included in a reserve until the relevant foreign operation is sold.

The main exchange rates used to translate the value of the investees outside the Euro zone are as follows:

	31-Dec-13	
	Average	Specific
Bulgarian Lev	1.9558	1.9558
Serbian Dinar	113.087	114.791

The criteria and principles adopted are outlined here below.

Property, plant and equipment - Property, plant and equipment are recorded at cost 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 item of property, plant and equipment, if it complies with the provisions of IAS 37.

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

The book value of property, plant and equipment 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 property, plant and equipment for which the process of economic use has not yet commenced. The property, plant and equipment are systematically depreciated in each accounting period using the depreciation rates considered representative of the remaining useful lives of the assets. The following tables contain the depreciation rates taken into account for the depreciation of the assets.

General services	min %	max %
Land	0	0
Buildings	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	5.5
- 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

Environment 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	0	0
- 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	0	0

As required by IAS 16, the estimated useful lives of property, plant and equipment 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 on disposal of assets are calculated as the difference between proceeds from the sale and the book value of the relevant investment and are recognized in the income statement as the risk and benefits incident to ownership are transferred to the buyer.

Investment property – An item of property is recognized as investment property when it generates cash flows largely independently of the other assets held by the Company, as it is held to earn rentals or for capital appreciation or both, not to be utilized in production of for the provision of goods or services or in connection with company operations. As permitted by IAS 40, investment property has been recognized at cost. As such, these assets are reported at cost minus depreciation and any impairment.

Leasing – Leases are classified as finance 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 covered by finance leases agreements are recorded among property, plant and equipment and stated at their *fair value* as at the date of acquisition or, if lower, at the present value of the minimum lease payment; they are depreciated on the basis of their estimated useful life, just like the assets owned are. The corresponding debt with the lessor is recorded in the statement of financial position. Lease payments include 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 lease payments 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 assumption 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 property, plant and equipment and, if they have a definite 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 assets for which the process of economic use has not yet commenced. If the Intangible assets have an indefinite useful life, they are not amortised but subjected to an annual *impairment test*, even in the absence of indicators signalling 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, unless their use extends over several years.

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 their remaining 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 the shorter of the remaining useful life of the assets under concession arrangements or the duration of the concession arrangements. The residual value of the Intangible 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 life of the management period, in light of the agreements currently in force with the area agencies. The residual value of the Intangible 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.

Gains or losses on disposal of intangible assets are calculated as the difference between proceeds from the sale and the carrying amount of the asset and are recognized in the income statement when the risk and benefits incident to the ownership of the asset are transferred to the buyer.

Business combinations Business combination transactions are stated by applying the *acquisition method*, as a consequence of which the buyer acquires the 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 equity 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 test*, as indicated in the paragraph below). If the process of allocating the purchase price shows a negative difference, such difference 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.

Non-controlling interests on the acquisition date are measured at *fair value* or according to the pro rata amount 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 property, plant and equipment and intangible 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 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 cash flows to which said assets belong. Future cash flows are discounted to present value at a rate (net of taxation) that reflects the current market value 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

Investments – Investments entered in this item refer to long-term investments.

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 accounted for with the equity method, 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*. Under the equity method, investments are recognised at cost, as adjusted for any changes following acquisition in the associated companies' net assets, minus any impairment. The excess price over the share of the fair value of an associated company's identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is tested for impairment when investments are reviewed.

Other investments and financial instruments – Other investments and financial instruments are accounted for as available-for-sale financial assets under IAS 39 (as discussed in the specific section).They comprise equity instruments and are recognized at fair value in 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 revalued through profit or loss, or in equity if the investments are held as 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 hold to maturity are stated at cost, represented by the *fair value* of the initial consideration, increased by 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 to maturity;
- financial assets available for sale.

The *management* determines their classification when they are first recorded.

Financial assets at *fair value through profit or loss*

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 test* 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* test 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.

Held-to-maturity financial assets –These are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to 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 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* test had not been carried out .

Available-for-sale financial assets – These are any non-derivative financial assets designated on initial recognition as available for sale or that are not classified under the previous items. 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 in equity ("Reserve for available-for-sale financial assets"). This reserve is released to income 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 tradability 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 future cash flows. The negative value changes previously recorded in the shareholders' equity reserve are reversed to the income statement. The impairment previously booked is restored if the circumstances that brought about its recording no longer exist.

Environmental certificates – The Group is subject to the different rules and regulations enacted in the environmental area (directive 2003787/EC – emission trading; Ministerial Decree 24705 as amended and supplemented green certificates; Ministerial decree 20/07/04 – energy efficiency certificates) which require compliance with certain limits established through the use of certificates or other instruments .Therefore, the Group is obliged to meet a need in terms of grey certificates (*emission trading*), green certificates and white certificates (energy efficiency instruments).
The development of markets in which these certificates are traded has also made it possible to initiate a *trading* activity.
These certificates are valued according to the intended use.
The certificates held to meet the company's requirement are recorded as assets at cost. The environmental certificates assigned free of charge are initially recorded at a nil value. If the certificates in the portfolio prove to be insufficient to meet the need, a liability is recorded to guarantee adequate coverage when the certificates are delivered to the operator. Certificates held for trading are recognised as assets and are measured at fair value through profit or loss.

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 arising from the provision of goods and services and are valued at amortised cost, adjusted for any impairment. Furthermore, these assets are derecognized in the event of sale which transfers all risks and benefits associated with their management to third parties.

Contract work in progress – Where the outcome of a construction contract can be estimated reliably, contract work in progress is measured on the basis of revenues accrued with reasonable certainty, according to the percentage of completion method of accounting (i.e. cost to cost), so as to apportion revenues and costs to the relevant financial years in proportion to the stage of completion of contract activity. 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 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 cost, including directly attributable 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 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.

Post-employment benefits – Liabilities related to defined-benefit plans (such as the employee severance accrued until 1 January 2007) are reported net of any plan assets on the basis of actuarial assumptions and on an accrual basis, in keeping with the service necessary to obtain benefits. The liability is valued by independent actuaries. Actuarial gains and losses are reported as other comprehensive income/losses. Following the Budget Act of 27 December 2006, no. 296, for companies with more than 50 employees, the severance amounts accruing after 1 January 20017 qualify as 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 obligation, as of the balance sheet date (assuming that there are sufficient elements for being able to make this estimate) and are discounted to present value when the effect is significant and the necessary information is available. In such event, the provisions are determined by discounting to present value the future cash flows at a pre-tax discount rate that reflects the current market valuation and takes into account the risk associated with the business activities.

When the discounting to present value is carried out, the increase in the provision due to the passing of time is recorded amongst the financial charges. If the liability relates to property, plant and equipment (e.g. restoration of sites), the contra-entry to the provision made is an increase of the asset to which the liability refers; on the other hand, the financial charges are expensed out through the depreciation process of the item of property, plant and equipment 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 – 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 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 recognized through profit or loss during the period when they take place. Il 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 cash 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 recognized through profit or loss. The gains and losses deriving from the adjustment to fair value of the element underlying the hedge are also recognized through profit or loss.

For instruments classified as cash flow hedges and that qualify as such, the fair value changes are recorded in a reserve called "cash flow hedge reserve", but only for the effective part, through the statement of comprehensive income. This reserve is reversed to income whenever underlying hedged instrument is realized. 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 reversed to income.

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 embedded in financial assets/liabilities are separated 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 underlying asset/liability. In such case, the measurement of the embedded derivative instrument is absorbed in the measurement of the financial assets/liabilities.

Assets and liabilities held for sale – Assets and liabilities held for sale are those whose value will be recovered mainly through sale rather than use. Assets and liabilities are classified as held for sale 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 the lower of cost or fair value, net of sales costs..

Grants – Capital grants are recognized 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 rendered during the accounting period and are therefore recorded on an accruals basis.

Revenue recognition – Revenues and income are recognized 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 recognized 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 recognized 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 expense – – Financial income and expense are recognised on an accrual basis. 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 – 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. The item "Current tax liabilities" are calculated on the basis of the tax rates applicable on the balance sheet date.

In determining tax rates for the period, the Group took into consideration the effects of the IAS/IFRS tax reform introduced by law no. 244of 24 December 2007, particularly the reinforced derivation principle of article 83 of the Consolidated Tax Act (TUIR) which calls for entities that use IFRSs to apply, including in a departure from the provisions of the TUIR, "the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards".

Deferred taxes are calculated having regard to timing differences in taxation, and are recorded under item "Deferred tax liabilities". Deferred tax assets are recognized to the extent that the existence of a taxable income at least equal to the amount of the differences to be offset is considered probable when the timing differences will reverse.

Deferred tax assets and liabilities are determined on the basis of the tax rates in force at the time the timing 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 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 property, plant and equipment and intangibles, are recorded using the exchange rate in force as at the period end date and the related exchange gains and losses are recognized through profit or loss; 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 outstanding 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 cost-effectiveness criteria.

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 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

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.

Provisions

These provisions were made by adopting the same procedures as in previous years, with reference to reports by the legal advisors and consultants that are following the cases, as well as on the basis of developments in the relevant legal proceedings. In particular in the section on the provisions for risks and charges, there are indications concerning the assumptions made to estimate provisions for the INPS dispute.

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 deferred tax assets takes place on the basis of expectations of taxable income in future years. The evaluation of the taxable income expected for the purposes of accounting for deferred tax assets depends on factors that may vary over time and significantly affect the recoverability of deferred tax assets.

Depreciation and amortisation

Amortisation and depreciation are 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.

Accounting standards, amendments and interpretations applicable from 1 January 2013

Starting 1 January 2012 the following amendments to IFRSs, as issued by the IASB and endorsed by the European Union, apply:

Amendments to IFRS 1 – First-time adoption of International Financial Reporting Standards (Regulation 1255/2012).These amendments are intended to simplify conditions for entities that could not adopt IFRSs due to hyperinflation. There were no effects on the Group's financial statements following the application of these amendments.

Amendments to IAS 1– Presentation of Financial Statements (Regulation 475/2012). The amendments to IAS 1, which was issued by the IASB on 16 June 2011, require the aggregation of items of other comprehensive income in two categories, one involving items that can be reclassified subsequently to profit or loss and one involving items that will never be reclassified to profit or loss. This application will be applied retrospectively. This amendment did not have any impact on the reported amount. However, the comprehensive income statement of 2012 was restated on the basis of the new provisions.

Amendments to IAS 19 – Employee Benefits (Regulation 475/2012). The amendments issued by the IASB on 16 June 2011, concern such substantive aspects as: the repeal of the option of the so-called "corridor method" to account for actuarial gains and losses; the presentation and recognition of changes in assets and liabilities related to employee benefit plans in the income statement and in the comprehensive income statements; enhanced disclosure requirements for the characteristics of defined-benefit plans and the risks to which the entity is exposed. These amendments apply retrospectively.
As the Group applied the "corridor method" until 31 December 2012, in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the statement of financial position as of 1 January 2012 and as of 31 December 2012 was restated. Reference is made to the paragraph on "Adjustment summary" of these notes for analysis of the effects that this change entailed for the Group's accounts.

Amendments to IAS 32– Financial Instruments: Presentation and disclosures and amendment to **IFRS 7** – Financial instruments: Disclosures (Regulation 1256/2012). The amendment, which was issued by the IASB on 16 December 2011, concerns the treatment of offsetting financial assets and liabilities and the relevant disclosures in relation to certain financial instruments. As to IAS 32, the amendments apply, retrospectively, as of 1 January 2014 while the amendments to IFRS 7 are applicable as of 1 January 2013. The required disclosures must be provided retrospectively.

IFRS 13 – Fair Value Measurement (Regulation 1255/2012). Issued by the IASB on 12 May 2011, it defines the concept of fair value, provides guidance for its determination and introduces qualitative and quantitative disclosures common to all items recognised at fair value, for greater consistency and to reduce complexity. This IFRS will be applied prospectively without any significant effects on the Group's accounts.
IFRIC 20 – "Stripping costs in the production phase of a surface mine" (Regulation 1255/2012).
This interpretation , which was published by the IASB on 19 October 2011, applies prospectively and is not applicable to the sector in which the Group operates; accordingly, it did not entail any effects on the Group's accounts.

Amendments to IFRS 1– First-time adoption of International Financial Reporting Standards: Government Grants (Regulation 183/2013). Document published by the IASB on 19 March 2011. With reference to government loans granted to the entity at below market rates, this amendment allows a first-time adopter to apply IAS 20 prospectively, without changing the initial recognition amount if this had not been recognized in accordance with IAS 39.

On 17 May 2012 the *International Accounting Standards Board* (IASB) published "Improvements to *International Financial Reporting Standards (2009-2011 Cycle)*", subsequently adopted by the European Union with Regulation 301/2013. These improvements include amendments to the following existing International Financial Reporting Standards:

- **Improvement IFRS 1** – *First-Time Adoption of International Financial Reporting Standards: Repeat application. It clarifies that it is necessary to apply IFRS 1 in case of new transition to IFRSs, if the entity had returned to the application of different GAAP.*
- **Improvement IFRS 1** – *First-Time Adoption of International Financial Reporting Standards: Capitalised borrowing costs. It clarifies that an entity that capitalised borrowing costs may carry forward the amount previously capitalised; once IFRSs are adopted, borrowing costs are recognised in accordance with IAS 23.*
- **Improvement IAS 1** – *Presentation of Financial Statements: Comparative information. This document clarifies that additional comparative information must be presented in accordance with IAS/IFRSs. In case of retrospective changes, the entity does not need to provide supporting notes for all of the opening statement of financial position (third balance sheet) but only for the changes introduced.*
- **Improvement IAS 16** – *Property, Plant & Equipment*: Classification of servicing equipment. It is clarified that servicing equipment must be classified as property, plant and equipment if used for more than one year, as inventories if used for one year only.
- **Improvement IAS 32** *Financial Instruments Presentation*: Tax effect of distributions to holders of equity instruments and transaction costs related to equity instruments. This document clarifies that in these cases income taxation is subject to IAS 12.
- **Improvement IAS 34** – *Interim Financial Reporting: Total assets for individual segments. This document clarifies that a segment's total assets must be included only if this information is used by management and there was a change in the segment's total assets compared with the latest annual report.*

There were no effects on the Group's accounts following the application of these amendments.

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 1 January 2014 the standards, interpretations and amendments listed below will apply mandatorily, as they have completed the EU endorsement process:

IFRS 10 – Consolidated Financial Statements (Regulation 1254/2012). Published by the IASB on 12 May 2011, IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and Interpretation 12 of the Standing Interpretations Committee (SIC) Consolidation—Special Purpose Entities (SIC-12). The new standard introduces a new definition of control, outlines the concept of de facto control (control with less than the majority of the voting rights) and clarifies the relationship between control and agency relationship. This IFRS will be applied retrospectively.
The Group is currently evaluating the potential effects of the adoption of this IFRS on the consolidated financial statements.

IFRS 11 – Joint Arrangements (Regulation 1254/2012). Published by the IASB on 12 May 2011, IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities–Non-monetary Contributions by Venturers. The new standard draws a distinction between joint operation and joint venture, emphasizing the rights and obligations of the parties to the arrangement, rather than the legal form of the agreement. In addition, proportionate consolidation for joint ventures is no longer required.
The Group is currently evaluating the potential effects of the adoption of this IFRS on the consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities(Regulation 1254/2012). Issued by the IASB on 12 May 2011, this IFRS applies to entities with interests in subsidiaries, joint arrangements and unconsolidated structured entities. It requires the disclosure of significant judgments and assumptions in determining control, joint arrangements or association.
The Group is currently evaluating the potential effects of the adoption of this IFRS on the consolidated financial statements.

IAS 27 Revised – Separate Financial Statements(Regulation 1254/2012). Issued by the IASB on 12 May 2011, following the issue of IFRS 10, IAS 27 applies only to separate financial statements, governing the recognition of investments in subsidiaries, associated companies and joint ventures.

IAS 28 Revised – Investments in Associates and Joint Ventures(Regulation 1254/2012). Issued by the IASB on 12 May 2011, following the issue of IFRS 10 and IFRS 11, IAS 28 deals with the accounting treatment of associated companies and joint ventures and the criteria to apply the equity method.

Amendments to IFRS 10, IFRS 11 and IFRS 12– Transition Guidance (Regulation 313/2013). Published by the IASB on 28 June 2010, the document clarifies the time of initial application of IFRS 10 and provides guidance in case the application of IFRS 10 causes the consolidation or deconsolidation of an entity. In addition, relief is provided with reference to the initial application of IFRS 11 and IFRS 12.

Amendments to IFRS 10, IFRS 12 and IAS 27– *Investment Entities* (Regulation 1174/2013). . Amendments issued by the IASB on 31 October 2012. The document exempts entities that measure their investments at fair value (Investment Entities) from the consolidation requirements provided for by IFRS 10, as the IASB considered that for these entities the disclosure provided in relation to the fair value measurement of their investments is more meaningful that that associated with the consolidation of assets and liabilities. In addition, it clarifies that an investment entity is not required to apply IFRS 3 when it obtains control of another entity but can measure its investment in such entity in accordance with IFRS 9 or IAS 39. Lastly, guidelines are provided on the treatment in the separate financial statements and on the type of disclosure to be provided.

Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets* (Regulation 1374/2013). Amendments issued by the IASB on 29 May 2013 and applicable retrospectively as of 1 January 2014. The amendments indicated that disclosure of the recoverable amount of the assets or the CGUs is required only if an impairment or the reversal of an earlier impairment has been recognized. Moreover, they clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (Regulation 1375/2013). Amendments issued by the IASB on 27 June 2013 and applicable retrospectively as of 1 January 2014, with earlier adoption permitted. The amendments indicated certain exemptions to the hedge accounting requirements laid down by IAS 39, in the event that a derivative should be replaced with a new derivative that, by law or regulation, should have directly or indirectly a central counterparty. In particular, these amendments clarify that the novation of a hedging derivative should not be considered expiration or termination of an instrument, giving rise to the prospective interruption of the hedge accounting, if certain conditions are met.

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

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

IFRS 9 – Financial Instruments. IFRS published by the IASB on 12 November 2009 and subsequently amended. This IFRS, whose application was postponed until 1 January 2015, is part of a broader project divided in phases o replace IAS 39. It introduces new criteria to classify financial assets and liabilities, for the derecognition of financial assets and the treatment and accounting of hedging transactions.

IFRIC 21 – *Levies*. Interpretation issued on 20 May 2013 by the IFRS IC and applicable retrospectively starting as of 1 January 2014. The interpretation was issued to indicate the accounting treatment of levies, i.e. all the payments to a government agency for which the entity does not receive specific goods or services. The document identifies different types of levies, clarifying which events give rise to the obligation that determines, in turn, the recognition of a liability under IAS 37.

Amendments to IAS 19 – Employee benefits: Defined-benefit plans – employee contributions. Document issued by the IASB on 21 November 2013, applicable as of 1 January 2014. The objective of the amendments is to simplify the accounting treatment of contributions, which are independent of the number of service years for employees, such as employee contributions calculated on the basis of a fixed salary percentage.

On 12 December 2013 the International Accounting Standards Board (IASB) published the "Improvements to the International Financial Reporting Standards (2010-2012 Cycle)". These improvements, which are applicable as of 1 July 2014, include amendments to the following existing IFRSs:

- **Improvement IFRS 2** – Share-based Payments: Definitions relating to vesting conditions. The definitions of vesting conditions and market conditions are changed and the new definitions of performance condition and service condition are introduced.
- **Improvement IFRS 3** – Accounting for contingent consideration in a business combination. This improvement clarifies that contingent consideration in a business acquisition classified as an asset or a liability is measured at fair value at every year-end, whether it falls within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability.
- **Improvement IFRS 8** – Operating segments: Aggregation of operating segments. The improvement requires disclosure of management's considerations in the process of aggregation of operating segments.
- **Improvement IFRS 8** – Operating segments: Reconciliation of the total of the reportable segment assets to the entity's total assets. This improvement calls for the reconciliation to be reported only in the event that the total of the segment assets are regularly reported by management.
- **Improvement IFRS 13** – Fair value measurement: Short-term receivables and payables. This improvement clarifies that the introduction of IFRS 13 does not change the possibility to account for short-term receivables and payables when the effect of discounting is immaterial.
- **Improvement IAS 16** – Property, plant and equipment & **Improvement IAS 38** – Intangible assets: Revaluation method. These improvements remove certain inconsistencies in the recognition of depreciation and amortization, when an item or property, plant and equipment or an intangible is revalued. In particular, they clarify that the gross carrying amount must be adjusted consistently with the revaluation of the carrying amount of the asset and that accumulated depreciation is equal to the difference between the gross carrying amount and the carrying amount minus any previously recognized impairment.

- **Improvement IAS 24** – Related parties: Key management personnel. Clarifications are provided for the identification of related parties and the disclosure in relation to key management personnel.

On 12 December 2013 the International Accounting Standards Board (IASB) published the "Improvements to the International Financial Reporting Standards (2011-2013 Cycle)". These improvements, which are applicable as of 1 July 2014, include amendments to the following existing IFRSs

- **Improvement IFRS 1** – First-time adoption of IFRSs: Meaning of effective IFRSs. This improvement clarifies that, on first-time adoption of IFRSs, an entity may either choose to apply a current standard or opt for the early application of a new standard that is intended to replace the current standard.
- **Improvement IFRS 3** – Business Combinations: Scope exceptions of joint ventures. The improvement clarifies that all types of joint arrangements are outside the scope of IFRS 3.
- **Improvement IFRS 13** – Fair value measurement: Scope paragraph 52 (portfolio exception). The objective of this amendment is to clarify that the possibility to measure at fair value a group of assets and liabilities applies also to all contracts within the scope of IAS 39 (or IFRS 9), but that do not meet the definitions of financial assets or financial liabilities as defined in IAS 32 (such as contracts to buy and sell commodities, which can be settled in cash for their net amount).
- **Improvement IAS 40** – Investment property – Interrelationship between IFRS 3 and IAS 40. The objective of this amendment is to clarify that, to determine whether the purchase of property falls within the scope of IFRS 3, reference should be made to IFRS 3; on the other hand, if the purchase falls within the scope of IAS 490, reference should be made to this standard.

IFRS 14 – *Regulatory deferral accounts*. This standard was published for the first time on 30 January 2014. It permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Its application will be effective 1 January 2016, but early adoption is permitted.

4 Revenues

	2013	2012	Change
Revenues from sales and services	4,576,911	4,490,046	86,865
Change in contract work in progress	2,659	2,606	53
Changes in inventories of work in process, semifinished and finished products and work in progress	111	96	15
Total	**4,579,681**	**4,492,748**	**86,933**

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

	2013	2012	Change
Long-term contract	161,247	129,315	31,932
White certificates	27,386	19,895	7,491
and grants for separeted waste collection	24,048	20,397	3,651
Uses of and releases from provisions	12,594	5,432	7,162
Apportionments of operating grants	7,042	4,356	2,686
Cost refunds	5,327	3,689	1,638
Insurance reimbursements	4,380	1,896	2,484
Sales of material and inventories to third parties	2,479	670	1,809
Leases	2,478	1,513	965
Gains on disposal	640	2,128	(1,488)
Grey certificates	-	1,697	(1,697)
Other revenues	24,039	12,589	11,450
Total	**271,660**	**203,577**	**68,083**

The most substantial changes by comparison with the previous year are described below.

"Long-term contracts" include revenues generated from the construction or improvement of infrastructures held under concession arrangements, in application of IFRIC 12. The change compared to the previous year is mainly due to the reduction in investments (€3,280 thousand) and to an increase determined by the consolidation of the AcegasAps Group (€35,212 thousand), as explained in detail in the Directors' Report

"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). The change in white certificates was due in essence to the consolidation of the AcegasAps Group. The change in grey certificates mainly pertains to the cogeneration plant in Casalegno, as provided by Law Decree no. 72 of 20/5/2010, later converted with Law no. 111 of 19 July 2010, which assigned this grant only for the period between 2008 and 2012.

"Operating grants and grants for separated waste collection". Operating grants, amounting to €5,024 thousand (€5,556 thousand in 2012), reflect mainly feed-in tariffs provided by the GSE for the production of energy from renewable sources.
The contributions from sorted waste collection, amounting to €19,023 thousand (€14,841 in 2012), are made up mainly of the value from packaging (cardboard, iron, plastic and glass) transferred to the consortia of the Conai chain.
The increase on the receding period was due mainly to the consolidation of the AcegasAps Group, which contributed €3,172 thousand.

"Use and re-assessment of provisions use for labour costs, percolate disposal and vehicle hours related to the Group's landfills for €6,715 thousand (€2,612 thousand in 2012). Concerning the re-assessment of provisions, attention is called to the following:

- settlement of the dispute on the geothermal wells in Ferrara, €510 thousand;
- ecotax amounts no longer due for 2006 and 2007, in relation to the Ravenna landfill, €101 thousand;
- re-assessment of provisions related to the continuity charges for the electric service for 2012, €500 thousand;
- release of provisions resolution AEEG no. 89/08, €1,106 thousand;
- re-assessment of provisions in relation to the dispute with VECA SUD Autotrasportatori attributable to Energonut, which was merged into Herambiente S.p.A., €108 thousand;

- re-assessment of provisions for future charges related to the Galliera landfill, €541 thousand;
- re-assessment of the post-mortem provisions for the Sant'Agata Bolognese landfill and provisions for future charges related to the same landfill, €835 thousand;
- re-assessment of the provisions for waste disposal of Nestambiente S.r.l. for €273 thousand;
- re-assessments of the provisions for litigation and charges related to personnel for €573 thousand, provisions for legal expenses for €286 thousand and provisions for sundry risks for €434 thousand for the companies of the AcegasAs S.p.A. group.

"Insurance reimbursements" rose by €2,484 thousand. In particular:

- €882 thousand related to the reimbursement for damages inflicted to own facilities and plants located in the Modena, Ferrara and Bologna areas following the earthquakes of 20 and 29 May 2012;
- €150 thousand related to the reimbursement for damages suffered by the Cesenatico purification plant;
- €1,576 thousand due to the consolidation of the AcegasAps Group.

"Other revenues" include mainly cost recoveries in relation to environmental, electricity and gas services for €11,568 thousand, the sale of optical fibre rights for €3,127 thousand, revenues for telephone network concessions. The AcegasAps Group's contribution to the increase in this item was €6,035 thousand.

6 Use of raw materials and consumables

	2013	2012	Change
Electricity ready for sale	1,131,077	1,315,090	(184,013)
Methane ready for sale and LPG net of change in stocks	1,091,180	1,203,715	(112,535)
Maintenance materials net of changes in stocks	66,362	49,839	16,523
Water	41,152	39,672	1,480
Electricity for industrial use	36,195	33,705	2,490
Green, grey and white certificate	19,820	33,916	(14,096)
Fuels and lubricants	17,678	16,634	1,044
Chemical products	14,038	14,074	(36)
Charges and revenues from derivatives	8,735	7,043	1,692
Methane for industrial use	8,568	6,193	2,375
Heat management combustible materials	6,350	5,146	1,204
Charges and revenues from certificate valuation	(242)	(10,660)	10,418
Consumables and sundry	13,849	11,677	2,172
Total	**2,454,762**	**2,726,044**	**-271,282**

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. Please refer to note 24 of the statement of financial position for the item "Charges and revenues from derivatives"

The most substantial changes by comparison with the previous year are described below.

“Maintenance materials net of change in stock” decreased from the previous year, due mainly to a decline in investments, as explained in greater detail in the report on operations.

“White, grey and green certificates,” includes the cost for the acquisition of white, grey and green certificates incurred in 2013. Specifically:

- white certificates, Euro thousand 15.448 (Euro 9,533 thousand as at 31 December 2012);
- grey certificates, Euro 3.013 thousand (Euro 5,925 thousand as at 31 December 2012);
- green certificates, Euro 1.359 thousand (Euro 18,458 thousand as at 31 December 2012).

The change from the previous year was due to the different purchasing requirements in view of the Group's certificate needs.

“Charges and revenues from certificate valuation” reflect the valuation of certificates in stock, particularly:

- white, expenses of Euro 2.032 thousand.(Revenues of Euro 2,308 thousand as at 31 December 2012)
- green, revenues of Euro 3.944 thousand (Euro 9.398 thousand as at 31 December 2012);
- grey, expenses of Euro 1.671 thousand (Euro 1.046 thousand as at 31 December 2011);

7 Service costs

	2013	2012	Change
Charges for works and maintenance	274,544	235,775	38,769
Energy transport and storage	223,208	182,592	40,616
Energy transport and storage	221,812	216,491	5,321
Fees paid to local authorities	71,338	73,245	(1,907)
Rents and leases payable	30,283	22,476	7,807
Professionnal, legal, tax and organisational services	27,265	26,067	1,198
Insurances	21,898	14,644	7,254
IT and data processing services	21,522	24,749	(3,227)
Technical services	17,637	13,507	4,130
Postal and telephone cost	16,965	14,938	2,027
Recruitement training and other staff cost	16,755	13,067	3,688
Bank fees and charges	13,665	10,759	2,906
Cleaning and security costs	7,875	5,458	2,417
Remuneration to statutory auditors, directors, area committees	6,540	5,306	1,234
Announcements and advertising	6,405	4,599	1,806
Meters reading	4,405	4,356	49
Laboratory analysis	4,387	3,558	829
Fees payable	3,250	3,641	(391)
Utilities	2,800	3,307	(507)
Organisational costs	2,645	3,828	(1,183)
Other service costs	45,283	30,349	14,934
Total	**1,040,482**	**912,712**	**127,770**

The most substantial changes by comparison with the previous year are described below. Generally speaking, the consolidation of the AcegasAps Group caused a significant increase in nearly all service costs.

"Charges for works and maintenance". This item includes the costs for the construction or improvement of Infrastructures under concession pursuant to *IFRIC 12*. The change compared to the previous year is mainly due to the combined effects of:

- the increase determined by the consolidation of the AcegasAps Group for €44,447 thousand;
- the reduction in investments, as explained in detail in the Directors' Report.

“Waste transportation, disposal and collection services” increased as a result of the inclusion in the scope of consolidation of the AcegasAps Group, which accounted for €25,892 thousand, and the activation of additional services intended to achieve a greater percentage of sorted waste collection.

The item “Fees paid to local authorities” includes the charges incurred for the use of public owned networks, fees paid to companies that own these assets for the rent of gas, water and electricity cycle assets and the leasing of the drop-off points. Compared to 2012, the decrease was due mainly to the decision of the local water authority in relation to the new water tariffs (AEEG resolution no. 585/2012).

“Other service costs” rose due mainly to:

- the consolidation of the AcegasAps Group, accounting for €12,804 thousand. This item includes sundry costs, such as the tolling fee for use of the production capacity of the Elettrogorizia plant, fees for service agreements a well as ancillary and sundry services;
- increase in costs for commercial and sales activities in relation to energy services.

8 Personnel costs

	2013	2012 as adjusted	Change
Wages and salaries	341,402	271,444	69,958
Social security contributions	111,462	87,032	24,430
Post-employment and other benefits	1,451	1,380	71
Other costs	28,388	22,177	6,211
Total	**482,703**	**382,033**	**100,670**

The increase in labour costs compared to previous year is mainly due to the consolidation of the AcegasAps Group (€93,710 thousand) changes in contractual trends.

The average number of employees in the period in question, analysed by category, is as follows:

	2013	2012	Change
Managers	153	132	21
Middle-management	456	357	99
Clerks	4,252	3,400	852
Blue-collar workers	3,464	2,650	814
Average number	**8,326**	**6,539**	**1,787**

Overall the average cost of labour per capita for 2013 was €58 thousand (€58.4 thousand in 2012).

At 31 December 2013, the actual headcount was 8,219 (6,539 employees at 31 December 2012), with the addition of 1,749 employees of the AcegasAps Group.

9 Amortisation, depreciation and provisions

	2013	2012	Change
Depreciation	164,889	136,286	28,603
Depreciation of investment property	108	-	108
Amortisation	149,079	102,841	46,238
Allowance for bad debts	62,123	49,080	13,043
Provisions for risks and charges	36,799	37,782	(983)
Write-down of non-current assets	1,931	600	1,331
Total	**414,929**	**326,589**	**88,340**

As regards the breakdown of the items, please refer to the comments under “property, plant and equipment”, “intangible assets”, “trade receivables” and “provisions for risks and charges” in the statement of financial position

The increase in amortization, depreciation and provisions was due mainly to the change in the scope of consolidation determined by the acquisition of the AcegasAps Group, which contributed €60,626 thousand in amortization and depreciation and €14,706 thousand in provisions. The increase in depreciation was due, moreover, to the greater input of the WTE plant in Pozzilli, which was purchased in the fourth quarter of the previous year, and the entry into service of new anaerobic digestors. In the meantime, the greater amortization of the intangible assets is related to the renegotiation of the business operation lease agreement with Unica Reti and the completion of several projects for the implementation of information systems.

10 Other operating costs

	2013	2012	Change
Taxation other than income taxes	14,116	10,916	3,200
Special landfill levy	9,061	10,370	(1,309)
State rentals	6,599	4,322	2,277
Write-down of receivables	4,264	1,493	2,771
Membership and other fees	4,069	2,953	1,116
Loss on disposal of assets	929	3,847	(2,918)
Other minor charges	21,864	12,926	8,938
Total	**60,902**	**46,827**	**14,075**

The most substantial changes by comparison with the previous year are described below.

"Taxation other than income taxes", the increase is mainly linked to:

- greater Tares costs, compared to the previous TIA;
- greater IMU (municipal tax) costs;
- change in the scope of consolidation due to the AcegasAps Group, for €2,464 thousand.

"Special landfill levy", corresponds to the payment of ecotax on landfills managed by the Group. The decrease reflects the lower volumes disposed of in the landfill.

"State rentals" showed:

- an increase attributable mainly to the greater sums paid to the Province of Pesaro-Urbino for the collection of taxes(€499 thousand), as well as the effect of the inclusion in the scope of consolidation of the AcegasAps Group (€2,892 thousand);
- a decrease, attributable to greater sums paid in 2012 to the Emilia Romagna Region (in relation to previous years) and to some concessionaires for the collection of taxes. In addition, it is worthy of note that the fees for the district heating networks paid to asset companies for 2013 were recorded in note 7 "Service costs" (Fees paid to local authorities).

"Loss on disposal of assets", arising mainly from the disposal of certain components of the WTE plants, following cyclical replacement as well as projects no longer considered feasible.

"Other minor charges" showed the following changes:

- decrease in charitable donations; to this end, it is worthy of note that in 2012 Hera S.p.A. participated in a fundraising by the Emilia Romagna Region in favour of the areas that were struck by an earthquake in May 2012;
- decrease in contributions provided to disadvantaged customers of the water sector, following application of the new tariff method which does not make any provisions for these costs for 2013;
- increase in other current costs, due mainly to the greater compensation amounts paid following the revision of the premiums for the new insurance contracts signed by the parent company effective 1 July 2012;
- increase due to the inclusion of the AcegasAps Group in the scope of consolidation for €3,073 thousand. This item includes damage compensation, fines, penalties and other operating expenses.

11 Capitalized costs

	2013	2012	Change
Increases in self-constructing asset	18,240	33,372	(15,132)
Total	**18,240**	**33,372**	**(15,132)**

Increases in self-constructed assets include mainly labour costs and other charges (such as materials and vehicle hours) directly attributable to the Group's self-constructed assets. The decrease was due to the decline in investments compared to 2012; in particular, attention is called to the contract for the WTE plant in Rimini, which entered into service on 2 September 2011. Investments are analysed in the notes to the statement of financial position and the report on operations.

12 Share of profits (losses) pertaining to associated companies

	2013	2012	Change
Share of profits	6,247	6,022	225
Share of losses	(1,335)	(617)	(718)
Total	**4,912**	**5,405**	**(493)**

The “Share of profits/losses pertaining to associated companies” includes the effects generated from measurement using the equity method.

Specifically, the “Share of profits” showed the following changes compared with 2012:

- Aimag S.p.A.,Euro 2.908 thousand (Euro 1,925 thousand in 2012);
- Sgr S.p.A., Euro 3.139 thousand (Euro 3,554 thousand in 2012);
- FlamEnergy Trading Gmbh, Euro 110 thousand (Euro 324 thousand in 2012).

The “Share of losses” refers to the following companies:

- Set S.p.A., €141 thousand (share of profit for €148 thousand in 2012);
- Q.Thermo S.R.L., Euro 32 thousand (Euro 7 thousand in 2012)
- Refri S.R.L., Euro 56 thousand (Euro 99 thousand in 2012)
- Tamarete Energie S.r.l., 1.106 migliaia di euro (415 migliaia di euro nel 2012). Tamarete Energie S.R.L., Euro 1,106 thousand (Euro 415 thousand in 2012)

The “Share of losses” of Refri S.r.l. refers to the company’s accounts as of 31 December 2012, which were made available after the approval of the Hera Group’s accounts.

13 Financial income and expense

Financial income	2013	2012	Change
Income from valuation at fair value of financial liabilities	55,042	41,787	13,255
Interest rate and foreign exchange derivatives	30,077	57,286	(27,209)
Banks	8,087	7,354	733
Customers	6,415	5,974	441
Capital on equity, investment and dividends from other companies	3,702	107	3,595
Other financial income	6,280	2,100	4,180
Total	**109,603**	**114,608**	**(5,005)**

Financial expense	2013	2012	Change
Bonds	104.725	91.792	12.933
Interest rate and foreign exchange derivatives	78.373	64.488	13.885
Factoring charges	19.410	12.402	7.008
Loans	16.334	13.635	2.699
Discounting of provisions and finance leases	14.423	15.917	(1.494)
Charges due to recognition of financial liabilities at amortized cost	11.598	9.576	2.022
Write-downs of financial assets	11.177	375	10.802
Overdrafts	7.673	1.622	6.051
Losses on disposals of investments	794	66	728
Charges from valuation at fair value of financial liabilities		35.065	(35.065)
Other financial expense	5.070	3.776	1.294
Total	**269.577**	**248.714**	**20.863**

The change in financial income/(expense) is described, overall, in the Directors' Report.

For "Income and expenses related to changes in the fair value of financial liabilities" and "Interest rate derivatives" reference is made to note 24 of the statement of financial position.

For details on bonds subscribed, please refer to note 32 "Banks and medium/long- and short-term loans".

"Write-downs of financial assets", refers to the impairment charges taken on the 11% equity investment that Hera S.p.A. holds in Energia Italiana S.p.A., a company which in turn has a 50% equity stake in Tirreno Power S.p.A. Considering the latter's negative performance, a company operating in electric generation, Energia Italiana S.p.A. wrote off its investment in it and reduced its share capital accordingly. The carrying amount of the investment after the write-down is the corresponding share of the company's equity, which is made up of receivables that Energia Italiana has outstanding with Sorgenia S.p.A., its controlling shareholder with a 78% equity interest.

"Factoring charges" refer to financial expenses incurred to factor and securitize receivables, so as to optimize the Group's working capital management. The change in 2012 was due to the contribution of the AcegasAps Group for €4,573 thousand.

Interest on loans rose on the comparable amount of 2012 due to the contribution of the AcegasAps Group. Also in this case, reference is made to note 32 to the statement of financial position.

“Gains on equity investments and dividends from other companies” are as follows:

- €85 thousand in dividends from Service Imola S.r.l. and Banca di Credito Cooperativo;
- €150 thousand in dividends from Centro Idrico Novoledo S.r.l. (a company acquired with the business combination with the AcegasAps Group);
- €310 thousand in dividends from Veneto Sanitaria S.p.A. (a company acquired with the business combination with the AcegasAps Group);
- €3.132 thousand reflects the gain on disposal of the joint venture EstPiù S.p.A. (a company acquired with the business combination with the AcegasAps Group), while €25 thousand represents a gain on disposal of the subsidiary Eris Scrl.

“Losses on equity investments and dividends from other companies” are as follows:

- €558 thousand, following disposal of the company operating in cemetery and funeral services. To this end, it is noted that the public tender launched by the City of Bologna to select a private partner to manage this service was completed on 1 August 2013. The agreement between the City of Bologna called for the transfer to the City of the equity stakes held by the Parent Company in Hera Servizi Cimiteriali S.r.l. and Hera Servizi Funerari S.r.l.;
- €138 thousand, following disposal of the investment in Refri S.r.l. to Unieco Costruzioni Meccaniche S.r.l.;
- €40 thousand due to the discontinuation of operations for Solhar Alfonsine S.r.l., Solhar Piangipane S.r.l., Solhar Ravenna S.r.l. and Solhar Rimini S.r.l..

The remaining amount refers to liquidation transactions or disposals of minor investments.

The item “Discounting of provisions and finance leases” is broken down as follows:

	2013	2012	Change
Restoration of third party asset	3,223	4,858	(1,635)
Landfill post-closure provision	6,773	6,501	272
Plant dismantling	140		140
Post-employment benefits and other benefits	3,450	4,328	(878)
Finance leases	837	230	607
Total	**14,423**	**15,917**	**(1,494)**

The decrease in financial expense in relation to “Restoration of third-party assets” is attributable to the expiration of the concession arrangements related to gas services in the province of and the water service in the province of Rimini.

As to “Other financial expense”, following consolidation of the AcegasAps Group, this item includes interest expense on loans to companies consolidated proportionately, as well as interest on the fixed-rate loan obtained after the transfer to the City of Trieste of the Municipal Pension Fund of AcegasAps S.p.A..

14 Other non-operating revenues

	2013	2012	Change
Other non-operating non-recurring revenues	45,225	6,667	38,558
Total	**45,225**	**6,667**	**38,558**

This item reflects gains arising from the difference between the purchase price and the fair value of acquired net assets, in connection with business combinations during the year:

- AcegasAps Group for €43,540 thousand (Reference is made to the "Table of the effects of the business combination with the AcegasAps Group in the introductory part to these notes for an in-depth analysis of the merger);
- Est Reti Elettriche for €1,266 thousand;
- Tamarete S.r.l. for €414 thousand;
- Isontina Reti Gas for €5 thousand.

For a description of the above business combinations reference is made to the paragraph on "Changes in the scope of consolidation" in the introduction of these notes.

15 Income taxes for the year

This item is made up as follows:

	2013	2012	Change
Current taxes (Ires, Irap and substitutive tax)	130,841	104,351	26,490
Deferred tax liabilities	(1,064)	298	(1,362)
Deferred assets liabilities	(5,519)	(7,368)	1,849
Extraordinary effects		(18,217)	18,217
Total	**124,258**	**79,064**	**45,194**

Income tax for 2013, which takes account of the contribution of the AcegasAps Group, amounted to €124,258 thousand compared to €79,064 for the previous year. Income tax for 2012 included non-recurring positive effects for €18,217 thousand related to the IRES refund receivable, after recognition of the deductibility of the Regional business tax (IRAP) in relation to personnel end similar expenses, pursuant to Law Decree 201/2011 and Law Decree 16/2012.

Current taxes are broken down as follows:

Current taxes	2013	2012	Change
Ires	83,502	71,659	11,843
Irap	40,213	32,149	8,064
Substitute tax for split up	543	543	-
Total	**124,258**	**104,351**	**19,907**

The statutory tax 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.

Reconciliation between statutory and effective tax rate	**2013**		**2012**	
	Income statement amount	**Tax effect in percentage terms**	**Income statement amount**	**Tax effect in percentage terms**
Pre-tax profit	305,966		213,458	
IRES calculation				
Ordinary rate	-84,141	-27.50%	-58,701	-27.50%
Robin Tax surcharge	-9,712	-3.20%	-9,428	-4.40%
Irap on labour costs	5,638	1.80%	4,436	2.10%
Pex	-2,428	-0.80%	-8	0.00%
Dividends	-1,922	-0.60%	-1,196	-0.60%
Goodwill amortisation	979	0.30%	934	0.40%
Ires previous years	1,348	0.40%	18,063	8.50%
Gains on bargain purchases	12,437	4.10%	1,833	0.90%
Other increases/decreases	-4,418	-1.40%	-2,210	-1.00%
IRAP and other current taxes				
Irap	-40,213	-13.10%	-32,244	-15.10%
Substitute tax	-543	-0.20%	-543	-0.30%
Tax rate diferences for current foreign taxes	-1,283	-0.40%		
Effective tax rate	**-124,258**	**-40.60%**	**-79,064**	**-37.00%**

This reconciliation is performed only in connection with the corporate income tax (IRES), given that the particular rules governing the regional business tax (IRAP), reconciliation between the statutory tax rate and the effective tax rate is not meaningful.

The prepaid and deferred taxes relating to the year 2013 refer to the following variations between taxable income and profit recorded in the financial statements.

Deferred tax assets	**2013**			**2012**		
	temporary differences	**tax effect (IRES + IRAP)**	**acquisitions/ disposals**	**temporary differences**	**tax effect (IRES + IRAP)**	**acquisition/ disposals**
Deferred tax assets with effects on the income statement						
Allowance for bad debts	138,767	43,598		98,413	31,659	
Provisions for risks and charges	120,905	29,281		79,197	17,070	
Provisions for employee benefits	4,702	1,295		3,953	1,097	
Depreciation/Amortisation	177,846	50,558		110,832	31,190	
Equity investments	36,660	12,199		36,660	12,217	
Tax loss carry forward	15,080	4,145		19,988	5,497	
Other	25,595	5,430		24,347	4,923	
Total	***519,555***	***146,506***	***37,334***	***373,390***	***103,653***	***(12)***
Amount credited (charged) to the income statement		**5,519**			-	
Deferred tax assets with effects on the statement of comprehensive income:						
Cash flow hedges	7,274	2,049		12,995	3,845	
Actuarial gains/(losses) post-employment benefits	189	60				
Total	***7,463***	***2,109***	***(63)***	***12,995***	***3,845***	***-***
Amount credited (charged) to the income comprehensive statement		**(1,673)**			-	
Total tax effect		**148,615**			**107,498**	

Deferred tax liabilities	**2013**			**2012**		
	temporary differences	**tax effect (IRES + IRAP)**	**acquisitions/ disposals**	**temporary differences**	**tax effect (IRES + IRAP)**	**acquisition/ disposals**
Deferred tax liabilities with effects on the income statement						
Allowance for bad debts	60,922	19,244		65,611	20,437	
Provisions for employee benefits	3,396	941		4,685	1,352	
Depreciation/Amortisation (FTA - fair value as deemed cost)	136,155	44,599		129,077	42,260	
Leases	9,482	2,968		11,226	3,502	
Extraordinary operations	-	-		-	-	
Capital gains recognized in installments	1,110	300		2,101	578	
Other	21,806	6,656		20,715	5,869	
Total	***232,871***	***74,708***	***1,774***	***233,415***	***73,998***	***1,759***
Amount credited (charged) to the income statement		**1,064**			-	
Deferred tax assets with effects on the statement of comprehensive income:						
Cash flow hedges	-	-		-	-	
Actuarial gains/(losses) post-employment benefits	22	8		4,410	1,213	
Total	***22***	***8***	***-***	***4,410***	***1,213***	***-***
Amount credited (charged) to the income comprehensive statement		**1,205**			**2,032**	
Total tax effect		**74,716**			**75,211**	

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

Information on the "tax moratorium”

Pursuant to law decree no.10 of 15 February 2007, converted into law no. 46 of 6 April 2007, governing the procedures to repay state aid considered illegal by the EU Commission with decision 2003/193 of 5 June 2002, on 6 April 2007 Hera S.p.A. was served a notice of payment by the competent office of the Revenue Agency, in relation to the former Seabo S.p.A., for a total of Euro 22,313 thousand for the tax years covered by the repayment, i.e. from 1997 to 1999.
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.
On 29 April 2010 appeals were filed with the Court of Cassation. The cases were argued on 24 January 2012 and the rulings were unfavourable.

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 S.p.A., local authorities undertook “to compensate Hera S.p.A. 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 costs were accounted for and there are no other receivables to collect.

Law decree no.185/2008 and Law decree no.135/2009

Article 24 of law decree no. 185 dated 29 November 2008,converted as amended into law no. 2 of 28 January 2009 provides “for the full implementation” of the oft-cited decision of the Commission dated 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.

All joined cases pending for the former Meta, for fiscal years 1998 and 1999, came to an end with decision no. 117/15713 on 23 September 2013. The Provincial Tax Commission of Bologna accepted the appeal with respect to the proper calculation of interest calculated in the additional assessment notices 1998 and 1999 and rejected the rest. However, in the explanation of the decision, the Provincial Tax Commission approved a refund of the greater amount of interest paid unduly to the tax authority only for 1998, omitting to specify the same difference also for 1999, amounting to about €1,412 thousand. Given this material error, a petition for a correction of the decision was filed with the Provincial Tax Commission of Bologna on 10 January 2014. The deadline for the appeal, also for the tax authority, will expire on 23 March 2014; it is likely that the tax authority will file an appeal as the main plea on the part on which it loses.

Article 24 of law decree no. 185 of 29 November 2008 was amended by article 19 of Law Decree no. 135 of 25 September 2009, with the addition of paragraph 1-bis to the abovementioned article 24.On 2 October 2009, the Emilia Romagna Regional Management sent two assessment notices for the former company Meta S.p.A., 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 S.p.A., 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 Law Decree no. 17 of 15 February 2007 had given authority to the Revenue Agency to simply “collect” the taxes reported on the taxpayer’s returns. 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 n. 135/2009, amounted therefore to Euro 23,510 thousand, and were paid on 20 October 2009.

On 27 November 2009 the Company the Company appealed before the Provincial Tax Commission of Bologna to cancel the notices of assessment of 2 October 2009, for both the former Seabo and former Meta positions. For the former Seabo position the hearing was held on January 26, 2011, with the Commission setting a new date to allow the parties to settle amicably. The cases were argued in the hearing of 15 February 2012 and with four rulings entered on 23 February 2012 the Provincial Tax Commission of Bologna, Section no. 17, accepted in part the Company’s reasons with reference to the deductions related to the post-closure provisions of landfills. Currently the rulings are res judicata. To this end, it is noted that, under the agreement with the above partners, the sums collected will be turned over to them.

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 reconciliation between the parties. Ruling no. 117/15/13, filed on 23 September 2013, as mentioned above, concerned all joined cases, for fiscal years 1998 and 1999.

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: management fee Ferrara and Forlì-Cesena

Seven notices were issued to Hera S.p.A. 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 S.R.L. 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 findings concerned in essence an error occurred in 2005 in accounting for intercompany costs between Hera Ferrara S.R.L. and Hera S.p.A., which involved double-counting of the same cost for approximately Euro 200 thousand. However, in the following year, 2006, steps were taken to correct the error by recognizing extraordinary income for the same amount, which was duly taxed. The consequence was that, in

the presence of consolidated taxation, the effect of the double deduction of the cost in 2006 was eliminated with the recognition, and subsequent taxation, of the contingent asset. On 13 January 2011, the Company entered into a voluntary settlement, pursuant to article 6, paragraph 2, of Legislative Decree no.218 of 1997, with the Regional Directorate of the Large Taxpayer Department in Emilia Romagna, with a positive outcome for the Company as it paid only one-fourth of the penalties.
With respect to the same case, on 27 December 2011 an assessment notice was notified in relation to the VAT related to the abovementioned accounting error for €40 thousand. On 29 February 2012, the company submitted an appeal, making a down-payment for one-third of the sum on 31 August 2012. The case was heard on 15 Mary 2013 and the decision, which was filed on 20 June 2013, was favourable to the Company.
On 3 February 2014 the office filed an appeal requesting the reversal of the Tax Commission. The Company will file its own counterclaim on appeal within 60 days of notification.

On 29 December 2010 Hera S.p.A. received three assessment notices for IRES, IRAP and VAT related to financial year 2005, following a tax audit focusing on the same year, which ended with a tax audit report by the Finance Police, Bologna’s tax police unit, dated 1 October 2010.The tax audit report brought to light findings related to intercompany services (general management expenses and expenses related to use of the trademark) provided by Hera S.p.A., in its capacity as parent company of the Hera Group, to the operating subsidiary of Forlì-Cesena, Hera Forlì-Cesena S.R.L.

Even though it considered as fair the allocation of cost established initially in the intercompany contracts, the tax authorities challenged the subsequent reduction of the percentage of the general management expenses charged, calling them generically management fees, following an agreement between the parties that amended the original terms and conditions. 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 S.p.A., since the lower recharge of management fees to Sot of Forlì-Cesena ensured said costs remained the responsibility of Hera S.p.A., 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 n. 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. 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 hearing was held before the Provincial Tax Commission of Bologna on 19 September 2012. The decisions, which were all entered on 31 October 2012, are all in favour of the Company, for IRES, IRAP and VAT purposes.

Following these decisions, on 19 November 2012, the General Directorate of the Revenue Agency for Emilia Romagna notified the company about the cancellation of the entries made while a decision was pending. In December 2012, the Company received a refund of the sum disbursed when the original entries were made for €653 thousand. On 29 April 2013, notice was received of the appeals filed by the General Directorate of the Revenue Agency against the first instance rulings and on 26 June 2013 the company filed its counterclaims and appeal.

Report on tax audits in fiscal year 2011: dealings with Atesir and VAT on concession fees and loan instalments

On 29 September 2011 the Finance Police, tax police unit of Bologna, began a tax audit of the Company for IRES and IRAP purposes. The audit, which ended in March 2012, reviewed for IRAP and IRES purposes the years from 2006 to 2010, with special emphasis on the payments from the Company to the local public utility regulator (Atesir).On 24 October 2011 the Company was issued a tax audit report, for 2006 alone, concerning the Atesir's operating expenses. According to the tax audit report, the above operating costs for the Atesir, totalling Euro 2,581, should be considered non-deductible – on the basis of the combined provisions of articles 148,paragraph 4,and 154, paragraph 1,of Legislative Decree no.152 of 3 April 2006 – as they are unrelated to the business pursued, pursuant to article 109 of the TUIR. The Company filed its defence brief, following which the Tax Authority did not follow up on the assessment proposal contained in the tax audit report of the Finance Police.

On 26 March 2012 a tax audit report was prepared for financial years 2006-2011, with special emphasis on VAT on the concession fees paid for the use of grids and plants and the repayment of loans to local authorities, as well as rentals of business assets or concession of goods related to the management of the integrated water service and the management of urban waste services debited to Hera S.p.A. by the entities that own the assets. According to the tax audit report, the above concession fees for the use of infrastructures were subject to VAT, at the then-prevailing rate of 20%. This would entail, according to the tax auditors, the levy to Hera S.p.A. of the administrative penalties under article 6, paragraph 8, of Legislative Decree no. 471 of 18 December 1997, with reference to invoices issued without VAT or with a reduced, 10% (€4,200 thousand) VAT rate. The Company submitted a defence brief on 20 June 2012 and the Tax Authority so far has not sent any notice of assessment.

On 2 October 2012 the Company was served by the Regional Directorate of Emilia Romagna a notice, related to VAT for 2007, whereby the Company was ordered to pay an administrative penalty of Euro 1,164 thousand of Euros. The Company appealed by filing, on 29 November 2012, a specific defence brief under article 16,paragraph 4, Legislative Decree no.472 of 1997 which, to this date, has not been followed by a demand for payment of the above penalty.

With reference to the following years, from 2008 to 2011, on 9 August 2013 the Directorate served the Company with another claim, where it specified first of all that the Company's defence arguments for the alleged VAT violations already notified in 2007 had been accepted, particularly the legal arguments related to the proper interpretation of the sanction, at least until the publication of Ministerial Resolution no. 104 of 11 October 2010. With this second service of claim, the Office just objected to the failure to regularize purchasing invoices related to the last quarter of 2010 (from 1 October to 31 December 2010) for a total of €2,890.44 and for 2011 for an amount of €8,024.70. On 20 September 2013, the Company settled the dispute with the payment of €3,638.38, representing one-third of the penalty indicated, thereby settling finally the matter for all the years in question.

Information on the assessment notices notified in 2013

On 20 December 2013 the Company was notified by the General Regional Directorate of the Revenue Agency for Emilia Romagna assessment notices for fiscal year 2008, which disallowed the credit taken for VAT erroneously charged by contractors on the construction, restructuring an improvement of the cogeneration plants at a 20% rate instead of 10%, for about €1 million. The Company challenged the decision on 7 February 2014 and with presidential decrees of 26 February 2014 the assessment notices were suspended until the hearing set for 20 May 2015, when a decision will be made on the suspension by the Tax Commission as a whole.

Tax audits conducted in financial years 2012 and 2013

Herambiente S.p.A.

On 7 March 2012, the Revenue Agency – General Directorate of Emilia Romagna/Large Taxpayer Office - started a tax audit of Herambiente S.p.A., with respect to its corporate income taxes, IRAP and VAT.
The audit concerned fiscal year 2009, which focused, and was subsequently challenged, on the IRAP tax relief under no. 2), no. 3) and no. 4) of paragraph 1, sub-paragraph a) of article 11 of Legislative Decree, so-called "tax wedge", as well as, still for IRAP purposes, the application of the provision under article 36, paragraph 7, of Law Decree 223/2006 related to land depreciation.
Moreover, for VAT purposes, the Directorate disallowed the credit taken for VAT erroneously charged by contractors on certain waste disposal services at a rate of 20% instead of 10%.
On 22 May 2012, the audit report was delivered to the Company, which submitted its defence brief challenging the content of said audit report, on 19 July 2012.

On 20 May 2013 the Company was notified an assessment notice related to VAT for 2008, where the Directorate disallowed the credit taken for VAT erroneously charged by contractors on certain waste disposal services at a rate of 20% instead of 10%. The Company challenged the measure on 22 July 2013, paying one-third on a provisional basis, for €13 thousand, on 16 July 2013.

On 8 and 19 2013 the Company was notified two assessment notices related to VAT for 2008 and 2009, where the Directorate disallowed the credit taken for VAT erroneously charged by a contractor on certain waste disposal services at a rate of 20% instead of 10%. The Company challenged the measure on 19 December 2013, paying one-third on a provisional basis, on 10 December 2013. A date for a hearing is pending.

Hera Trading S.r.l.

On 12 June 2012 the Revenue Agency –Directorate General of Emilia Romagna/Large Taxpayer Office - started a tax audit of Hera Trading S.R.L., with respect to its corporate income taxes, IRAP and VAT.
The audit concerned 2009 and previous as well as subsequent financial years for any effects of transactions carried out in that year.
In particular, the audit focused on, and resulted in the challenge of, the application of a greater IRAP rate for the production and distribution of electricity, gas and heat under article 1 of Regional Law Emilia Romagna no. 19/2006, of which more later.
For IRAP and IRES purposes, the tax audit challenged the failure to record a contingent asset related to the alleged cancellation of trade payables for invoices to be received accounted for in previous years, pursuant to article 88, paragraph 1, of TUIR.
Special attention was paid by the auditors to the Company's treatment of VAT for commodity and index derivative contracts, with special emphasis on the qualification of these transactions as VAT-exempt pursuant to article 10,paragraph 1, sub-paragraph 4) of Presidential Decree 633/72 and the consequent use

of the applicable prorated VAT credit under article 19, paragraph 5, of Presidential Decree 633/72. The tax auditors challenged the Company with respect to the qualification of the above derivative transactions as excluded from the calculation of the prorated VAT credit, as they were undoubtedly “ancillary” to the taxable transactions related to the wholesale distribution of electric energy, gas and heat.

On 12 July 2012 the Company was given an audit report, rebutting all the defence arguments dated 11 September 2012. The Regional Directorate of Emilia Romagna has not, for the time being, issued the assessment notice.
The Company did not think that it had to make any provisions, considering the allegations baseless.

With reference to the greater IRAP rate, on 3 February 2012 the Company received a payment notice for fiscal year 2008, for a total amount of €126,624.91, following an automated review under article 36 bis of Presidential Decree 600/73, filing the relevant challenge; the hearing for the suspension was held on 16 January 2013 (but in the meantime the Company paid the expired notice) and the hearing on the merits of the case was held on 15 May 2013; the ruling, which was filed on 20 June 2013, was against the Company. On 31 January 2014 an appeal was filed.

In addition, still in connection with the greater IRAP rate related to fiscal year 2009, the Company received on 10 October 2012 a notice of irregularity, following an automated review under article 36 bis of Presidential Decree 600/73, for a total amount of €282.385,05, which was challenged on 7 December 2012.
On 13 May 2013 the Company received the relevant payment notice, for €376,353.23, which the Company challenged on 5 July 2013, requesting also the suspension of the challenged measure; the suspension was initially granted, with presidential decree of the Tax Commission of Trieste until 29 August 2013, and with presidential decree of the Tax Commission of Bologna until 11 November 2013. The suspension was rejected by the tax commission, in a decision taken as a body, with order dated 12 November 2013 and the Company made the payment related to the notice on 25 November 2013. A date for the hearing is pending.

Lastly, still in connection with the greater IRAP rate related to fiscal year 2007, the Company received, on 28 December 2012, following the notice contained in the abovementioned audit report, an assessment notice for a total of €110,246.47, which it proceeded to challenge on 26 February 2013. With an order dated 27 June 2013, the Tax Commission of Bologna rejected the suspension request and the Company paid one-third of the sum due for tax an interest, on a provisional basis. The date for the hearing is pending.

Hera comm S.r.l.

With reference to the greater IRAP rate electricity, gas and heat production and distribution activity under article 1 of Regional Law Emilia Romagna no. 19/2006, on 313 March 2012 the Company received a payment notice for a total amount of €126,940.20 related to fiscal year 2008, , following an automated review under article 36 bis of Presidential Decree 600/73, which was duly challenged. The hearing for the suspension of the payment was held on 16 January 2013 (but in the meantime the Company paid the expired notice) and the hearing on the merits of the case was held on 15 May 2013; the ruling, which was filed on 20 June 2013, was against the Company. On 31 January 2014 an appeal was filed.

In addition, still in connection with the greater IRAP rate related to fiscal year 2009, the Company received on 11 October 2012 a notice of irregularity, following an automated review under article 36 bis of Presidential Decree 600/73, for a total amount of €376,174.78, which was challenged on 7 December 2012.

On 19 April 2013 the Company was notified the relevant payment notice, for €501,353.02, which it challenged on 3 au 2013. On 24 May 2013, with presidential decree, a suspension was granted until 10 October 2013. On 10 October 2013 the suspension was confirmed with an order of the Tax Commission of

Bologna. On 15 January 2014 the relevant hearing was held, where the court requested to join this case with another already lodged in another chamber of the same Tax Commission in Bologna. The relevant hearing will be held on 4 April 2014.

On 1 June 2013, the Company received a notice of irregularity related to the greater IRAP rate for fiscal year 2010, for €564,338.19, which promptly challenged.

On 12 March a tax audit was conducted at Hera Comm S.r.l. for IRES, IRAP and VAT purposes, by the Finance Police – Bologna Tax Unit. On 13 June 2013, the audit report was received with only one finding in relation to non-recourse receivable assignments and bed debts. In particular, with reference to one of said contracts, it was found that the recognition of part of bed debts, for a total amount of €638 thousand, had been deferred, thereby determining a greater IRES and Robin Tax amount for a total of €211 thousand. On 13 June 2013 the tax audit report was delivered to Hera comm S.r.l., which is considering appropriate defensive actions.

Information on property tax (ICI) notices received in fiscal year 2012

On 24 April 2012 Herambiente S.p.A. was notified an assessment notice by the City of Ferrara due to the company's failure to file a return and pay property taxes (ICI) on Ferrara's WTE plant for fiscal year 2009. The assessed amount, inclusive of penalties and interest, totals €718 thousand. On 7 January 2014, the relevant payment notice was notified, for a total amount of €766 thousand, and on 21 January 2014 the company was notified about the suspension of the registration of the assessment notice in the tax collection registry.

On 24 April 2012, Hera S.p.A. was notified two assessment notices, again by the City of Ferrara, due to the company's failure to file a return and pay property taxes (ICI) on Ferrara's WTE plant for fiscal years 2008 and 2009. The assessed amounts, inclusive of penalties and interest, total €1,461 thousand and €723 thousand. On 7 January 2014, the relevant payment notice was notified, for a total amount of €2,332 thousand, and on 21 January 2014 the company was notified about the suspension of the registration of the assessment notices in the tax collection registry.

The Companies filed an appeal against all of the above notices on 23 July 2012. They derive from the cadastral reclassification started by Ferrara's Territory Agency at the end of 2001 which reclassified the WTE plant in Via Diana from category E9 – exempt from property taxes due to their nature as assets "intended for special public exigencies and/or public interest " – proposed by the Company, to category D1 "Industrial plant", with the resulting assessment of the municipal property tax (now IMU) for the amounts indicated in the notices challenged. Currently, the hearing dates to argue the cases have not been set yet.

The Group did not make any provision for the disputes in question, considering the allegations as baseless.

16 Earnings per share

thousands of euros	2013	2012
Profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (A)	164,934	118,658
Interest expenses relating to the liability component of convertible bonds	1,824	2,450
Adjusted profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (B)	166,758	121,108
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss)		
- basic (C)	1,349,443,805	1,101,201,226
- diluted (D)	1,411,280,502	1,182,407,723
Earnings (loss) per share (euro)		
- basic (A/C)	**0.122**	**0.108**
- diluted (B/D)	**0.118**	**0.102**

Basic earnings per share are calculated on the operating result attributable to holders of ordinary shares of the parent company. Diluted earnings per share take account of the convertible bond which came to maturity on 1 October 2013, when its full amount was reimbursed to the bondholders.

Following the merger of AcegasAps Holding S.r.l. with and into Hera S.p.A. and the ensuing completion of the first phase of the mandatory purchase and exchange bid launched by Hera S.p.A. on all the shares outstanding of AcegasAps S.p.A. that it did not own - pursuant to article 106, paragraphs 1 and 2-bis of the Consolidated Law on Finance, as described extensively in the Report on operations - on 3 May 2013, the closing date of the offer, Hera S.p.A. became the sole shareholder of AcegasAps S.p.A. (as the shares tendered raised its stake from 62.691% to 99.784%, while the remaining shares were held in treasury).
Moreover, on 28 November 2013, the capital increase for up to the pre-established amount was completed, following the rights issue to existing shareholders pursuant to articles 2441 paragraphs 1, 2 and 3 of the Italian civil code. A total of 78,466,539 ordinary Hera S.p.A. shares with a nominal value of €1.00 each were issued, ranking pari passu with the existing ordinary shares, as per resolutions of the Board of Directors of 28 August 2013 and 24 October 2013, pursuant to the authority granted by the Shareholders in the General Meeting held on 15 October 2012.

As of this writing, the share capital of the parent company, Hera S.p.A., consisted of 1,421,342,617 ordinary shares, compared to 1,115,013,754 ordinary shares at 31 December 2012, which were used in determining basic and diluted earnings per share.

17 Property, plant and equipment

	31-dic-13	including assets held on the basis of lease finance arrangments	31-dic-12	including assets held on the basis of lease finance arrangments	Change
Land and buildings	541,802	4,156	426,742	9,765	115,060
Plants and machinery	1,362,235	16,228	1,266,578	16,646	95,657
Other moveable assets	117,030	1,456	105,648	2,025	11,382
Assets under construction and advance payments	108,154	-	148,629	-	(40,475)
Total	**2,129,221**	**21,840**	**1,947,597**	**28,436**	**181,624**

Property, plant and equipment are disclosed net of accumulated depreciation. Their composition and changes in the period are as follows:

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Change in the scope of consolidation	IFRS 5	Impairments	Other changes	Net closing balance	of which gross final amount	of which accumulated depreciation
31-dic-12											
Land and buildings	398,860	13,431	(569)	(12,045)	11,843	(3,901)	-	19,123	426,742	*520,086*	*93,344*
Plants and machinery	1,227,184	48,495	(14,419)	(98,815)	58,782	353	(285)	45,283	1,266,578	*2,067,284*	*800,706*
Other moveable assets	109,971	19,843	(1,762)	(25,426)	2,445		-	577	105,648	*375,259*	*269,611*
Asset under construction and advance payments	148,461	58,536	(1,863)	-	5,275		-	(61,780)	148,629	*148,629*	-
	1,884,476	**140,305**	**(18,613)**	**(136,286)**	**78,345**	**(3,548)**	**(285)**	**3,203**	**1,947,597**	**3,111,258**	**1,163,661**
31-dic-13											
Land and buildings	426,742	15,277	(273)	(14,703)	71,280	10,531	-	32,948	541,802	666,625	124,823
Plants and machinery	1,266,578	43,535	(2,744)	(120,794)	120,196	323	-	55,141	1,362,235	2,369,088	1,006,853
Other moveable assets	105,648	16,962	(1,750)	(29,392)	17,925	-	-	7,637	117,030	406,558	289,528
Asset under construction and advance payments	148,629	47,270	(1,771)	-	7,404	-	-	(93,378)	108,154	108,154	-
	1,947,597	**123,044**	**(6,538)**	**(164,889)**	**216,805**	**10,854**	**0**	**2,348**	**2,129,221**	**3,550,425**	**1,421,204**

The breakdown and main changes within each category are commented on below.

"Land and buildings", totalling €541,082 thousand, consisted of €111,268 thousand in land and buildings and €430,543 thousand in building. In relation to land, these are mainly company-owned properties on which the majority of the sites and production plants stand. The increases related to the construction work carried out on the anaerobic digestors in Ca' Baldacci (Rimini) and Voltana di Lugo (Ravenna).

"Plant and machinery", amounting to Euro 1,362,235 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 investments for the year reflect mainly expansion works involving certain landfills which are still active.

"Other moveable assets", equal to €117,030 thousand, include the equipment, waste disposal bins for €78,180 thousand, furniture and fittings for €5,150 thousand, electronic machines for €6,896 thousand and vehicles and cars for €26,804 thousand. The disposals mainly referred to bins in the waste management sector and motor vehicles.

"Assets under construction and advance payments", amounting to €108,154, include mainly investment for development of district heating and electricity distribution, extraordinary maintenance on Group property and WTE plants. Other capital expenditure concerned CIC plant for the recovery of bottom ashes in Modena, revamping work at 3rd line in Modena's WTE plant, the revamping of the chemical and physical plant in Ravenna, as well as work on certain waste sorting plants.

"Other changes" included adjustments for €1,856 thousand to landfill closure and post-closure costs - as estimated when the plants were created or expanded in accordance with IFRIC 1 - and reclassifications of assets under construction to the respective categories, when they commenced operations during the year, as well as reclassifications from one intangible asset to the other.

"Changes in the scope of consolidation", amounting overall to €216,805 thousand, referred to the combined effects of the following actions:

- €216,865 thousand, property, plant and equipment related to the AcegasAps Group, which was acquired on 1 January 2013;
- €7,576 thousand, property, plant and equipment of Modena Network S.p.A., which was consolidated on a line-by-line basis starting from 30 June 2013 and eventually merged with and into Acantho S.p.A. on 1 November 2013;
- €1,657 thousand (decrease), property, plant and equipment of Eris S.r.l., which exited the scope of consolidation in the last quarter of 2013;
- €197 thousand, acquisition of Lombardi S.r.l.;
- €8,568 thousand (decrease), property, plant and equipment of Hera Servizi Cimiteriali S.r.l. and Hera Servizi Funerari S.r.l., which exited the scope of consolidation on 1 August 2013;
- €2,767 thousand, property, plant and equipment of Est Reti Elettriche S.p.A., which switched from proportionate to line-by-line consolidation effective 12 December 2013.

Details of the above actions are provided in the paragraphs on "Changes in the scope of consolidation" and "Reorganization within the scope of consolidation" in these notes.

The amounts indicated under "IFRS 5" refer to the reclassification for €14,154 thousand from "Non-current assets held for sale" of the portion of the Berti area, in relation to which reference is made to Note 30 "Non-current assets and liabilities held for sale", as well as the reclassification, in the opposite direction, for €3,300 thousand from property, plant and equipment to "Non-current assets held for sale", in relation to a building belonging to Est Reti Elettriche S.p.A..

For a more accurate analysis of investments in the period, please see the Directors' Report, paragraph 1.03.01.

18 Intangible assets

	31-dic-13	31-dic-12	Change
Industrial patents and intellectual property rights	37.536	29.569	7.967
Concessions, licences, trademarks and similar rights	114.865	46.926	67.939
Public services under concession	2.154.181	1.530.864	623.317
Intangible assets under construction and advance payments for public services under concession	143.982	170.501	-26.519
Work in progress and advance payments	48.427	38.594	9.833
Other	47.169	39.512	7.657
Total	**2.546.160**	**1.855.966**	**690.194**

Intangible assets are stated net of their accumulated amortisation and are broken down below with details of the changes during the year:

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Change in the scope of consolidation	Impairments	Other changes	Net closing balance	of which gross final amount	of which accumulated depreci
31-dic-12										
Industrial patents and intellectual property rights	30.761	2.858	(289)	(14.445)	-	-	10.684	29.569	197.099	167.530
Concessions, licences, trademarks and similar rights	53.976	326	-	(7.377)	10	-	(9)	46.926	207.987	161.061
Public services under concession	1.487.399	56.384	(10)	(74.619)	-	-	61.710	1.530.864	2.125.335	594.471
Intangible assets under construction and advance payments for public services under concession	156.164	72.873	-	-	-	-	(58.536)	170.501	170.501	-
Work in progress and advance payments	41.892	16.113	-	-	-	-	(19.411)	38.594	38.594	-
Other	32.329	3.592	(514)	(6.400)	4.404	-	6.101	39.512	96.064	56.553
	1.802.521	**152.146**	**(813)**	**(102.841)**	**4.414**	**-**	**539**	**1.855.966**	**2.835.580**	**979.615**
31-dic-13										
Industrial patents and intellectual property rights	29.569	4.989	(36)	(18.013)	(57)	-	21.084	37.536	238.824	201.288
Concessions, licences, trademarks and similar rights	46.926	379	-	(12.876)	111.768	-	(31.332)	114.865	371.485	256.620
Public services under concession	1.530.864	97.929	(711)	(110.326)	446.882	-	189.543	2.154.181	3.210.503	1.056.322
Intangible assets under construction and advance payments for public services under concession	170.501	62.452	-	-	70.066	-	(159.037)	143.982	143.982	-
Work in progress and advance payments	38.594	21.826	(11)	-	4.599	-	(16.581)	48.427	48.427	-
Other	39.512	3.304	(335)	(7.864)	19.536	(1.827)	(5.157)	47.169	118.294	71.125
	1.855.966	**190.879**	**(1.093)**	**(149.079)**	**652.794**	**(1.827)**	**(1.480)**	**2.546.160**	**4.131.515**	**1.585.355**

The breakdown and main changes within each category are commented on below.

"Industrial patents rights and know-how", totalling Euro 37,536 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 €114,865 thousand, mainly includes the value of the rights in relation to the gas, water and purification plants. This item fell mainly due to the depreciation for the period and the reclassification of the assets related to the purification and the gas services in the municipalities of Castello di Serravalle e Monzuno from "Concessions, licences, trademarks and similar" to "Public services under concession", in accordance with the relevant contracts after the expiration of the concession arrangements.

"Public services under concession", equal to Euro 2,154,181 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 reflects also costs capitalized to these assets, receivables outstanding with the entities that own these assets, and the reclassification from "Concessions, licences, trademarks and similar", following the expiration of the concession arrangements with the municipality of Monte San Pietro, as noted above.

"Intangible assets under construction and advance payments for public services under concession", amounting to Euro 1143,982 thousand, relate to said assets detailed above which are still to be completed as at the end of the year. As to "Other changes", amounting to €159,037 thousand, attention is called to the completion of the activities to expand and upgrade equipment such as the denitrification station of the purification plant in Bologna (IDAR), Forlì's purificator, the extension of the gas grid to Lagaro-Castiglione dei Pepoli (Bo), the upgrading of the gas meters s per resolution 155/08.

"Work in progress and advance payments", equal to Euro 48,427 thousand, essentially comprise still incomplete IT projects.

The item "Other", equal to Euro 47,169 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, as well as contract rights and customer lists. The write-down of €1,827 thousand related to the adjustment to recoverable value, following the impairment test performed, of the right of the subsidiary Hera Comm S.r.l. to take delivery of electricity from the Sparanise power plant owned by the subsidiary Calenia.

"Other changes" include the reclassifications of the assets under construction to the specific categories once these have entered service during the year and other reclassifications to property, plant and equipment.

"Changes in the scope of consolidation", amounting to €652,794 thousand, reflects:

- €636,587 thousand, for the intangible assets of the AcegasAps group acquired on 1 January 2013;
- €16,620 thousand attributable mainly to concession arrangements for public utilities related to Isontina Reti Gas S.p.A., which is consolidated on a proportionate basis, of which AcegasAps S.p.A. acquired a further 20%.

The above actions are all commented in the paragraphs on "Changes in the scope of consolidation" and "Reorganization within the scope of consolidation" in the introductory part of these notes.

19 Investment property

	31-dic-13	31-dic-12	Change
Investment property	2,999	-	2,999
Total	**2,999**	**-**	**2,999**

Investment property showed the following changes:

	Initial amount, net	Investments	Disposals	Depreciation	Change in the scope of consolidation	Other changes	Final amount, net	of which Gross final amount	of which accu
31-dic-13									
Investment property	-	-	-	(108)	3.107	-	2.999	3.754	755
	-	**-**	**-**	**(108)**	**3.107**	**-**	**2.999**	**3.754**	**755**

Investment property attributable to the consolidation of the AcegasAps Group includes shops located in the "Modello" building in Trieste and several flats rented out.

20 Goodwill

	31-dic-13	31-dic-12	Change
Goodwill	323,604	321,656	1,948
Goodwill arising on consolidation	54,960	56,735	(1,775)
Total	**378,564**	**378,391**	**173**

The main values are as follows:

- residual goodwill from the 2002 integration resulting in the creation of Hera S.p.A., Euro 81,258 thousand;
- goodwill relating to the integration of Agea S.p.A. 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 fair value of Hera S.p.A. shares issued following the increase in capital for the merger by incorporation of Agea S.p.A., in accordance with IFRS 3 the share value was calculated as at the effective date control was taken of Agea S.p.A. (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 S.p.A. shares issued following the increase in capital to service the merger by incorporation of Meta S.p.A., this value was calculated as at the end of 2005, accepted as the effective date that control was taken of Meta S.p.A.;
- goodwill relating to the merger of Geat Distribuzione Gas S.p.A. into Hera S.p.A.. 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 S.p.A.);
- goodwill relating to the merger of Sat S.p.A.. 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 S.p.A. shares issued following the increase in capital from the merger by incorporation of Sat S.p.A., this value was calculated as at 1 January 2008, the date at which take-over became effective.

Reclassification from "Goodwill arising on consolidation" to "Goodwill" for €1,775 thousand was due to the merger of the subsidiary Nuova Geovis S.p.A. with and into the subsidiary Herambiente S.p.A. and the resulting recognition in the separate financial statements of the latter of the assets and liabilities previously reported in the consolidated financial statements.

"Goodwill arising on consolidation" was due mainly to the following companies consolidated on a line by line basis:

- Marche Multiservizi S.p.A., Euro 20,790 thousand;
- Hera Comm Marche S.R.L., Euro 4,565 thousand;
- Medea S.p.A., Euro 3,069 thousand;
- Asa Scpa, Euro 2,789 thousand;
- Hera Luce S.R.L., Euro 2,328 thousand;
- Gastecnica Galliera S.R.L., Euro 2,140 thousand;

The balance of goodwill and goodwill arising on consolidation refer to minor transactions.

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, as per IFRS 8.

Goodwill (millions of euros)	
Gas	107.5
Electricity	43.1
Integrated ater cycle	41.2
Environment	175.0
Other services	8.2
Structure	3.6
Total	**378.6**

The impairment test concerned the business areas: gas, electric energy, integrated water cycle, environment and other services. The recoverable amount of the cash generating units, to which the individual goodwill amounts had been allocated based on their value in use, is the present value of the cash flows (as calculated with the discounted cash flow method) projected in the 2013-2017 business plan approved by the Parent Company's Board of Directors in the meeting held on 25 September 2013. To the amount so calculated, the present value of a perpetuity is added, as calculated on the basis of the cash flows for the last year and taking account, for the water cycle only, the gradual achievement of the full return on capital (as provided for by the current regulations).

The 2013-2017 business plan, which sets out the Group's expected future activities, is based on assumptions consistent with the assumptions used in previous plans and, on the basis of actual amounts, projections were worked out internally by reference, where necessary, to the most authoritative and updated external sources available.

The revenue projections for the regulated businesses were prepared in view of expected tariff changes on the basis of industry regulations and/or agreements with local authorities. In particular, distribution revenues were projected on the basis of evidence available in resolutions no. 159/08 and 199/11 of AEEGSI, the industry's regulator, for gas and electric energy, respectively. Revenues from sales of gas and electric energy in the standard offer market were projected to 2017 on the basis of AEEGSI resolutions no. 93/13 and 577/12, respectively. For the integrated water cycle, revenues were projected on the basis of unchanged volumes distributed and tariffs based on agreements signed, as of the date of preparation of the Plan, with the individual local water boards (Atersir) and the application of the transitory tariff method under AEEGSI resolution no. 585/2012. For local sanitations services, full tariff coverage in keeping with the rules in force was assumed in all the areas served over the time horizon of the plan.

Price trends for electric energy and gas bought and sold in the open market were worked out on the basis of business considerations consistent with the energy scenario under which the business plan was prepared, considering the forecasts provided by a panel of institutional observers.

The development of plants for the disposal and recycling of waste is consistent with the forecasts of the provincial plans in which the Hera Group operates. The investment schedule and the subsequent start of new plants is the result of the best estimate of the managers in charge.

Group costs are expected to increase in line with the expected rate of inflation estimated on the basis of the Government's Economic Planning Document and forecasts by the Bank of Italy and the European Commission. Labour costs, instead, were assumed to grow in line with the labour agreements in place.

Based on the above considerations, the management's assumptions take into consideration the remaining terms of the relevant concession arrangements, varying medium/long-term growth rates, depending on the individual business, and growth forecasts for the sectors to which the individual cash generating units belong (2% on average).

The rate used to discount cash flows to present value was 6.48% 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.

21 Equity investments

	31-dic-13	31-dic-12	change
Non-consolidated subsidiaries and joint ventures			
Adrialink Srl	167	-	167
Calor Più Italia Scrl	6	6	-
Consorzio Frullo	0	4	(4)
Solhar Alfonsine Srl	0	10	(10)
Solhar Piangipane Srl	0	5	(5)
Solhar Ravenna Srl	0	5	(5)
Solhar Rimini Srl	0	10	(10)
Total	**173**	**40**	**133**
Associated companies			
Aimag Spa	42,614	40,331	2,283
Elettrogorizia SpA	2,067	-	2,067
FlamEnergy Trading Gm	1,703	1,893	(190)
Ghirlandina Solare Srl	57	57	-
Modena Network SpA	-	1,105	(1,105)
Q.Thermo Srl	1,286	1,317	(31)
Refri Srl	-	2,313	(2,313)
Sei SpA	902	702	200
Set SpA	36,257	36,197	60
Sgr Servizi SpA	19,156	18,780	376
Sosel SpA	693	646	47
Tamarete Energia Srl	2,471	3,084	(613)
Other minor companies	80	35	45
Total	**107,286**	**106,460**	**826**
Other companies			
Calenia Energia SpA	9,073	9,073	-
Energia Italiana SpA	2,110	13,233	(11,123)
Galsi SpA	10,732	10,524	208
Other minor companies	10,740	400	10,340
Total	**32,655**	**33,230**	**(575)**
Total equity investments	**140,114**	**139,730**	**384**

Elettrogorizia S.p.A., a company headquartered in Trieste which engages in the operation and leasing of power plants, became part of the Hera Group, following consolidation of the AcegasAps Group. Thanks to an equity stake of 33%, the company is accounted for with the equity method.

Equity investments in non-consolidated subsidiaries and joint ventures

Adrialink S.r.l.

Following the business combination with the AcegasAps Group, the Group took over Adrialink S.r.l., a company engaged in the planning, implementation and management of electric network. Thanks to a 33% equity interest, this company, which is not yet operational, is not included in the scope of consolidation and is recognized at cost.

Solhar Alfonsine S.r.l., Solhar Piangipane S.r.l., Solhar Ravenna S.r.l., Solhar Rimini S.r.l.

On 25 June 2013 the voluntary dissolution of Solhar Alfonsine S.r.l., a company recognized at cost, was approved. The company was eventually stricken off on 18 December 2013. On 12 July 2013 Herambiente S.p.A. bought out Fase S.p.A., thereby becoming the sole shareholder of Solhar Piangipane S.r.l., Solhar

Ravenna S.r.l. and Solhar Rimini S.r.l.. Subsequently, the dissolution of these companies was approved, in the absence of the necessary condition to start their operations, with their ensuing cancellation from the companies register on 18 December 013.

Equity investments in associated companies

Compared with 31 December 2012, the changes in the investments in Aimag S.p.A., Elettrogorizia S.p.A., FlameEnergy Trading Gmbh, Ghirlandina Solare S.r.l., Q.Thermo S.r.l., Refri S.r.l., Set S.p.A., Sgr Servizi S.p.A., Sosel S.p.A. and Tamarete Energia S.r.l. reflect the share of profit/loss of the respective companies.

Modena Network S.p.A.

On 19 April 2013 Acantho S.p.A. purchased an additional 10% of Modena Network S.p.A. from Sorgea S.r.l., thereby increasing its equity stake to 40%. Subsequently, effective 1 November 2013 Modena Network S.p.A. was merged with and into Acantho S.p.A.. As both companies have the same shareholder base (Hera S.p.A., Con.Ami and Aimag S.p.A.), the shares representing the 40% stake held in Modena Network by Acantho were retired while the holders of the remaining 60% were given the acquiror's shares on the basis of the swap exchange ratio. The cash outlay for the acquisition was €230 thousand while the business combination resulted in an asset write-up for €239 thousand

Refri S.r.l.

On 19 June 2013 Herambiente S.p.A. sold its stake in Refri S.r.l. to Unieco Costruzioni Meccaniche S.r.l., with the resulting exit of this company from the scope of consolidation.

Sei S.p.A.

The increase in value of Sei S.p.A. was due following the Parent Company's conversion of the loan provided to this company, as per resolution adopted by the company on 22 November 2012.

Tamarete S.r.l.

On 13 December 2013, Odoardo Zecca S.r.l. sold its 20% equity interest in Tamarete S.r.l. to the company's remaining equity owners - BKW Italia S.p.A. and Hera S.p.A. - in proportion to their holdings. Following this transaction, the Group's equity interest rose from 32% to 40%, and Tamarete is an associated company accounted for with the equity method.

Investments in other companies

Galsi S.p.A.

Pursuant to the shareholder resolution of 28 March 2012, the option was exercised to participate in the capital increase of Galsi S.p.A., following the resolution adopted by the company's board of directors on 5 February 2013, by subscribing to 20,809 newly-issued shares with a nominal value of €1 each.

Energia Italiana S.p.A.

The change on the preceding year was due to the adjustment of the carrying amount of the investment to its recoverable amount. Reference is made to Note 13 for more details about the valuation performed.

Other minor companies

The change in "Other minor companies" was due mainly to the addition of the minor companies listed below which were part of the AcegasAps Group:

- Veneta Sanitaria Finanza di Progetto S.p.A., with a 17.50% equity interest and a carrying amount of €3,587 thousand. The company engages in the planning and construction of the new hospital in Mestre, in the Norgo Pezzana di Zelarino area;
- Amga S.p.A., with a 5.24% equity interest and a carrying amount of €5,579 thousand. The company engages in the distribution of gas in Udine and the management of the integrated water cycle and public lighting in the provincial territory;
- Dolomiti Ambiente S.p.A., with a 7.61% equity interest and a carrying amount of €161 thousand. The company engages in the collection and shipment of urban waste and sorted waste collection;
- Energeica S.r.l., with a 5.08% equity interest and a carrying amount of €63 thousand. The company engages in the coordination and organization of the various phases in the construction of plants and networks designed for the production of electric and thermal energy.

Impairment of electricity generation assets

With reference to the market for electric generation, in the presence of different impairment indicators, an in-depth analysis was performed to determine the recoverable amount of the Group's investments, and related financial assets, operating in the sector. In particular, the test was conducted by discounting to present value the cash flows expected to be generated over the remaining useful lives of the plants of Calenia Energia S.p.A., Set S.p.A. e Tamarete Energia S.r.l..

Concerning the investment in Energia Italiana S.p.A., reference is made to note 13 of the income statement.

It is worthy of note that electric generation is undergoing a negative phase of the market cycle, due to the combination of several factors on both the demand and supply side. The main drivers of price trends include:

- attainment of full operational capability of the plants built in the recent cycle of investment in new thermoelectric capacity (period until 2010/2011);
- introduction of significant production capacity in renewable energy in the past few years (about 30GW of installed power at the end of 2012);
- low levels of energy demand caused by the negative economic cycle of the past few years, with the resulting impact on the reserve margin of the system which has reached a historical high.

The current economic condition is expected to change in the medium/long term, particularly due to:

1. lack of financial sustainability, over this period, of the current spark spread levels for single-technology operators (CCGT) not integrated along the value chain (particularly in the absence of end customers) which, if the negative margins generated by their assets continued, will be faced with two alternative strategies: a) new capital injections to continue to operate in generation to benefit from higher margins in the long terms (not easy to implement, due to unfavourable financial market conditions and, in the case of foreign operators engaging in Italy, subject to the need for cross-border optimization of investment portfolios); b) exit from the generation market, with a resulting reduction of capacity on the supply side and price rise;
2. lack of productive investments in the expansionary phase, due to current overcapacity, which discourages the construction of new generation plants (currently there seem to be no new projects under way);
3. lawmakers' interventions intended to reduce economic incentives for new renewable power, with the ensuing slowdown in investment growth in the sector;

4. the progressive return of demand for electricity toward pre-crisis levels, with consequent reduction of the system's reserve margin.

That said, future cash flows determined on the basis of a medium/long-term energy scenario - consistent with growth expectations for energy demand, installed power and the system's expected reserve margin - discounted to present value at an after-tax rate of 6.48% will give rise to amounts for the investments and related financial assets greater than their carrying amounts. Therefore, no adjustment was made to their carrying amounts. In addition, a sensitivity analysis was performed by reducing the spark spread curve by 10% with respect to the base case. Also in this case the carrying amounts turned out to be adequate, despite a value reduction of the same percentage.

22 Financial assets

	31-dic-13	31-dic-12	Change
Loans to associated and other companies	28,210	17,176	11,034
Portfolio securities	1,879	309	1,570
Other financial receivables	22,551	72	22,479
Total non-current financial assets	**52,640**	**17,557**	**35,083**
Loans to associated and other companies	54,610	41,059	13,551
Portfolio securities	8,492	5,480	3,012
Other financial receivables	9,127	747	8,380
Total current financial assets	**72,229**	**47,286**	**24,943**
Total Cash and cash equivalents	**942,347**	**424,162**	**518,185**
Total financial assets, Cash and cash equivalents	**1,067,216**	**489,005**	**578,211**

“Loan receivables from associated and other companies”, comprises non-interest bearing loans or loans extended at arm’s length to the following companies:

	31-dic-13			31-dic-12		
	Loans current portion	Loans non-current portion	Total	Loans current portion	Loans non-current portion	Total
Tamarete Energia Srl	35.200	3.706	38.906	31.036		31.036
Set Spa		16.932	16.932		10.059	10.059
EstEnergy Spa	5.000		5.000			
Isontina Reti Gas Spa(quota proporzionale)	4.750		4.750			
Unirecuperi Srl (Gruppo Unieco)	4.000		4.000	4.000		4.000
Sei Spa		3.949	3.949		3.548	3.548
Oikothen Scarl		2.622	2.622		2.572	2.572
Enomondo Srl (quota proporzionale)	2.425		2.425	2.425		2.425
Trading Srl conti vincolati	2.188		2.188			
Ghirlandina Solare	244		244	244		244
Oher minor	803	1.001	1.804	3.354	997	4.351
Total	**54.610**	**28.210**	**82.820**	**41.059**	**17.176**	**58.235**

Compared to 31 December 2012, additional loans were provided to:

- Sei S.p.A., an increase due to three additional disbursements in May, October and December 2013, and accrued but unpaid interest for the period on the original loans; decrease of €200 thousand due to the conversion to equity of a convertible loan;
- Set S.p.A., an increase due to three additional disbursements in January, June and December 2013 and accrued but unpaid interest for the period on the original loans;
- Tamarete Energia S.r.l., an increase due to two additional disbursements in January and April 2013 and accrued but unpaid interest for the period.

In relation to the current portion, attention is called to the following:

- interest-bearing loan for €2,425 thousand to the joint venture Enomondo S.r.l., representing the remaining part of the assets recognized in the separate financial statements of the parent company Herambiente S.p.A.;
- in relation to the chances of collecting €4,000 thousand due from Unirecuperi S.r.l., it is noted that in March 2013 Unieco S.r.l. filed an appeal under article 161, sixth paragraph, of the bankruptcy law. On 9 July 2013 Unieco Scrl exited the pre-bankruptcy procedure, following the filing of the appeal with the Court of Reggio Emilia for the certification of the arrangements with creditors pursuant to article 182 bis Rpyal Decree 267/1942. The restructuring process did not concern the amount due from Unirecuperi S.r.l. to ASA Scpa, which will be paid at its original maturity date.

Compared to 31 December 2012, following consolidation of the AcegasAps Group, there are receivables outstanding with EstEnergy S.p.A. and Isontina Reti Gas S.p.A. (both consolidated with the proportionate method). On the other hand, there was a decrease in this item following line-by-line consolidation of Modena Network S.p.A..

The item "Fixed-income securities" includes, in its current portion: bonds issued by Banca delle Marche for €309 thousand; government bonds maturing beyond 12 months for €1,570 thousand, held by the subsidiary ASA Scpa. These securities were posted as collateral against the issue of a bank guarantee in relation to the post-closure of the landfill.
The current portion includes: investment policies, bonds and certificates of deposit purchased by the subsidiary Sotris S.p.A.. The change compared to 31 December 2012 was due to the purchase of long-term certificates of deposit for a nominal amount of €3,000 thousand.

"Loans receivable and upfront commissions" includes, in the current portion, the following amounts outstanding provided to the City of Padua at arm's length in relation to:

- construction of photovoltaic plant, to be repaid by the end of 2030, for €20,424 thousand;
- sales of electricity for public lighting systems, amounting to €2,083 thousand, for which 10-year credit terms have been extended.

The current portion is made up mainly of grants receivable for the construction of integrated water service plants, which were approved and resolved by the relevant authorities and for which disbursement is pending. The increase is nearly entirely due to the consolidation of the AcegasAps Group.

As at 31 December 201d, cash and cash equivalents included cash, cash equivalents, and bank cheques and drafts held in the cashier office at headquarters and at other companies for a total of €182 thousand. They also include bank and financial institution deposits in general, available for current transactions and post office accounts totalling €942,165 thousand. Additional details about cash inflows and outflows are available in the cash flow statement and the comments shown in the Directors' report.

23 Deferred tax assets and liabilities

	31-dic-13	31-dic-12	Change
Prepaid taxes	148,615	107,498	41,117
Substitute tax credit	3,391	3,953	(562)
Total deferred tax assets	**152,006**	**111,451**	**40,555**
Deferred tax liabilities	74,716	75,211	(495)
Total deferred tax liabilities	**74,716**	**75,211**	**(495)**

"Deferred tax assets" arise from timing differences between reported profit and taxable profit, mainly in relation to the allowance for doubtful accounts, provisions and depreciation taken in excess of the amount allowed by the tax code. The increase on the previous year was due mainly to the recognition of deferred tax assets arising from the business combination with the AcegasAps Group. Reference is made to paragraph 2.03.01 "Consolidated explanatory notes", to the section "Summary of the effects of the business combination with the AcegasAps Group" for a detailed analysis of the merger.

"Substitute tax credit" refers mainly to the flat tax paid for the realignment of goodwill recognized in previous years.

"Deferred tax liabilities" arise from timing differences between reported profit and taxable profit, mainly in relation to greater tax deductions taken in previous years for provisions and amounts of property, plant and equipment not relevant for tax purposes.

For more details about the composition of deferred tax assets and liabilities reference is made to note 15 "Income taxes for the year"

24 Financial instruments – derivatives

Non current assets/liabilities	Fair Value Hierarchy	Underlying	31-dic-13			31-dic-12		
			Notional	Fair Value Assets	Fair Value Liabilities	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate and foreign exchange derivatives								
- Interest rate Swap	2	Loans	1.001,2 mm	37,560		501,8 mm	54,360	
- Interest rate Swap	2	Loans	295,4 mm		21,006	310,7 mm		32,383
- Interest rate Option	2	Loans	4,5 mm		317	7,5 mm		580
Total Interest rate and foreign exchange derivatives				***37,560***	***21,323***		***54,360***	***32,963***
Exchange rate derivatives (financial transactions)								
- Cross Currency Swap	2	Loans	20 bn JPY		9,505	20 bn JPY	34,208	
Total exchange rate derivatives (financial transactions)				***-***	***9,505***		***34,208***	***-***
Total				**37,560**	**30,828**		**88,568**	**32,963**

Current assets/liabilities	Fair Value Hierarchy	Underlying	31-dic-13			31-dic-12		
			Notional	Fair Value Assets	Fair Value Liabilities	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate and foreign exchange derivatives								
- Interest rate Swap	2	Loans						
- Interest rate Swap	2	Loans				1,0 mm		18
- Interest rate Option	2	Loans						
Total Interest rate and foreign exchange derivatives				***-***	***-***		***-***	***18***
Commodity derivatives								
- Swap	3	Foreign Gas Hubs	2.444.880 MWh	1,005		529.603 MWh	887	
- Swap	2	Crude oil	22.500 Bbl	6		442.700 Bbl	1,179	
- Swap	2	Refined oil/coal	48.500 Ton	700		75.750 Ton	2,580	
- Swap	2	Electric energy formulas	2.198.213 MWh	9,484		3.818.240 MWh	29,480	
- Swap	2	Fuel formula				10.795 MWh	3	
- Swap	3	Foreign Gas Hubs	337.633 MWh		102			
- Swap	2	Crude oil	36.000 Bbl		35	262.400 Bbl		764
- Swap	2	Refined oil/coal	20.700 Ton		88	37.600 Ton		1,845
- Swap	2	Electric energy formulas	2.643.228 MWh		15,003	4.485.815 MWh		34,215
- Swap	2	Fuel formula				21.590 MWh		25
Total commodity derivatives				***11,195***	***15,228***		***34,129***	***36,849***
Exchange rate derivatives (commercial transactions)								
- Swap	2	EUR/USD exchange rate	10,0 mm Usd	190		4,0 mm Usd	70	
- Swap	2	EUR/USD exchange rate	13,0 mm Usd		93	90,0 mm Usd		1,362
Total exchange rate derivatives (commercial transactions)				***190***	***93***		***70***	***1,362***
Total				**11,385**	**15,321**		**34,199**	**38,229**

Derivative financial instruments classified under non-current assets amounted to €37,560 thousand, (€88,568 thousand as at 31 December 2012) and referred entirely to interest rate derivatives. Derivative financial instruments classified under non-current liabilities amounted to €30,828 thousand (€32,963 thousand as at 31 December 2012); they refer to interest rate derivatives for €21,323 thousand and to derivatives on exchange rates in connection to loans for €9,505 thousand.

Financial instruments recorded under current assets and liabilities represent derivative contracts expected to be realized within the next year. Derivative financial instruments recognized as current assets amounted to

€11,385 thousand (€34,199 thousand at 31 December 2012), including commodity derivatives for €11,195 thousand and currency derivatives for €190 thousand. Derivative financial instruments classified under current liabilities amounted to €15,321 thousand (€38,229 thousand at 31 December 2012); of these, €15,228 thousand refers to commodity derivatives and €93 thousand to foreign exchange rate derivatives relating to commercial transactions.

With regard to derivatives on current and long-term interest rates as at 31 December 2013, the Group's net exposure was positive by €16,237 thousand, compared with a positive exposure of €21,379 thousand as at 31 December 2012. The change in fair value, compared with the previous year, was due mainly to the upward shift of the yield curve in connection with the hedges of floating-rate and fixed-rate financial liabilities, especially for medium- and long-term maturities. Attention is called to the purchase of new derivative contracts to hedge the bond with a nominal amount of €500 million issued on 4 October 2013 which, at 31 December 2013, showed positive fair value.

The fair value of the derivatives subscribed to hedge exchange rates and the fair value of the loans denominated in foreign currency as at 31 December 2013 was negative by €9,505 thousand, compared to a positive valuation of €34,208 at 31 December 2012. The significant change in fair value was due mainly to the substantial appreciation of the euro against the Japanese yen and, to a lesser extent, to shifts in the yield curves.

At 31 December 2013 the net fair value of commodity and currency derivatives was negative for €3,936 thousand, compared to a negative net fair value of €4,012 thousand at December 31, 2012. The reduction in absolute terms of the fair value of assets and liabilities, compared to 31 December 2012, was due - especially in relation to the contracts linked to special price arrangements ("Formule Energia Elettrica"), which constitute the majority of the company's contracts – both to the reduction of volumes covered by swap transactions on the date in question and trends in the Single National Price (PUN), in the case of contracts related to it.

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 2013, subscribed in order to hedge loans, can be classed into the following categories (figures in thousands of €):

Interest/exchange rate derivatives (financial transactions)	Underlying	31-dic-13					31-dic-12				
		Notional	Fair value assets	Fair value liabilities	Gains	Losses	Notional	Fair value assets	Fair value liabilities	Gains	Losses
- Cash Flow Hedge	Borrowings	148,9 mln	-	8.914	134	5.552	166,0 mln	-	14.457	-	8.860
- Fair Value Hedge	Borrowings	1.149,8 mln	37.559	21.913	29.924	72.813	649,8 mln	88.566	18.506	57.113	55.555
- Non Hedge Accounting	Borrowings	2,4 mln	1	1	18	8	5,2 mln	2	18	173	72
Totale			**37.560**	**30.828**	**30.076**	**78.373**		**88.568**	**32.981**	**57.286**	**64.487**

Interest rate derivatives identified as *cash flow hedges* show a residual notional amount of Euro 148,9 million (Euro 166,0 million as at 31 December 2012) 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 2013 the breakdown of net charges relating to derivatives classified as *cash flow hedges*, amounting to Euro 5,418 thousand, is as follows:

Cash Flow Hedges	31-dic-13 Income / (expense)	31-dic-12 Income / (expense)
- Cash inflow	(5,280)	(9,233)
- Accrued Interest	(198)	469
- ineffective portion	60	(96)
Total	**(5,418)**	**(8,860)**

The reduction of net financial expense, compared to the previous period (reference is made to note 13 “Financial income and expense”) was due mainly to the expiration in August 2012 of a derivative for a notional amount of €200 million utilized to hedge a floating-rate bond. On the other hand, in relation to designated fixed-rate hedges, higher Euribor, especially in the first half of 2012, resulted in negative cash flows.

The ineffective portion, related to this class of interest rate derivatives, determined a gain of €60 thousand recognized through profit or loss. All hedge relationships between the above derivative contracts and their underlying liabilities, which qualify as cash flow hedges, resulted in a negative reserve of €3,280 thousand, net of the relevant tax effect, for the Group.

Interest rate and foreign exchange derivatives, identified as fair value hedges of liabilities, show a residual notional amount of €1,149.8 million (€649.8 million at 31 December 2012), in relation to loans for the same amount. For foreign-denominated loans, the notional amounts of the derivatives are translated into euros at the original exchange rate hedged by the derivatives in question. Specifically, hedged financial liabilities consist of a Yen-denominated bond with an outstanding nominal balance of 20 billion, a ten-year fixed-rate €500 million bond and a €500 million fixed-rate bond issued in October 2013. These derivatives resulted in the recognition of financial income for €29,924 thousand and financial expense for €72,813; on the other hand, changes in the value of the underlying loans resulted in net financial income for €55,042 thousand.

The table below provides a breakdown at 31 December 2013 of financial income and expense associated with derivatives designated as fair value hedges and related underlying liabilities, as adjusted for the income and losses attributable to the hedged risk:

Fair Value Hedges	31-dic-13			31-dic-12		
	Income	(Expense)	Total	Income	(Expense)	Total
- Derivates valuation	6,743	(61,863)	(55,120)	35,065	(41,787)	(6,722)
- Accrued Interest	1,350	(644)	706	426	-	426
- Cash inflow	21,831	(10,306)	11,525	21,622	(13,768)	7,854
- ineffective portion	-	-	-	-	-	-
Total derivatives effect	**29,924**	**(72,813)**	**(42,889)**	**57,113**	**(55,555)**	**1,558**

Underlying	31-dic-13			31-dic-12		
	Income	(Expense)	Total	Income	(Expense)	Total
Financial liabilities evaluation	55,042		55,042	41,787	(35,065)	6,722
Total	**55,042**	**-**	**55,042**	**41,787**	**(35,065)**	**6,722**

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 higher interest rates and a change in the fair value of foreign exchange derivatives. With reference only to cash inflows, the increase in net income was due to lower Euribor, especially starting in the second half of 2012

The remaining interest rate derivatives not accounted for as hedges have a residual notional value of €2.4 million (€5.2 million at 31 December 2012); these contracts are the result of mirroring transactions carried out in previous years as part of a restructuring of the derivatives portfolio.

Commodity derivative instruments held as at 31 December 2013 can be classed into the following categories (figures in thousands of €):

Commodity/change rate derivatives (commercial transactions)	Underlying	31-dic-13				31-dic-12			
		Fair Value Assets	Fair Value Liabilities	Income	Expense	Fair Value Assets	Fair Value Liabilities	Income	Expense
- *Cash Flow Hedge*	Electric energy	0	0	0	0	0	0	0	0
- *Non Hedge Accounting*	Transactions on commodities	11,385	15,321	49,367	58,102	34,199	38,211	81,713	88,758
Total		**11,385**	**15,321**	**49,367**	**58,102**	**34,199**	**38,211**	**81,713**	**88,758**

At financial year-end there were no commodity derivatives accounted for as hedges.
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.

Overall, in 2013, these derivatives generated income for Euro 49,367 thousand and expenses for Euro 58,102 thousand, with a net negative effect of Euro 8,735 thousand in the income statement, which was obviously offset by lower prices paid for raw materials (gas and electric energy), given that both were the opposite sides of a single hedging package. More details are provided in the Report on operations.

In 2013 there were no transfers among the various levels of fair value indicated above while the method adopted to calculate the value of the above instruments is that provided for by IFRS13, in relation to the inclusion of non-performance risk.

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 Hedge* and *Fair Value Hedge*) 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 Hedge*) to fully hedge loans in foreign currency.

Sensitivity Analysis - Financial transactions

In conjecturing an instant shift of -25 *basis points* in the interest rate curve with respect to the interest rates effectively applied for the assessments as at 31 December 2013, 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 15,2 million. Likewise, conjecturing an instant shift of +25 *basis points* in the interest rate curve, there would be a potential decrease in *fair value* of about Euro 14,9 million.
These changes in fair value of financial instruments accounted for as hedges would have no effect on the income statement if it were not for their potential ineffective portion. Concerning the effect on equity, in case of a negative shift of the yield curve, the change in the cash flow hedge reserve attributable to the Parent Company's shareholders would decrease by €0.3 million, net of the relevant tax effect. On the other hand, a positive shift would result in a reserve increase of €0.3 million, net of the relevant tax effect

As to derivatives designated as fair value hedges, any change in fair value would not have any effect on the income statement, other than for the ineffective part, as any such change would be offset by a movement in the opposite direction of the hedged liability.
The effects of changes in the fair value of instruments not accounted for as hedges – in which case they would be part of offsetting transactions - on the income statement would not be significant.
Assuming an instant change of 10% in the euro/yen exchange rate, given the same interest rates, the potential decrease in fair value of the derivative financial instruments in place at 31 December 2013 would amount to approximately Euro 15.9 million. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately Euro 19.4 million. As exchange rate derivatives related to borrowing transactions are treated as fair value hedges, any change in these fair values would not have any effect on the income statement, other than for the ineffective part, as any such change would be offset by a movement in the opposite direction of the hedged liability.

Market risk and currency risk on commercial transactions

Concerning the wholesale business carried on by Hera Trading S.R.L., the Group manages risks related to the misalignment between indexation formulas related to the purchase of gas and electric energy and the indexation formulas related to the sales of the same commodities (including contracts entered into at fixed prices) as well as exchange rate risks in case the trading contracts for the commodities are denominated in currencies other than the euro (essentially U.S. 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 destructuring 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 assuming an instant 10 dollar-per-barrel rise in the B*rent* 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 2013 would amount to approximately Euro 1.8 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 1.8 million.

Assuming 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 (PUN), there would be no significant effects on the *fair value* of the derivative financial instruments held as at 31 December 2013.

Likewise, an instant fall for the same amount would have no significant effects on the fair value of the derivative financial instruments held as at 31 December 2013.

In assuming 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 2013 would amount to approximately Euro 2.3 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 2.3 million.

25 Inventories

	31-dic-13	31-dic-12	Change
Raw materials and stock	76,620	71,088	5,532
Finished products	1,193	734	459
Total	**77,813**	**71,822**	**5,991**

“Raw materials and stocks”, stated net of an obsolescence provision of Euro 575 thousand (Euro 523 thousand as at 31 December 2012) are comprised mainly of gas stocks, Euro 46,392 thousand (Euro 47,785 thousand as at 31 December 2012) and raw materials and stocks (S.p.A.re parts and equipment used for maintenance and running of operating plants), equal to Euro 31,421 thousand (Euro 23,303 thousand as at 31 December 2012).

The increase in servicing equipment reflects a €8,608 thousand increase attributable to the change in the scope of consolidation determined by the inclusion of the AcegasAps Group.

Changes in the allowance for obsolete inventories for the period under review were as follows:

	31-dic-11	Allocation to provisions	Change in the scope of consolidation	Uses and other movements	31-dic-12
Allowance for obsolete inventory	675	31		(183)	523
Total	**675**	**31**		**(183)**	**523**

	31-dic-12	Allocation to provisions	Change in the scope of consolidation	Uses and other movements	31-dic-13
Allowance for obsolete inventory	523	217	364	(529)	575
Total	**523**	**217**	**364**		**575**

Change in the scope of consolidation refers to the consolidation effect of the AcegasAps Group, as illustrated in the paragraph “Change in the scope of consolidation”.

24 Trade receivables

	31-dic-13	31-dic-12	Change
Trade receivables	808,297	752,086	56,211
Due from customers for invoices to be issued	579,900	543,577	36,323
Due from associated companies	9,642	12,298	(2,656)
Total	**1,397,839**	**1,307,961**	**89,878**

Trade receivables as at 31 December 2013 amounted to Euro 1.397.839 thousand (Euro 1,307,961 thousand as at 31 December 2012) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2013. The balances are stated net of the provisions for doubtful receivables amounting to Euro thousand 159,006 thousand (Euro 118,490 thousand as at 31 December 2012) which is considered to be fair and prudent in relation to the estimated realizable value of said receivables.

With reference to disputes related to receivables arising from sales in the standard offer market to 8 customers that are part of the Terni chemical hub (a technical dispute, which required the intervention of the Authority for Electric Energy and Gas), compared with the end of the previous year, it is noted that at 31 December 2013 the balance of receivables outstanding (which have already been paid in advance to the Group by the Equalization Fund for the Electricity Sector) amounted to €4,770 thousand (unchanged from the previous period).

Changes in the allowance for bad debts in 2012 and 2013 were as follows:

	31-dic-11	Allocation to provisions	Change in the scope of consolidation	Uses and other movements	31-dic-12
Allowance for bad debt	105,244	49,080	115	(35,949)	118,490
Total	**105,244**	**49,080**	**115**	**(35,949)**	**118,490**

	31-dic-12	Allocation to provisions	Change in the scope of consolidation	Uses and other movements	31-dic-13
Allowance for bad debt	118,490	62,123	23,365	(44,972)	159,006
Total	**118,490**	**62,123**	**23,365**	**(44,972)**	**159,006**

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”.

Change in the scope of consolidation reflects the inclusion of the AcegasAps Group, the disposal of Hera Servizi Cimiteriali S.r.l and its subsidiary Hera Servizi Funerari S.r.l, as well as the disposal of the equity stake in Eris Scarl by Hera Comm S.r.l..

Credit risk

The 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 2013. The current credit approval procedure requires specific individual evaluations, which makes it possible to reduce credit concentration, and the exposure to credit risk, to business and private customers. From time to time, analyses are conducted on the individual positions, identifying any criticality, and if the amounts outstanding are uncollectible, in whole or in part, the related receivables are written down. 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). The carrying amount of trade receivables at year-end approximated their fair value.

Trade receivables, mainly achieved in Italy, can be broken down into the following classes:

31-dic-13	Entities	Businesses	Mass Market	Total
Amount	178,674	280,061	349,562	808,297
Effect	22%	35%	43%	100%

31-dic-12	Entities	Businesses	Mass Market	Total
Amount	106,613	358,787	286,686	752,086
Effect	14%	48%	38%	100%

27 Contract work in progress

	31-dic-13	31-dic-12	Change
Contract work in progress	22,835	20,635	2,200
Total	**22,835**	**20,635**	**2,200**

At 31 December 2013 “Contract work in progress” related to long-term contracts for:

- the development of plants for gas and water services;
- start of the activities related to Florence’s WTE plant;
- planning intended to obtain contracts in the national and international markets.

The increase on the previous year was due to the new domestic and international contracts obtained and work performed on water service plants.

28 Current tax assets and liabilities

	31-dic-13	31-dic-12	Change
Income tax credits	7,703	12,665	(4,962)
IRES refund credit	22,216	18,217	3,999
Total current tax assets	**29,919**	**30,882**	**(963)**
Income tax payable	6,483	3,749	2,734
Substitute tax payable	239	14,261	(14,022)
Total current tax liabilities	**6,722**	**18,010**	**(11,288)**

“Income tax credits” refer to the excess advance IRES and IRAP payments over the tax amount payable.

The “IRES refund receivable” refers to the IRES refund receivable following the deductibility of IRAP related to labour costs and the like under Law Decree 201/2011 and law Decree 16/2012 for the years 2007-2011. The change from the previous year was due to the incorporation of the clarifications of the Ministerial Circular 8/E of 3 April 2013, whereby the Group had to submit new “corrections” to take account of the latest guidelines issued. The amount at 31 December 2013 included €4,062 thousand determined by the inclusion in the scope of consolidation of the AcegasAps Group.

“Income tax due” includes provisions for IRES and IRAP made in relation to profit for the period.

“Substitute tax payable”, which reflects the remaining instalments to be paid for the value alignment of certain assets, fell significantly as a result of the last payments related to the main value alignments completed.

29 Other current assets

	31-dic-13	31-dic-12	Change
Certificates of energy efficiency and emission trading	97,329	92,102	5,227
Equalisation fund for the electricity and gas sectors for standardisation and continuity income	19,358	16,346	3,012
Security deposits	24,346	22,437	1,909
VAT, excise and additional taxes	22,791	22,321	470
Crediti tributari vari	8,470	3,293	5,177
Advances to suppliers/employees	8,410	5,668	2,742
Receivables related to tariff components	548	1,712	(1,164)
Contributi	2,408	4,529	(2,121)
Due from social security institutions	747	746	1
Due from assets companies and ConAmi	6,805	6,884	(79)
Insurance costs	5,955	6,508	(553)
Costs advanced for leases and rentals	5,853	6,040	(187)
Prepaid costs for waste disposal	1,826	3,688	(1,862)
Payments and concession fees for network services	1,967	124	1,843
Other receivables	30,434	16,710	13,724
Total	**237,246**	**209,108**	**28,138**

The breakdown and changes in the main items are described compared with 31 December 2012.

"Energy efficiency bonds and *emissions trading*", include:

- green certificates, Euro 66,100 thousand (Euro 55,457 thousand as at 31 December 2012);
- white certificates, Euro 21,076 thousand (Euro 24,001 thousand as at 31 December 2012);
- grey certificates, Euro 10,153 thousand (Euro 12,644 thousand as at 31 December 2012).

Change from the previous year was due to the combined effect of:

- the contribution of the AcegasAps Group which, at 31 December 2013, had green certificates for €13,618 thousand generated by the production of electric energy and white certificates for €5,708 thousand;
- concerning grey certificates, for the parent company, Hera S.p.A., the lower volume of activity compared to 2012 was due, in particular, to the start of the new regulatory period of the European emission quota trading in force between 2013 and 2020 where, compared to the previous period, the operators are issued a much lower quantity of grey certificates at no cost.

In relation to the green certificates produced by the WTE plants in Modena and Forlì, it is worthy of note that, based on applicable rules and regulations, the Government pays incentives only for electricity from renewable sources (organic part of urban and special waste), representing 51% of the total. In December 2012 the certificates related to Modena's WTE plant for 2009, 2010 and 2011 were sold to the GSE, though only for the part of the incentives attributable to the production of urban waste, save for any future adjustments for the part related to special waste. With reference to the GSE, considering the possibility to apply the lump-sum calculation introduced by Ministerial Decree of 6 July 2012 also to productions prior to 2013, following specific guidance given by the Ministry of Economic Development to the GSE in the weeks immediately following the end of the financial year (Ministry's letter dated 17 January 2013), in May 2013 the certificates related to the WTE plant in Modena for 2009, 2010 and 2011 were sold to the GSE.

Still with respect to green certificates, during the approval process, where the certificates have already been issued and sold (WTE plant in Ferrara and WTE plant in Modena), the GSE identified all the consumption of the incineration plants with the ancillary services, without taking into account the peculiarity and the purposes of a waste-to-energy plant. In light of this determination, based on internal technical analyses and having heard its counsel, Hera S.p.A. defined different amounts of receivable for the production periods considered so far in relation to all the WTE plants and took all the steps necessary including, among others, a claim before the competent administrative venues, to obtain payment of the sums due. Attention is called also to Resolution no. 47/2013/R/EFR of 7 February 2013 issued by the Italian Energy and Gas Authority concerning “Criteria for the identification of the consumption of ancillary plant services and transformation and line losses of electric energy production plants that benefit from the incentives provided for by interministerial decrees 5 and 6 July 2012”; the contents of this Resolution might be used as a reference to settle the dispute on this matter with the GSE, even though the incentive mechanisms in place for Hera S.p.A.’s plants are related to previous rules and regulations.

The item "Equalisation fund for the electricity and gas sectors for standardisation and continuity income" shows a balance of €19,358 thousand (€16,346 thousand as at 31 December 2012).The increase on the previous year was due to the contribution of the AcegasAps Group for €2,433 thousand.

“Security deposits”, composed of:

- the deposit made to Acosea Impianti S.r.l. for €12,000 thousand;
- other minor deposits in favour of public institutions and companies, €10,118 thousand (€8,288 thousand as at 31 December 2012). The decrease was due mainly to the return of security deposits posted with the GME to guarantee the purchase of green certificates and gas and electric energy transportation capacity on international grids;
- deposits in favour of the Property Valuation Office, €2,228 thousand (€2,149 thousand at 31 December 2012) to guarantee the payment of revenue tax collected from customers.

“VAT, excise and additional taxes”, amounting to €22,791 thousand, reflect VAT credits for Euro €7,526 thousand and excise and regional surtaxes receivable for €15,261 thousand. Compared with 31 December 2012, the difference was due to the combined effect of a decrease of €1,416 thousand in excise and regional surtaxes receivable (€16,677 thousand at 31 December 2012) and an increase of €1,882 thousand in VAT credits (€5,644 thousand at 31 December 2012).These changes are to be interpreted together with the changes shown in the item in liabilities, “Other current liabilities" - note 37. To understand these changes, particularly with regards to excise duties and surtaxes, note must be taken of the procedures that regulate financial dealings 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.

“Sundry tax receivables” amounted to Euro 8,470 thousand (Euro 3,293 thousand at 31 December 2012). They refer mainly to tax credits on district heating. The inclusion in the scope of consolidation of the AcegasAps Group contributed to an increase of €5,163 thousand on the previous year.

“Advances to suppliers/employees” amounted to €8,410 thousand (€5,668 thousand at 31 December 2012). The increase on the previous year was due to a prepayment for electricity transmission services.

“Receivables related to tariff components”, amounting to €548 thousand, reflect the amount made up of the tariff components for electric energy debited to the Group’s distributors, which are eventually charged to final customers. The change from the previous year is attributable to a slightly longer lag between billing by distributors and billing to end users.

"Grants", amounting to 2,408 Euro thousand (Euro 4,529 thousand at 31 December 2012), refer mainly to forgivable loans provided by different Authorities, which were still uncollected at year-end.

"Other receivables", which rose on the comparable amount of 2012 also due to the contribution of the AcegasAps Group, included:

- "Deferred costs for external services and work" for a total amount of €5,108 thousand, with a contribution of the AcegasAps Group of €2,055 thousand;
- "Advance payments for gas storage and transportation" for €1,255 thousand to the subsidiary Hera Trading S.r.l.;
- Deferred tax and similar expenses for a total amount of €1,708 thousand, with a contribution of the AcegasAps Group amounting to €1,665 thousand.

30 Non-current assets held for sale

	31-dic-13	31-dic-11	Change
Land and buildings	3,300	13,831	(10,531)
Generic and specific plants		323	(323)
Total	**3,300**	**14,154**	**(10,854)**

Pursuant to IFRS 5, non-current assets held for sale reflect the value of the property that was used in Gorizia as the headquarters of Est Reti Elettriche for €3,300. The property was put up for sale at the end of 2013.
The significant decrease of this item from the previous year was due to the reclassification to property, plant and equipment for a total amount of €14,154 thousand related to a portion of the real estate complex located in the Berti Pichat Area. Contrary to initial expectations, in 2013 the sale fell though for reasons not directly attributable to the company. Moreover, as of this reporting date, there were no further prospects for the disposal of the property in question.

31 Share capital and reserves

The statement of changes in equity is shown in section 2.01.05 of these consolidated financial statements.

Share capital

At 31 December 2013 share capital amounted to €1,410,357 thousand, which was fully paid in and composed of 1,421,342,617 shares with a nominal value of €1 each. This amount reflects all the capital actions undertaken during the year, i.e. the acquisition of the AcegasAps Group and the new share issue completed on 28 November 2013.

The amount of treasury shares, whose nominal value at 31 December 2013 was €10.549 thousand and the costs associated to the new share issues which, net of the relevant tax effects, totalled €437 thousand are deducted from share capital. The change on the previous year was due to the costs incurred for the purchase and exchange offer for AcegasAps and the rights issue.

Reserves

This item, amounting to €585,115 thousand, includes retained earnings and reserves established in connection with cash and in-kind equity injections for €609,989 thousand, cumulative loss in the other comprehensive income (OCI) reserve for €22,785 thousand and own shares held in treasury for €2,089 thousand. Changes during the year resulted in a gain of €3,466 thousand.

Non-controlling interests

This item reflects the amount of capital and reserves of subsidiaries held by parties other than the parent company's shareholders. In particular, it includes equity interests in the Herambiente Group and the Marche Multiservizi Group.

32 Payables to banks and medium/long and short-term financing

	31-dic-13	31-dic-12	Change
Loans and mortages: portion due beyond 12 months	3.268.963	2.440.994	827.969
Other borrowings: portion due beyond 12 months	8.499	-	8.499
Total medium/long-term loans and financial liabilities	**3.277.462**	**2.440.994**	**836.468**
Loans and mortages: portion due within 12 months	125.771	225.665	(99.894)
Overdrafts and interest expense	227.903	74.745	153.158
Other current current borrowings	29.507	17.150	12.357
Total short-term loans and financial liabilities	**383.181**	**317.560**	**65.621**
Total loans and financial liabilities	**3.660.643**	**2.758.554**	**902.089**

The change in medium/long-term borrowings, compared to the previous year, was due to new loans obtained for a total nominal amount of €1,500 million, a sum that was used, among others, to refinance the puttable bonds and loans obtained. Specifically, attention is called to the following issues:

- 29 January 2013, issue of a 15-year 5.20% fixed-rate bond for a nominal amount of €700 million.
- 22 May 2013, issue of a bond for a nominal amount of €100 million in two tranches for 10 and 12 years with fixed interest rates of 3.375% and 3.5%.
- 30 September 2013, subscription of a loan with the European Investment Bank (EIB) for a total amount of €200 million to support the capital expenditure plan, maturing in 15 years with the first instalment due on 15 October 2017, at a floating rate of 6-month Euribor plus 0.792%.
- 4 October 2013 issue of an 8-year 3.25% fixed-rate bond for a nominal amount of €500 million.

Attention is called to the reimbursement of the €140 million convertible bond at maturity, on 1 October 2013.

At 31 December 2013 “Other borrowings, portion maturing after 12 months” consisted of:

- balance of the loan of €1,100 million from Unieco Costruzioni Meccaniche S.r.l. (for the purchase on 19 June 2013 of the 49% equity interest in the subsidiary Nuova Geovis S.p.A., which was merged into Herambiente S.p.A.);
- loan of €7,399 million due by AcegasAps S.p.A. with the Municipal Pension Fund.

“Other borrowings” included among others:

- the sum of €11,000 thousand due by the Parent Company, Hera S.p.A., to Ecostabili R.E.S.r.l. as a refund of an advance received in connection with broken deal;
- current portion of the debt of AcegasAps S.p.A. with the Municipal Pension Fund for €1,092 thousand;
- debt with the municipalities for Tares by the subsidiary Marche Multiservizi S.p.A. for €4,992 thousand,
- the balance of the loan of €1,100 thousand due to Unieco Costruzioni Meccaniche S.r.l. (for the purchase of the 49% equity interest in the subsidiary Nuova Geovis S.p.A.).

At 31 December 2013 the Hera Group provided the following security interests for certain bank loans, including among others:

- mortgages and special liens on property, plant and equipment by the Hera Group to the syndicate of banks that extended a loan to the subsidiary Fea S.r.l. whose nominal amount outstanding is now €45,900 thousand;

- mortgages to secure the loan provided to the subsidiary Nuova Geovis S.p.A., which was merged with and into Herambiente S.p.A., whose balance outstanding is now €1,187.5 thousand;
- Mortgages on the buildings of Pesaro and Urbino in favour of a bank that extended a loan whose balance outstanding is now €4,531 thousand.

The table below shows the bonds and loans as at 31 December 2012, with an indication of the portion expiring within 12 months, within 5 years and after 5 years (amounts in thousands of euros):

Type	Balance 31-dic-13	Amount due within 12 months	Amount due within 5 years	Amount due beyond 5 years
Bonds	2,440,232		499,356	1,940,876
Loans and mortgages	954,502	125,771	523,580	305,151
Overdtafts and interest expense	227,903	227,903	0	0
Other borrowings	38,006	29,507	8,499	0
Total loans and mortgages	**3,660,643**	**383,181**	**1,031,435**	**2,246,027**

The main terms and conditions of the bonds outstanding as of 31 December 2013 are shown below:

Prestiti obbligazionari		Durata (anni)	Scadenza	Valore Nominale (€/mln)	Cedola	Tasso annuale
Eurobond	Borsa Valori Lussemburgo	10	15-feb-16	500	Fissa, annuale	4,13%
Eurobond	Borsa Valori Lussemburgo	10	3-dic-19	500	Fissa, annuale	4,50%
Bond	EuroTLX Markets	13	17-nov-20	100	Fissa, semestrale	6,32%
Bond Aflac	Cross Currency Swap 149,8 €mln	15	5-ago-24	20.000 JPY	Fissa, semestrale	2,93%
Bond	Borsa Valori Lussemburgo	10	22-mag-2023	68	Fissa, annuale	3,375%
Bond	Borsa Valori Lussemburgo	12	22-mag-2025	32	Fissa, annuale	3,5%
Bond	Non quotato	15/20	14-mag-2027/2032	102,5	Fissa, annuale	5,25%
Bond	Borsa Valori Lussemburgo	15	29-gen-2028	700	Fissa, annuale	5,20%
Bond	Borsa Valori Lussemburgo	8	04-ott-2021	500	Fissa, annuale	3,25%

At 31 December 2012, the total bonds outstanding, with a nominal value of €2,652 million, had a fair value of €2,822 million, as determined on the basis of market quotations, when available.
There are no covenants on the debt except that, for some loans, which requires the company not to have even one agency lower its rating below investment grade (BBB-). As of the balance sheet date this covenant was met.

Liquidity risk

Liquidity risk concerns the inability to meet 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 cash inflows and outflows (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, at 31 December 2013 unused lines of credit amounted to approximately €1,000 million while available committed credit lines amounted to €450 million.

The analysis of cash flows, broken down by maturity date, related to borrowings outstanding at the balance sheet date is illustrated in the Report on operations in the section “Financial policy and rating”.

33 Post-employment 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. 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. For the foregoing benefits, recalculations were made by using the same actuarial techniques already implemented for post-employment benefits.

The table below shows the changes in the above provisions during the year.

	31December 2012 as adjusted	Allocation to provisions		Actuarial gains/ losses	Uses and other movements	Changes in the scope of consolidatio	31-dic-13
		Allocation to provisions	Financial charges				
Employee leaving indemnity	100,925	512	2,991	6,276	(5,324)	22,833	128,213
Provision for tariff reduction	6,407	569	215	744	(420)		7,515
Premugas Fund	3,171	253	120	(150)	(414)	2,103	5,083
Gas discount	2,459	117	124	156	(456)	2,144	4,544
Total	**112,962**	**1,451**	**3,450**	**7,026**	**(6,614)**	**27,080**	**145,355**

As of 1 January 013, the Hera Group applies the amendments to IAS 19 revised, governing, among others, the elimination of the “corridor method” as an option to account for actuarial gains and losses. Application of the new principle entailed adjustments to the statement of financial position as of 1 January 2012 and as of 31 December 2012, together with the income statement and the comprehensive income statement for 2012. Further details are available in the “Adjustment summary” paragraph in the introductory part of these Notes.

“Actuarial gains/(losses)” reflect the re-measurement of the liabilities for employee benefits arising from changes in actuarial assumptions. These components are recognized directly in the comprehensive income statement(paragraph 2.01.02 of these Notes).

The item “Uses and other movements” mainly includes the amounts paid to employees.

The item “Changes in the scope of consolidation” reflects mainly:

- merger of the AcegasAps Group for €22,784 thousand in relation to the employee severance fund; €2,103 thousand related to the “Premungas Fund” and €2,144 thousand for the “Gas discount”;
- deconsolidation following the sale of Hera Servizi Cimiteriali S.r.l. and Hera Servizi Funerari S.r.l. for €676 thousand.

The main assumptions used in the actuarial estimate of the employee benefits are as follows:

	31-dic-13	31-dic-12
Annual discount rate	2.99%	2.89%
Annual rate of inflation	2.10%	2.10%
Annual salary increases	3.90%	3.90%
Annual rate of increase of employee leaving	3.08%	3.08%
Annual employee departure for reasons other than	1.10%	1.10%
Annual usage rate of employee leaving indemnity	1.50%	1.50%

In interpreting said assumptions, account is taken of the following:

1. for probabilities of death, those relating to Istat SIMF 2009 tables;
2. for probabilities of disability, reference was made to the INPS projections to 2010, distinguishing by gender;
3. regarding pensionable age, reference was made to the pensions treatments provided for by Law Decree no. 201 dated 6 December 2011 on “Urgent provisions for growth, equity and fiscal consolidation”, as well as the rules on the new requirements for access to the pension system and the increase in life expectancy pursuant to article 12 of Law Decree no. 78 of 31 May 2010, which was signed into law no. 122 of 30 July 2010 as amended.
4. for probabilities of employment termination for reasons other than death, account was taken of the annual frequencies by professional macro-category, age, sex, setting and average percentage for the Hera group as a whole.

Lastly, actuarial projections were made on the basis of the Euro Composite AA yield curve.

Sensitivity Analysis – Obligations of defined-benefit plans

Assuming a 50 bps increase in the internal rate of return compared to the discount rate actually applied to value the liabilities at 31 December 2013, all other actuarial assumptions being equal, the potential decrease of the present value of the obligations of the existing defined-benefit plans would amount to about €5.8 million. Likewise assuming a reduction of the same rate for the same amount there would be an increase in the present value of the liabilities of about €6.2 million.

Assuming a 50 bps increase in the in the rate of inflation compared to that actually applied to value the liabilities at 31 December 2013, all other actuarial assumptions being equal, the potential increase of the present value of the obligations of the existing defined-benefit plans would amount to about €3.6 million. Likewise assuming a reduction of the same rate for the same amount there would be a decrease in the present value of the liabilities of about €3.4 million.

Changes in the remaining actuarial assumptions would produce significantly lower effects on the present value of the liabilities of the defined-benefit plans reported in the statement of financial position.

34 Provisions for risks and charges

	31-dic-12	Allocation to provisions		Uses and other movements	Changes in the scope of consolidatio	31-dic-13
		Allocation to provisions	Financial charges			
Provisions for landfill closure and post-closure expenses	101,015	5,382	6,773	(15,397)		97,773
Provision for restoration of third-party assets	107,008	14,318	3,223	(41)		124,508
Provisions for labour disputes	24,447	6,352		(20,694)	16,137	26,242
Other provisions for risks and charges	19,427	11,113	140	(14,317)	50,181	66,544
Total	**251,897**	**37,165**	**10,136**	**(50,449)**	**66,318**	**315,067**

The provision for landfill closure and post-closure expenses, equal to €97,773 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 to present value in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component derived from the discounting and provision procedure due to changes in the assumptions on future outlays, following the change in estimates both on current and closed landfills. Uses represent the effective outlays during the year. Changes in estimated closure and post-closure costs in relation to active or new landfills, which entailed adjustments to property, plant and equipment for the same amount (see note 17), were classified under "Other movements".

"Uses and other movements" decreased by €15.397 thousand, as follows:

- "uses", amounting to €17,253 thousand, reflect the actual monetary outlays for the management of landfills; of this, the sum of €6,715 thousand was released to income as "other revenues" (see in particular Note 5);
- "other movements", amounting to €1,856 thousand, reflect provisions in line with estimated closure and post-closure costs of new landfills.

The provision for restoration of third-party assets, totalling Euro 124,508 thousand, includes provisions made in relation to law and contractual requirements for Hera S.p.A. and Group companies as lessees of the distribution networks of the entity that owns the assets. The allocations are made on the basis of depreciation rates held to be representative of the remaining useful life of the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. The provision reflects the present 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 to present value, and the financial charges for the period associated with the cash flows discounted to present value.

The provision for legal cases and disputes brought by personnel amounting to €26,242 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees. This provision includes €7.0 million in relation to a dispute with INPS, the Social Security Institute, and (€13.8 million at 31 December 2012). Attention is called to the fact that Hera S.p.A. and certain Group companies were parties to proceedings instituted against INPS with the objective to prove the lack of basis of the obligation to pay INPS contributions for unemployment benefits (CIG, CIGS, mobility), involuntary unemployment, sickness allowance and contributions for family allowances (CUAF) and maternity leave. The dispute was finally settled following the agreement signed on 25 January 2013 by the Hera Group, INPS and Equitalia for the payment of contributions with fees and interest. Fines remain to pay, for which a request was submitted for a reduction and extended payment terms. The dispute with INPS includes also a contribution by the

AcegasAps Group for €6.0 million, parts of which were recognized in accounting for the business combination. This provision is consistent with the information available to the company to this date, with the expected developments of the case and with the legal opinions obtained over time.
The item “Other provisions for risks and charges”, amounting to €66,544 thousand, comprises provisions made against sundry risks. Below, there is a description of the main items:

- €19,500 thousand, related to potential greater costs that might be incurred for non-routine maintenance activities in the landfill in Pnte San Nicolò (Padua). This amount was recorded as a contingent liability when the business combination with the AcegasAps Group was accounted for;
  €11,300 thousand, due to the contingent liability related to existing obigations (guarantee on financial exposure given by Acegas S.p.A.) in case of abandonment of the operations run by the foreign subsidiaries Rilagas (Bulgaria) and Sigas (Serbia). This amount was recorded as a contingent liability when the business combination with the AcegasAps Group was accounted for;
- €1,743 thousand, related to the potential unfavourable resolution of certain commercial disputes with PP1 and Demetra. This amount was recorded as a contingent liability when the business combination with the AcegasAps Group was accounted for;
- €6,368 thousand, for the future decommissioning of the WTE plants of Trieste and Padua. This provisions includes financial charges deriving from the discounting process;
- €3,250 thousand, reflecting provisions made in connection with potential future charges for the landfill in Ponte San Nicolò of the AcegasAps Group;
- €2,938 thousand, for the risk associated with the enactment of the Decree of the Ministry of Economic Development of 20 November 2012 “New procedures to determine the component of the avoided fuel cost (CEC), under measure CIP6/92, and determination of the adjustment amount of CEC for 2011”, which introduced new procedures for the determination of the component of avoided fuel cost (CEC) for 2010, 2011 and 2012;
- €1,793 thousand, related to costs for the disposal of waste stored in the Group’s facilities;
- €2,001 thousand, related to the costs to restore assets of the waterworks system of the Rosola river under concession arrangements to be handed over and additional provisions for a modest amount linked to environmental issues, such as occupation of government land, disputes with AASS-RSM, and fees for water derivation year 2005;
- €1,401 thousand, for any reclamation of cemetery land in Trieste;
- €492 thousand, concerning inconveniences to the Municipality of Forlì. To this end, it is worthy of note that, in 2012, the Municipality had waived any claim in that respect, indicating its intention to negotiate a new agreement with Herambiente, starting January 2013. However, it was necessary to wait for ATERSIR, the water and waste board for the Emilia Romagna Region, to set out the criteria and the effective date for the incorporation in the tariff of the sums for environmental inconveniences payable to the municipalities located near the waste disposal plants identified in local plans. In November 2013, ATERIR adopted the above resolution, which will take effect as of 2014.
  Against this backdrop, the Company made provisions for the current year in the amount of €492 thousand, which represents the estimated sum that the Company might be required to pay in case of loss in the dispute between the Company and the City of Forlì, in the event that the latter requested compensation for the “environmental inconvenience” also for 2013.
- €1,100 thousand, for any penalties required by the Authority for Electric Energy and Gas for the failure to replace 30% of the grey cast iron tubes in the area of Trieste, pursuant to Resolution no. 168/2004 of the Authority.
- €1,604 thousand, related to the provisions made to cover actual losses considering the prospects of Oikothen Scral in liquidation;
- €2,079 thousand, for penalties related to the gas service;
- €583 thousand, related to continuity charges for the electric service.

The inclusion of the AcegasAps Group in the scope of consolidation contributed €66,157 thousand.

35 Finance lease payables

	31-dic-13	31-dic-12	Change
Finance leases payable beyond 12 months	15,527	13,356	2,171
Finance leases payable within 12 months	1,972	3,767	(1,795)
Total	**17,499**	**17,123**	**376**

This item reflects debt arising from the recognition as finance leases of lease arrangements with Acantho S.p.A., Akron S.p.A., Hera Energie Rinnovabili S.p.A. and Uniflotte S.r.l..

During the year, Akron S.p.A. signed a new lease finance agreement – a sale and leaseback contract – covering the building of the new plant in Granarolo dell'Emilia (Bo). This building, which is still under construction, was recognized for the amount of the capital expenditure completed to date. Attention is called to the initial payment of €475 thousand upon signing the lease agreement.

Details of finance lease payables, broken down by asset category, are shown below:

Finance lease payables	31-Dec-12			
	Due within 12 months	Medium/long-term payables 1-5 years	Medium/long-termpayables beyond 5 years	Payments not yet due
Land and buildings	1,623	-	-	1,704
Plants and machinery	1,468	3,472	8,845	20,286
Other moveable assets	676	1,039	-	1,794
Total Finance lease payables	**3,767**	**4,511**	**8,845**	**23,784**

Financial leasing payables	31-Dec-13			
	Due within 12 months	Medium/long-term payables 1-5 years	Medium/long-termpayables beyond 5 years	Payments not yet due
Land and buildings	-	-	3,681	-
Plants and machinery	1,396	3,102	8,281	16,586
Other moveable assets	576	463	-	1,071
Total Financial leasing payables	**1,972**	**3,565**	**11,962**	**17,657**

The net value of assets recorded in the financial statements is shown below (please refer to the values indicated in note 17 "Property, plant and equipment").

Net carrying amount	31-dic-12	Assets held through finance lease arrangements			31-dic-13
		Increases	Decreases	Reclassifications	
Land and buildings	9,765	4,156	0	(9,765)	4,156
Plants and machinery	16,646	452	(870)	0	16,228
Other moveable assets	2,025	0	(569)	0	1,456
Total assets held through finance lease arrangements	**28,436**	**4,608**	**(1,439)**	**(9,765)**	**21,840**

The above data reflect solely assets utilized in connection with lease agreements still in place.

36 Trade payables

	31-dic-13	31-dic-12	Change
Trade payables	632,456	625,713	6,743
Trade payables – invoices receivable	537,215	515,150	22,065
Payables for advances received	14,300	18,315	(4,015)
Due to associated companies and joint ventures	8,458	6,663	1,795
Due to unconsolidated subsidiaries	(3)	(3)	-
Total	**1,192,426**	**1,165,838**	**26,588**

The majority of trade payables are the result of transactions carried out in Italy.

The item “Payables for advances received” relates to advances received in relation to tender contracts for environmental reclamation and gas supply. The main changes compared with 2012 were due to a reduction of the amounts received from associated company Set S.p.A., in connection with green certificates for 2011 ad grey certificates for 2012, which were physically transferred to the above company and accounted for as “Revenues”.

Details of the main debts outstanding with associated companies and joint ventures are shown below:

	31-dic-13	31-dic-12	Change
EstEnergy Spa	1,824		1,824
SO. SEL Spa	1,333	1,748	(415)
Estense Global Service Soc.Cons. a r.l.	1,113	775	338
Service imola S.r.l.	964	704	260
[fuzzy]Set Spa	758	(413)	1,171
Aristea Scarl	641		641
Aimag S.p.A.	582	600	(18)
Enomondo S.r.l.	571	627	(56)
Centro Idrico di Novoledo Srl	301		301
Elettrogorizia S.p.A.	199		199
Isontina reti gas Spa	5		5
Sgr Servizi Spa	(1)	606	(607)
FlamEnergy Trading Gmbh		1,310	(1,310)
Other minor companies	168	706	(538)
Total	**8,458**	**6,663**	**1,795**

The amount due to the joint ventures represents the remaining portion of the liability reported in the consolidated statement of financial position.

37 Other current liabilities

	31-dic-13	31-dic-12	Change
Excise and additional taxes	12.848	11.044	1.804
Capital grants	113.244	76.546	36.698
Security deposits	83.969	81.561	2.408
Tares payable	2.163	-	2.163
Equalization Fund for the Electricity and Gas Sectors	47.332	15.427	31.905
Personnel	42.938	29.602	13.336
Value-added tax	10.750	13.974	(3.224)
Due to social security institutions	31.911	23.041	8.870
Payables due to advances from the Equalization Fund	18.684	18.684	-
Payables for tariff components	4.946	15.253	(10.307)
Due to shareholders for dividends	5.719	5.950	(231)
Employee withholdings	15.100	11.667	3.433
Municipalities for environmental inconveniences and	11.926	9.899	2.027
Municipalities for environmental inconveniences and guarantees	7.098	3.845	3.253
Other taxes payable	3.107	3.396	(289)
Customers	3.664	2.387	1.277
Certificates of energy efficiency and emission trading	1.461	4.045	(2.584)
Deferred revenues and other charges	16.481	7.019	9.462
Other payables	36.536	16.720	19.816
Total	**469.877**	**350.060**	**119.817**

Comments are provided below on the most significant items and the associated changes as at 31 December 2012.

The change in “Excise and surcharges”, as illustrated in note 30 “Other current assets”, should be interpreted by taking into account the mechanism that governs the financial relations with the tax authority, which can give rise to debit/credit positions with differences between one period and the next that might even be significant.

“Capital grants” refer to investments in the water and environment sectors. This item fell in proportion to the depreciation calculated on the property, plant and equipment of reference. Compared to 31 December 2012, the inclusion of the AcegasAps Group in the scope of consolidation was €33,546 thousand. Further changes on the comparable year-earlier amount were due also to:

- €12,054 thousand in greater grants collected following application of the AEEG resolution on the integrated water service, which established the nee investment fund (Fo.NI) as a tariff component to be utilized for investments and tariff reliefs in the water sector;
- €7,042 thousand, due to proportional decreases in the depreciation amounts calculated on the property, plant and equipment of reference.

“Guarantee deposits” reflect the sums paid by customers for gas, water and electricity supply agreements. The increase on 2012 was due mainly to the consolidation of the AcegasAps Group.

The item “Tares payable” reflects debt payable to certain municipalities that contracted out to Hera the collection of Tares (waste and service tax), which starting January 2013 replaced Tarsu, urban waste tariff, and TIA, environmental hygiene tax. This item represents the debt position accrued in connection with the

Tares down-payments billed on behalf of certain municipalities and the municipal surtaxes on such down-payments that the municipalities will have to pay to the provinces.

“Equalisation Fund for the Electricity and Gas Sectors”, reflects the debt positions for equalization on the gas distribution/measurement, some components of the gas service system and equalization of the electricity service. The inclusion in the scope of consolidation of AcegasAps accounted for €25,350 thousand of the increase over the previous year.

The item “Personnel” relates to holidays accrued but not yet taken as at 31 December 2013, productivity bonus and accrued salaries. The increase was due to the mainly to the inclusion in the scope of consolidation of AcegasAps and the increase in provisions made for the renewal of the Federgasacqua collective labour agreement.

“Value-added tax” decreased from the comparable amount in 2012 due to the combined effect of the inclusion in the scope of consolidation of AcegasAps, which resulted in an increase of €7,608 thousand, and the significant decrease attributable to Hera S.p.A., for €11,026 thousand, resulting from the greater down-payment made in December 2013.

“Payables to social security institutions” relate to contributions due to these institutions for the month of December. The inclusion in the scope of consolidation of AcegasAps accounted for €7,253 thousand of the increase on the previous year.

As of 31 December 2013 “Payables due to advances to the Equalisation Fund” amounted to €18,684 thousand, reflecting sums borrowed to fund the non-interest-bearing advances provided to the Equalisation fund for the energy and gas sectors (CCSE), in accordance with the call mechanism provided for by resolutions no.370 of 20 September 2012 and no. 519 of 6 December 2012 in light of past due receivables outstanding with customers in the standard offer market as of 31 December 2011. The amount collected represents 60% of past due receivables.

The significant decrease of “Payables for tariff components” from the comparable amount at 31 December 2012 was due to the time lag in billing between sales companies and distribution companies. All this gives rise to changes in credit/debit positions due also to the effects of seasonality between one year and the next. Accordingly, it should be noted that this item needs to be linked to the change of the similar item accounted for under “Other current assets”.

The amount of “Payables to shareholders for dividends” reflects the debt towards non-controlling shareholders of the following subsidiaries:

- Fea S.R.L., €5,390 thousand (€5,586 thousand at 31 December 2012);
- Romagna Compost S.R.L., €329 thousand (€364 thousand at 31 December 2012).

The amount for “Municipalities for environmental inconvenience and guarantees” relates to the contributions payable to the Municipalities as compensation for environmental damages in proportion to the waste brought to the facilities in the year ended 31 December 31 2013.

“Certificates of energy efficiency and emission trading” refer to:

- grey certificates for €948 thousand (€1,768 thousand at 31 December 2012);
- green certificates for €513 thousand (€2,277 thousand at 31 December 2012).

This item reflects the obligation to return the certificates to the competent authorities on the basis of the applicable rules.

The item “Other payables” rose mainly as a result of the inclusion of the AcegasAps Group in the scope of consolidation.

38 Comments to the consolidated cash flow statement

Investments in companies and business operations

In 2013 control of the AcegasAps Group was obtained and minor investments were made in consolidated and non-consolidated subsidiaries. The table below provides details of the cash outlays effected and the liquid assets obtained in return.

In thousand of euro	
Acquisitions that resulted in control	
Cash payment for acquisition of AcegasAps Group	(9.425)
Cash payment for acquisition of Est Reti Elettriche Spa	(11.685)
Cash payment for acquisition of Modena Network Srl	(230)
Oher minor transactions	(34)
Transactions in joint ventures and companies subject to significant influence	
Cash payment for acquisition of equity stake in Isontina Reti Gas Spa	(3.686)
Cash payment for acquisition of equity stake in Tamarete Energia Srl	(80)
Investments in unconsolidated subsidiaries	
Capital increase Galsi Spa	(208)
Other minor investments	(241)
Total cash outlays	**(25.589)**
Cash and cash equivalents from AcegasAps Group	26.413
Cash and cash equivalents from Est Reti Elettriche	2.959
Cash and cash equivalents from Isontina Reti Gas Spa (proportional share)	586
Cash and cash equivalents from other minor transactions	0
Total cash and cash equivalents obtained	**29.958**
Investments in companies and business units net of cash and cash equivalents	**4.369**

With reference to the business combination with the AcegasAps Group, for the analysis of the fair value of the assets and liabilities assumed, reference is made to the “Summary of the effects of the business combination” at the beginning of these notes.

Disposals of equity investments

In 2013 Herambiente S.p.A. sold its investment in associated company Refri S.r.l., Hera S.p.A. its “Cemeterial” business unit of and Hera Comm S.r.l.is stake in Eris Scrl. On 12 December 2013, the Group sold to Eni S.p.A. the share held by AcegasAps in its joint venture with the buyer, Estpiù S.p.A.. The table below provides details of the cash inflows and the liquid assets sold or reclassified.

In thousands of euro	
Divestments of consolidated companies	
Cash received sale of Refri Srl	2,300
Cash received sale of Hera Servizi Cimiteriali Srl and Hera Servizi Funerari Srl	20
Cash received sale of Eris Scrl	307
Cash received sale of Estpiù Spa	3,960
Divestment of unconsolidated companies	
Othe rminor transactions	41
Total cash received for sale of investments	**6,628**
Cash and cash equivalents of companies sold	(4,877)
Cash and cash equivalents related to other minor companies	0
Total cash and cash equivalents transferred	**(4,877)**
Divestments net of cash and cash equivalents	**1,751**

Purchase of equity investments in consolidated companies

The amount refers to the cash outlay related to the acquisition of all of the non-controlling interests in Nuova Geovis S.p.A. (representing 49% of share capital for €5,000 thousand) and in Gal.A. S.p.A. (equal to 40% of share capital for €500 thousand) by Herambiente S.p.A..

Classification of financial assets and liabilities pursuant to IFRS 7

The table below illustrates the composition of the Group's assets, using the current and non-current distinction. Details of the fair value of derivatives are provided instead in note 24.

31-dic-13	*Fair value* through profit or loss	Loans and receivables	Held to maturity	Available for sale	Total
Non-current assets		**50,761**	**1,570**	**309**	**52,640**
Financial assets recognized at fair value			1570	309	1879
Non-current receivables outstanding with related parties		27,209			27,209
Financial receivables		23,552			23552
Current assets	**69,059**	**1,659,682**		**8,492**	**1,737,233**
Trade receivables		1,397,839			1,397,839
Financial assets recognized at fair value				8,492	8,492
Non-current receivables outstanding with related parties		47,870			47,870
Financial receivables		15,867			15,867
Other assets	69,059	198,106			267,165

31-dic-12	*Fair value* through profit or loss	Loans and receivables	Held to maturity	Available for sale	Total
Non-current assets		**17,248**		**309**	**17,557**
Financial assets recognized at fair value				309	309
Non-current receivables outstanding with related parties		17,176			17,176
Financial receivables		72			72
Current assets	**62,939**	**1,526,818**		**5,480**	**1,595,237**
Trade receivables		1,307,961			1,307,961
Financial assets recognized at fair value				5,480	5,480
Non-current receivables outstanding with related parties		35,590			35,590
Financial receivables		6,216			6,216
Other assets	62,939	177,051			239,990

With respect to "non-current assets" reference is made to note 22

With respect to "current assets" reference is made to notes 22, 26, 28 and 29.

The table below illustrates the composition of the Group's liabilities, using the current and non-current distinction. Details of the fair value of derivatives are provided instead in note 24.

31-dic-13	*Fair value* through profit or loss	Underlyings (*fair value hedge*)	Amortized cost	Total
Non-current liabilities		**650,855**	**2,642,134**	**3,292,989**
Borrowings		650,855	2,626,607	3,277,462
Financial leases payable			15,527	15,527
Current liabilities	**1,461**		**1,577,579**	**2,054,178**
Borrowings			383,181	383,181
Financial leases payable			1,972	1,972
Trade payables			1,192,426	1,192,426
Other liabilities	1,461	475,138		476,599
31-dic-12	***Fair value* through profit or loss**	**Underlyings (*fair value hedge*)**	**Amortized cost**	**Total**
Non-current liabilities		**703,943**	**1,750,407**	**2,454,350**
Borrowings		703,943	1,737,051	2,440,994
Financial leases payable			13,356	13,356
Current liabilities	**4,045**		**1,853,643**	**1,857,688**
Borrowings			317,560	317,560
Financial leases payable			3,767	3,767
Trade payables			1,165,838	1,165,838
Other liabilities	4,045		366,478	370,523

With respect to "non-current liabilities" reference is made to notes 32 and 35.
With respect to "current liabilities" reference is made to notes 32, 35, 36, 28 and 37.

IFRS 8

Income statement 2013

	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total	Consolidated financial statements
Direct revenues	1.669,7	1.441,7	716,2	832,2	172,8	18,8	4.851,3	4.851,3
Intra-cycle revenues	19,4	78,1	9,2	32,9	14,8	9,3	163,7	
Total direct revenues	**1.689,1**	**1.519,7**	**725,4**	**865,1**	**187,6**	**28,1**	**5.015,0**	**4.851,3**
Indirect revenues	6,5	1,9	5,1	7,8	6,9	-28,1	0,0	
Total revenues	**1.695,6**	**1.521,7**	**730,5**	**872,9**	**194,4**	**0,0**	**5.015,0**	**4.851,3**
EBITDA	**276,2**	**85,5**	**222,3**	**237,7**	**9,2**	**0,0**	**830,7**	**830,7**
Direct depr., amort. and alloc	74,3	60,0	91,4	132,6	25,9	30,8	414,9	414,9
Indirect depr., amort. and alloc	7,1	3,8	10,4	8,8	0,6	-30,8		
Total depr. amort. and alloc	**81,4**	**63,8**	**101,8**	**141,3**	**26,6**	**0,0**	**414,9**	**414,9**
EBIT	**194,7**	**21,6**	**120,5**	**96,3**	**-17,4**	**0,0**	**415,8**	**415,8**

Income statement 2012 as adjusted

	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total	Consolidated financial statements
Direct revenues	1.734,2	1.602,8	608,2	641,1	76,6	33,4	4.696,3	4.696,3
Intra-cycle revenues	30,1	74,3	5,9	62,3	21,2	10,4	204,2	
Total direct revenues	**1.764,3**	**1.677,1**	**614,1**	**703,4**	**97,8**	**43,9**	**4.900,6**	**4.696,3**
Indirect revenues	5,0	1,3	3,1	34,3	0,2	-43,9	0,0	
Total revenues	**1.769,3**	**1.678,4**	**617,1**	**737,8**	**98,0**	**0,0**	**4.900,6**	**4.696,3**
EBITDA	**240,7**	**62,3**	**158,3**	**183,5**	**17,3**	**0,0**	**662,1**	**662,1**
Direct depr., amort. and alloc	50,8	42,0	72,8	108,1	17,6	35,3	326,6	326,6
Indirect depr., amort. and alloc	8,2	4,6	11,1	10,3	1,0	-35,3		
Total depr. amort. and alloc	**59,0**	**46,6**	**83,9**	**118,5**	**18,6**	**0,0**	**326,6**	**326,6**
EBIT	**181,8**	**15,7**	**74,4**	**65,1**	**-1,4**	**0,0**	**335,5**	**335,5**

2013 Balance sheet

	Net working capital	Net fixed assets	Provisions	Shareholders' equity	NFP	Consolidated Financial statements
Total Assets	**1,780.3**	**5,349.0**	**0.0**	**0.0**	**1,104.8**	**8,234.2**
Financial assets and cash and cash equivalents					1,104.8	1,104.8
Tax assets	61.2	152.0				213.2
Unallocated group assets		394.9				394.9
Sector activities	**1,719.1**	**4,802.1**	**0.0**	**0.0**	**0.0**	**6,521.3**
- of which:						
GAS	570.0	1,155.1				1,725.1
Electricity	449.9	643.5				1,093.4
Water cycle	235.8	1,507.8				1,743.7
Environment	360.0	1,307.1				1,667.1
Other services	103.4	188.6				292.0
Total liabilities	**1,684.3**	**8.9**	**535.1**	**2,305.7**	**3,700.1**	**8,234.2**
Financial liabilities and loans					3,700.1	3,700.1
Tax liabilities	49.2		74.7			124.0
Unallocated group liabilities		8.9	5.2	2,305.7		2,319.9
Sector liabilities	**1,635.1**	**0.0**	**455.2**	**0.0**	**0.0**	**2,090.3**
- of which:						
GAS	469.9		117.3			587.2
Electricity	379.8		21.0			400.8
Water cycle	284.7		93.6			378.3
Environment	407.2		201.0			608.2
Other services	93.5		22.4			115.8
Comprehensive total	**96.0**	**5,340.1**	**-535.1**	**-2,305.7**	**-2,595.3**	**0.0**

2012 Balance sheet as adjusted

	Net working capital	Net fixed assets	Provisions	Shareholers' equity	NFP	Consolidated financial statements
Total assets	**1,688.8**	**4,433.1**	**0.0**	**0.0**	**577.6**	**6,699.5**
Financial assets and cash and cash equivalents					577.6	577.6
Tax assets	56.5	111.5				168.0
Unallocated group assets	14.1	343.1				357.2
Sector activities	**1,618.2**	**3,978.6**	**0.0**	**0.0**	**0.0**	**5,596.7**
- of which:						
GAS	581.5	938.5				1,520.0
Electricity	511.0	554.2				1,065.2
Water cycle	189.2	1,172.7				1,361.9
Environment	286.4	1,188.7				1,475.1
Other services	50.1	124.5				174.6
Total liabilities	**1,572.1**	**14.5**	**440.1**	**1,878.6**	**2,794.2**	**6,699.5**
Financial liabilities and loans					2,794.2	2,794.2
Tax liabilities	58.7	0.0	75.2			133.9
Unallocated group liabilities	0.0	14.5	4.0	1,878.6		1,897.1
Sector liabilities	**1,513.5**	**0.0**	**360.9**	**0.0**	**0.0**	**1,874.3**
- of which:						
GAS	474.8		88.0			562.8
Electricity	436.6		16.2			452.8
Water cycle	231.1		85.0			316.1
Environment	321.8		163.9			485.6
Other services	49.2		7.8			57.0
Comprehensive total	**116.6**	**4,418.7**	**-440.1**	**-1,878.6**	**-2,216.6**	**0.0**

Guarantees provided

	31-dic-13	31-dic-12
Bank sureties and guarantees	904,657	979,028
Insurance sureties and guarantees	191,149	227,353
Total	**1,095,806**	**1,206,381**

At 31 December 2013, bank sureties and guarantees included:

- Euro 370.875 thousand for sureties posted in favour of Government authorities (Ministry of the Environment, Emilia Romagna Region, different Provinces and Municipalities) and private entities to guarantee the proper management of waste treatment plants, landfills and storage facilities, the accurate provision of waste management services, reclamation works and other management and operational activities, including post-closure activities, and the fulfilment of contractual obligations;
- Euro 533.721 thousand for sureties and comfort letters issued to guarantee the prompt payment of raw material supplies;;
- Euro 61 thousand for sureties issued in favour of the Revenue Agency for the refund of VAT credits on behalf of Hera S.p.A..

At 31 December 2013, insurance sureties and guarantees included:

- Euro 191.149 thousand for sureties posted in favour of Government authorities (different Provinces and Municipalities in Emilia Romagna and Marche, Ministry of the Environment) and third parties to guarantee the proper management of public utility services, waste disposal services, the proper performance of works involving company pipelines laid on roads owned by private entities, reclamation works, management of waste treatment plants and activities, including post-closure activities, related to landfills.

In relation to other commitments, attention is called to the following:

	31-dic-13	*31-dic-12*
Commitments		
Third party assets in use by the Hera Group	1,263,653	1,257,186
Collateral security in favour third parties	185,761	185,761
Other commitments	4,645	5,381
Total	**1,454,059**	**1,448,328**

1. "Third party assets in use by the Hera Group" may be broken down as follows:

    - Euro 1.150.191 thousand for assets used by the Parent Company by way of concession or lease of business unit;
    - Euro 88.318 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 5.184 thousand for assets leased from Herambiente S.p.A. by CON.AMI and the associated plant engineering of the Tre Monti landfill in Imola (Bo);
    - Euro 4.270 thousand for third party IT and network equipment at the data centre of subsidiary Acantho S.p.A..

2. "Collateral security in favour third parties" includes:

    - Mortgages and special liens on land, plants and machinery recorded by the subsidiary Fea S.R.L. in favour of the pool of banks that subscribed the project financing for Euro 150,000 thousand;
    - Mortgages guaranteeing the loan of Herambiente Spa. for Euro 13,280 thousand;
    - Mortgages on the buildings (Pesaro and Urbino sites) of the Marche Multiservizi Group, due to the bank awarding the loan for Euro 22,481 thousand.

3. "Other commitments", equal to Euro 4,645 thousand, mainly include salary-backed loans and small employee loans.

2.03.02 Explanatory notes – resolution 15519 of 2006 – Related Parties

Management of the services

The Hera Group, through Parent Company Hera S.p.A., has public service concession arrangements in place (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 part of the area where it operates and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini).

The electricity distribution service is carried out in Modena and Imola. Other public utility services (including district heating, heat management and public lighting) are provided at arm's length, through special agreements with the local authorities concerned. Through special agreements with local authorities, Hera S.p.A. is responsible for the waste treatment and disposal service excluded from the regulatory activity carried out by the local competent authority Atersir.

Under regional and national legislation governing the sector, the local competent authority is responsible for awarding service contracts, planning and controlling the area of integrated water services and urban cleaning services.

In accordance with said regional law and related national legislation, the Hera Group entered into special arrangements with Atersir, which establish the entry into effect of the local technical and tariff plan.

Water sector

The water service managed by Hera in its area of competence is carried out on the basis of agreements entered into with Atersir, 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 to lay pipelines 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.

However, as of 2012 tariffs fall within the purview of the Authority for Electric Energy, Gas and Water Services (AEEGSI) which, in connection with its new duties, set a 2012-2013 initial transitory tariff period and a 2014-2015 consolidation period. Based on AEEGSI's decisions, in 2014 the management conventions will be amended to reflect the new tariff rules. The tariffs per unit applied in 2013 are provisional and were established by Atersir (pending the final AEEGSI resolution) on the basis of the new 2012-2013 transitory tariff method. The local authorities awarding the concession give the manager the right, free of charge as well, to use the network and plants for the provision of integrated water supplies. 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 hand over the assets 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 in terms of service quality and resources and the users' rights are illustrated in the specific Service Charters drafted by the operator based on templates approved by Atesir.

Waste management sector

Hera manages municipal waste management services; the agreements drawn up between Hera and Atesir covers the exclusive management of waste management services, street sweeping and washing, initial recycling and waste disposal, etc. The agreements with the Atesir govern the financial aspects of the contractual relationship, the forms of organization and management of the service, as well as levels of service quality and quantity. The amount payable to the operator for services rendered was set every year until 2012, in keeping with Presidential Decree 158/1999, where the tariff had been established. Starting in 2013, the rules of reference to determine the fees for the services rendered are those on Tares. For the operations 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 waterworks 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 own the capital assets used to manage services following their direct contribution by the Municipalities (generally Hera shareholders) or following the assignment to the asset companies of 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 award agreements or business unit lease contracts and, for anything not covered thereunder, by prevailing industry rules.

As regards the financial 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 cost and expense, routine and non-routine 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 Atersir.

Upon expiry of the lease contracts, provision is made for the handover 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 handed over to local authorities in return for the payment to the operator of compensation/supplement equal, as a general rule, to the net book value or residual value of the associated assets.

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, transposing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report on operations. Hera S.p.A. 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. Tariffs for the distribution of gas are set pursuant to the regulations in force and AEEG’s periodic resolutions. 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.

The tariff rules in force at the time of approval of the consolidated annual accounts containing this report is AEEG’s resolution ARG/gas no. 159/2008 as amended and supplemented, which was due to expire in 2012 but was in fact extended throughout 2013 [Consolidated regulation on the quality and tariffs of gas distribution and measurement services for the 2009-2012 regulatory period (TUDG): approval of Part II “Rules on tariffs for gas distribution and measurement services for the 2009-2012 regulatory period (RTDG). Transitory provisions for 2009”].

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 concessionaire is required to apply the tariffs set by regulations in force and resolutions adopted by AEEG. The tariff regulation in force when the consolidated annual financial statements for the year were approved, to which this report is attached, was resolution ARG/elt no. 199/2011 of AEEG and subsequent amendments and additions (“Provisions of AEEG 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”).

Related parties list

Values shown in the table as at 31 December 2013, refer to the related parties hereunder:

Group A. Related parties – non-consolidated subsidiaries and joint ventures:

AdriaLink S.r.l.

Calorpiù Italia Scarl in liquidazione

Group B. Related parties – associated companies and joint ventures:

Adriatica Acque Srl

Aimag Spa

Aristea Sinergie Illuminazione s.c.a r.l.

Centro Idrico di Novoledo Srl

Elettrogorizia S.p.A.

Enomondo Srl

Estenergy S.p.A.

Estense Global Service Soc.Cons.a r.l.

Estpiù S.p.A.

FlameEnergy Trading Gmbh

Ghirlandina Solare Srl

Isontina reti gas S.p.A.

Natura Srl in liquidazione

Oikothen S.ca.r.l. in liquidazione

Q.Thermo Srl

Sei Spa

Service Imola Srl

Set Spa

Sgr Servizi Spa

So.Sel Spa

Tamarete Energia Sr

Group C. Related parties with significant influence:

Comune di Bologna

Comune di Casalecchio di Reno

Comune di Cesena

Comune di Ferrara

Comune di Forlì

Comune di Imola

Comune di Modena

Comune di Padova

Comune di Ravenna

Comune di Rimini

Comune di Trieste

HSST - Modena Spa

Livia Tellus Governance Spa

Ravenna Holding Spa

Rimini Holding Spa

Holding Ferrara Servizi srl

Group D. Other related parties:

Acosea Impianti Srl

Amir - Assets

Aspes Spa

Azimut - Assets

Calenia Energia Spa

Con.Ami

Energia Italiana Spa

Fiorano Gestioni Patrimoniali Srl

Formigine Patrimonio Srl

Galsi Spa

H.E.P.T. Co.LTD

Maranello Patrimonio Srl

Megas Net Spa

Romagna Acque Spa

Sassuolo Gestioni Patrimoniali Srl

Serramazzoni Patrimonio Srl

Sis - Assets

Sis Società Intercomunale di Servizi Spa in liquidazione

Team - Assets

Unica Reti - Assets

2.04 Net borrowings

2.04.01 Consolidated net borrowings *

In accordance with the Consob Communication of 28 July 2006 and in keeping with the recommendation of Cers of 10 February 2005 – "Recommendations for the consistent implementation of the European Commission's prospectus regulation" – the table below shows details of consolidated net borrowings.

millions of euros		31-dic-2013	31-dic-2012
a	**Cash and cash equivalents**	**942.3**	**424.2**
b	**Other current financial receivables**	**72.2**	**47.3**
	Short-term bank borrowings	(227.9)	(74.7)
	Current portion of bank borrowings	(112.6)	(225.7)
	Other current borrowings	(42.6)	(17.1)
	Finance lease payments - due within 12 months	(2.0)	(3.8)
c	**Current borrowings**	**(385.1)**	**(321.3)**
d=a+b+c	**Current net borrowings**	**629.4**	**150.2**
e	**Non-current financial receivables**	**52.6**	**17.6**
	Non-current bank borrowings and bonds issued	(3,253.3)	(2,371.0)
	Other non-current borrowings	(8.5)	0
	Finance lease - due beyond 12 months	(15.5)	(13.4)
f	**Non-current borrowings**	**(3,277.3)**	**(2,384.4)**
g=e+f	**Non-current net borrowings**	**(3,224.7)**	**(2,366.8)**
h=d+g	**Net borrowings**	**(2,595.3)**	**(2,216.6)**

* *The table shows also non-current financial receivables reflecting mainly interest-bearing loans provided at arm's length to associated companies and the municipality of Padua*

2.04.02 Related-party net borrowings*

(€/milioni)		31-dic-13	di cui correlate				31-dic-12 rettificato	di cui correlate			
			A	B	C	D		A	B	C	D
a	**Disponibilità liquide**	**942,3**					**424,2**				
b	**Altri crediti finanziari correnti**	**72,2**					**47,3**				
	di cui correlate			***48,0***	**1,0**				***33,0***		**0,2**
	Debiti bancari correnti	-227,9					-74,7				
	Parte corrente dell'indebitamento bancario	-112,6					-225,7				
	Altri debiti finanziari correnti	-42,6		-1,0	-1,0		-17,1				
	Debiti per locazioni finanziarie scadenti entro l'esercizio successivo	-2,0					-3,8				
c	**Indebitamento finanziario corrente**	**-385,1**		**-1,0**	***-1,0***		**-321,3**				
d=a+b+c	**Indebitamento finanziario corrente netto**	**629,4**		**47,0**	**0,0**		**150,2**		**33,0**		**0,2**
e	**Crediti finanziari non correnti**	**52,6**					**17,6**				
	di cui correlate			***27,0***	***23,0***				***17,1***		
	Debiti bancari non correnti e obbligazioni emesse	-3.253,3					-2.371,0				
	Altri debiti finanziari non correnti	-8,5			-7,0		0,0				
	Debiti per locazioni finanziarie scadenti oltre l'esercizio successivo	-15,5					-13,4				
f	**Indebitamento finanziario non corrente**	**-3.277,3**		***0,0***	***-7,0***		**-2.384,4**				
g=e+f	**Indebitamento finanziario non corrente netto**	**-3.224,7**		***27,0***	***16,0***		**-2.366,8**		**17,1**		
	di cui correlate										
h=d+g	**Indebitamento finanziario netto**	**-2.595,3**					**-2.216,6**				
	di cui correlate			***74,0***	***16,0***				***50,1***		***0,2***

***** *The table shows also non-current financial receivables reflecting mainly interest-bearing loans provided at arm's length to associated companies and the municipality of Padua*

2.05 Equity investments

2.05.01 List of consolidated companies

Subsidiaries

Name	Registered office	Share capital	% held diretta	% held indiretta	Total interest
Capogruppo: Hera Spa	**Bologna**	**1,421,342,617**			
Acantho SpA	Imola (BO)	23,573,079	77.36%		77.36%
AcegasAps SpA	Trieste	283,690,763	100.00%		100.00%
AcegasAps Service Srl	Padova	1,480,400		100.00%	100.00%
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%
CST Srl	Pordenone	104,000		100.00%	100.00%
Est Reti Elettriche SpA	Gorizia	17,450,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	2,430,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
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		70.54%	70.54%
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%
Herasocrem Srl in liquidazione	Bologna	100,000	51.00%		51.00%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
Iniziative Ambientali Srl	Padova	110,000		100.00%	100.00%
Insigna Srl	Padova	10,000		100.00%	100.00%
Marche Multiservizi SpA	Pesaro	13,484,242	44.62%		44.62%
Medea SpA	Sassari	4,500,000	100.00%		100.00%
MMS Ecologica Srl	Pesaro	95,000		44.62%	44.62%
Naturambiente Srl	Pesaro	50,000		44.62%	44.62%
NestAmbiente Srl	Padova	1,748,472		75.00%	75.00%
Rila Gas AD	Sofia (Bulgaria)	33.337.000 lev		100.00%	100.00%
Romagna Compost Srl	Cesena	3,560,002		45.00%	45.00%
SiGas d.o.o	Pozega (Serbia)	162.260.057,70 RSD		95.78%	95.78%
Sinergia Srl	Forlì	579,600		59.00%	59.00%
Sinergie SpA	Padova	11,168,284		100.00%	100.00%
Società Italiana Lining Srl	Padova	90,000		100.00%	100.00%
Sotris SpA	Ravenna	2,340,000	5.00%	52.50%	57.50%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Trieste Onoranze e Trasporti Funebri Srl	Trieste	50,000		100.00%	100.00%
Tri-Generazione Srl	Padova	100,000		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%

Jointly controlled associated companies

Name	Registered office	Share capital	% held diretta	% held indiretta	Total interest
Aristea Sinergie Illuminazione Scarl	Padova	10,000		50.00%	50.00%
Enomondo Srl	Faenza (RA)	14,000,000		37.50%	37.50%
EstEnergy SpA	Trieste	1,718,096		51.00%	51.00%
Isontina Reti Gas SpA	Gradisca D'Isonzo (GO)	17,450,000		50.00%	50.00%

Associated companies

Name	Registered office	Share capital	% held diretta	% held indiretta	Total interest
Aimag SpA*	Mirandola (MO)	78,027,681	25.00%		25.00%
Elettrogorizia SpA	Trieste	5,600,000		33.00%	33.00%
FlameEnergy Trading Gmbh	Vienna	3,000,000		50.00%	50.00%
Ghirlandina Solare Srl	Concordia Sulla Secchia (MO)	60,000		33.00%	33.00%
Q.Thermo Srl	Firenze	10,000		39.50%	39.50%
Set SpA	Milano	120,000	39.00%		39.00%
So.Sel SpA	Modena	240,240		26.00%	26.00%
Sgr Servizi SpA	Rimini	5,982,262		29.61%	29.61%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

* The company's share capital is composed of € 67,577,681 ordinary shares and € 10,450,000 of related shares

2.05.02 Key financial and operating data of consolidated and associated companies

Subsidiaries

Prospetto riepilogativo dati essenziali di bilancio delle Società controllate ai sensi dell'art. 2429, ultimo comma del c.c.

Società	Acantho Spa	AcegasAps Spa	AcegasAps Service Srl	Akron Spa	ASA Scpa	Consorzio Akhea Fondo Consortile	CST Srl	Est Reti Elettriche Spa	Feronia Srl	Frullo Energia Ambiente Srl
ATTIVITA'										
Immobilizzazioni	56.440	841.291	4.013	18.743	5.028	13	1.623	21.185	3.312	93.861
Attivo circolante	37.555	242.138	26.911	33.964	13.952	325	5.624	11.006	10.814	21.331
Totale attività	**93.995**	**1.083.429**	**30.924**	**52.707**	**18.980**	**3.271**	**7.247**	**32.191**	**14.126**	**115.192**
PASSIVITA'										
Capitale sociale	23.573	283.691	1.480	1.153	1.820	200	104	17.450	2.430	17.139
Riserve	1.028	23.387	2.623	4.012	623		138	197	-244	17.839
Utile netto(+)/Perdita(-)	2.061	29.980	-1.197	4.985			-269	855	904	4.085
Fondi		22.643	28		14.994		0	354	3.641	2.938
Fondo TFR	654	23.074	237	476	142		435	1.004		1.383
Debiti	66.679	700.654	27.753	42.082	1.402	3.071	6.839	12.331	7.395	71.808
Totale passività	**93.995**	**1.083.429**	**30.924**	**52.707**	**18.980**	**3.271**	**7.247**	**32.191**	**14.126**	**115.192**
CONTO ECONOMICO										
Valore della produzione	45.939	340.901	42.332	48.930	5.427	3.569	4.275	7.445	11.566	35.758
Costi della produzione	-41.683	-290.417	-42.459	-42.106	-5.785	-3.570	-4.482	-7.601	-10.171	-26.311
Proventi(+)/oneri finanziari(-)	-757	-4.487	-1.209	-349	389	2	-49	1.461	-68	-1.510
rettifica valore att.										
Proventi(+)/oneri straordinari(-)	569	-147		967	-1	-1			-2	161
imposte di esercizio	-2.007	-15.870	139	-2.458	-30	-1	-13	-450	-421	-4.013
UTILE NETTO(+)/PERDITA(-)	**2.061**	**29.980**	**-1.197**	**4.985**	**0**	**0**	**-269**	**855**	**904**	**4.085**

Prospetto riepilogativo dati essenziali di bilancio delle Società controllate ai sensi dell'art. 2429, ultimo comma del c.c.

Società	Herambiente Spa	Hera Comm Srl	Hera Comm Marche Srl	Hera Energie Srl	Hera Energie Rinnovabili Spa	Hera Luce Srl	Herasocrem Srl in liquidazione	Hera Trading Srl	Iniziative Ambientali Srl	Insigna Srl
ATTIVITA'										
Immobilizzazioni	882.924	100.730	85	2.057	11.011	7.325	2	18.379	8.333	2.739
Attivo circolante	168.239	643.024	36.794	8.879	7.402	28.275	356	369.159	2.230	6.850
Totale attività	**1.051.163**	**743.754**	**36.879**	**10.936**	**18.413**	**35.600**	**358**	**387.538**	**10.563**	**9.589**
PASSIVITA'										
Capitale sociale	271.148	53.137	1.977	926	1.832	1.000	100	22.600	110	10
Riserve	34.044	15.449	3.807	2.351	446	5.090	-17	3.816	1.460	162
Utile netto(+)/Perdita(-)	17.902	28.450	5.673	957	328	274	2	8.174	-1.457	257
Fondi	61.412	2.704	21	88	35	17.110	22	123	3.250	0
Fondo TFR	8.790	5.097	185	16		795	140	282	0	10
Debiti	657.867	638.917	25.216	6.598	15.772	11.331	111	352.543	7.200	9.150
Totale passività	**1.051.163**	**743.754**	**36.879**	**10.936**	**18.413**	**35.600**	**358**	**387.538**	**10.563**	**9.589**
CONTO ECONOMICO										
Valore della produzione	359.828	2.078.997	96.877	13.760	3.890	35.264	478	1.949.018		7.133
Costi della produzione	-313.160	-2.026.864	-87.063	-12.354	-2.568	-34.592	-448	-1.933.094	-1.843	-6.640
Proventi(+)/oneri finanziari(-)	-18.950	-2.144	188	61	-573	57		-734	-145	-91
rettifica valore att.										
Proventi(+)/oneri straordinari(-)			-18	-38	-100	-21				
imposte di esercizio	-9.816	-21.539	-4.311	-472	-321	-434	-28	-7.016	531	-145
UTILE NETTO(+)/ PERDITA(-)	**17.902**	**28.450**	**5.673**	**957**	**328**	**274**	**2**	**8.174**	**-1.457**	**257**

Prospetto riepilogativo dati essenziali di bilancio delle Società controllate ai sensi dell'art. 2429, ultimo comma del c.c.

Società	Marche Multiservizi Spa	Medea Spa	MMS Ecologica Srl	Naturambiente Srl	NestAmbiente Srl	Rila Gas AD	Romagna Compost Srl	SIGas d.o.o	Sinergia Srl	Sinergie Spa
ATTIVITA'										
Immobilizzazioni	118.301	14.998	708	1.001	656	51.259	9.093	1.036	2.666	70.617
Attivo circolante	72.764	6.085	6.411	6.695	8.112	1.610	2.531	367	6.099	54.545
Totale attività	**191.065**	**21.083**	**7.120**	**7.696**	**8.768**	**52.869**	**11.624**	**1.403**	**8.765**	**125.162**
PASSIVITA'										
Capitale sociale	13.484	4.500	95	50	1.748	17.045	3.560	2.383	580	11.168
Riserve	12.849	-678	176	0	2.496	-5.710	532	-912	4.226	28.787
Utile netto(+)/Perdita(-)	6.748	637	24	2	-315	-4.518	590	-130	897	3.581
Fondi	33.470	868	4.138	864	271	0		0		359
Fondo TFR	8.620	164	278	358	203	3	54	0	307	1.638
Debiti	115.893	15.592	2.409	6.423	4.365	46.049	6.888	62	2.755	79.629
Totale passività	**191.065**	**21.083**	**7.120**	**7.696**	**8.768**	**52.869**	**11.624**	**1.403**	**8.765**	**125.162**
CONTO ECONOMICO										
Valore della produzione	113.596	9.344	2.665	3.114	10.365	3.024	5.726	124	9.010	59.606
Costi della produzione	-102.094	-8.230	-2.601	-3.054	-10.510	-5.415	-4.715	-242	-7.686	-53.334
Proventi(+)/oneri finanziari(-)	710	-287	10	1	-34	-2.121	-100	-12	9	-1.218
rettifica valore att.										
Proventi(+)/oneri straordinari(-)	-761		-20	-19			1			
imposte di esercizio	-4.703	-190	-30	-42	-136	-6	-322	0 -	436	-1.473
UTILE NETTO(+)/PERDITA(-)	**6.748**	**637**	**24**	**2**	**-315**	**-4.518**	**590**	**-130**	**897**	**3.581**

Prospetto riepilogativo dati essenziali di bilancio delle Società controllate ai sensi dell'art. 2429, ultimo comma del c.c.

Società	Società Italiana Lining Srl	Sotris Spa	Sviluppo Ambiente Toscana Srl	Trieste Onoranze e Trasporti funebri	Trigenerazione Srl	Uniflotte Srl
ATTIVITA'						
Immobilizzazioni	1.837	6.037	1.324	22	7.183	57.166
Attivo circolante	3.875	15.841	555	596	1.429	11.207
Totale attività	**5.712**	**21.878**	**1.879**	**618**	**8.612**	**68.373**
PASSIVITA'						
Capitale sociale	90	2.340	10	50	100	2.254
Riserve	1.633	3.792	140	107	2	3.251
Utile netto(+)/Perdita(-)	43	-20	-129	62		627
Fondi	6	11.903		0	65	20
Fondo TFR	66	97		67	1	2.818
Debiti	3.874	3.766	1.858	332	8.444	59.403
Totale passività	**5.712**	**21.878**	**1.879**	**618**	**8.612**	**68.373**
CONTO ECONOMICO						
Valore della produzione	3.758	8.127		1.611	2.078	37.254
Costi della produzione	-3.623	-8.284	-52	-1.508	-2.078	-35.907
Proventi(+)/oneri finanziari(-)	5	173	-77			-260
rettifica valore att.						
Proventi(+)/oneri straordinari(-)		-3				
imposte di esercizio	-97	-32		-41		-460
UTILE NETTO(+)/ PERDITA(-)	**43**	**-20**	**-129**	**62**	**0**	**627**

Jointly controller companies

Prospetto riepilogativo dati essenziali di bilancio delle Società a controllo congiunto ai sensi dell'art. 2429, ultimo comma del c.c.				
Società	**Aristea**	**Enomondo Srl**	**EstEnergy**	**Isontina Reti Gas**
ATTIVITA'				
Immobilizzazioni		46.379	3.470	36.799
Attivo circolante	2.846	14.267	117.721	8.482
Totale attività	**2.846**	**60.646**	**121.191**	**45.281**
PASSIVITA'				
Capitale sociale	10	14.000	1.718	17.450
Riserve	-1	4.443	9.907	323
Utile netto(+)/Perdita(-)	1	2.374	9.526	867
Fondi		218	162	9
Fondo TFR		27	190	641
Debiti	2.836	39.585	99.688	25.991
Totale passività	**2.846**	**60.646**	**121.191**	**45.281**
CONTO ECONOMICO				
Valore della produzione	1.137	19.941	223.133	11.852
Costi della produzione	-1.113	-14.402	-200.929	-8.926
Proventi(+)/oneri finanziari(-)	-19	-1.404	-4.553	-695
rettifica valore att.				
Proventi(+)/oneri straordinari(-)		-0		
imposte di esercizio	-4	-1.761	-8.125	-1.364
UTILE NETTO(+)/PERDITA(-)	**1**	**2.374**	**9.526**	**867**

Associated companies

Prospetto riepilogativo dati essenziali di bilancio delle Società collegate ai sensi dell'art. 2429, ultimo comma del c.c.									
Società	**Aimag SpA**	**Elettrogorizia SpA**	**FlamEnergy Trading Gmbh**	**Ghirlandina Solare Srl**	**Q.Thermo Srl**	**Set SpA**	**So.Sel SpA**	**Sgr Servizi SpA**	**Tamarete Energia Srl**
ATTIVITA'									
Immobilizzazioni	188.331	18.825		2.779	3.079	198.492	3.304	4.621	90.779
Attivo circolante	80.373	1.253	3.388	448	487	26.213	6.533	65.903	15.625
Totale attività	**268.704**	**20.078**	**3.388**	**3.227**	**3.566**	**224.705**	**9.837**	**70.524**	**106.404**
PASSIVITA'									
Capitale sociale	78.028	5.600	3.000	60	10	120	240	5.982	3.600
Riserve	41.734	647	88	54	3.282	86.440	2.173	22.082	2.608
Utile netto(+)/Perdita(-)	6.326	16	214	60	-67	610	250	9.933	-2.897
Fondi	23.140	1.290		12				12	327
Fondo TFR	3.750	82				150	2.240	592	7
Debiti	115.726	12.443	86	3.041	341	187.385	4.934	31.923	102.759
Totale passività	**268.704**	**20.078**	**3.388**	**3.227**	**3.566**	**274.705**	**9.837**	**70.524**	**106.404**
CONTO ECONOMICO									
Valore della produzione	84.760	3.086	8.101	520		70.729	12.740	186.926	16.728
Costi della produzione	-75.478	-2.784	-7.826	-312	-87	-64.831	-12.528	-170.158	-15.230
Proventi(+)/oneri finanziari(-)	942	-290	10	-93		-4.452	-18	126	-4.262
rettifica valore att.									2
Proventi(+)/oneri straordinari(-)	-1.243					134	319		
imposte di esercizio	-2.655	4	-71	-55	20	-970	-263	-6.961	-135
UTILE NETTO(+)/PERDITA(-)	**6.326**	**16**	**214**	**60**	**-67**	**610**	**250**	**9.933**	**-2.897**

2.06 Table pursuant to Article 149 duodecies of the Regulations on Issuers

€/000	2013
Prestazione di servizio per la certificazione del Bilancio	590.902
Prestazioni di altri servizi finalizzati all'emissione di una attestazione (unbundling)	128.008
Altre prestazioni di servizio	76.693
	795.603

2.07 Attestation of Consolidated Financial Statements pursuant to article 154 bis of Legislative Decree 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 I

- 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 2013.

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

The Manager in charge of the corporate accounting statements

Maurizio Chiarini

Luca Moroni

Bologna, 20 March 2014

2.08 Reports by Independent Auditing Firm and Board of Statutory Auditors

2.08.01 Independent auditing firm

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AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 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 (jointly the "HERA Group") as of and for the year ended 31 December 2013 which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows 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 n° 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, the Italian Commission for listed Companies and the Stock Exchange. 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.

The consolidated financial statements present, for comparative purposes, the data of the prior year. As disclosed in the explanatory notes, the directors restated certain comparative amounts of the prior year's consolidated financial statements, which we audited and on which we reported on 8 April 2013. We have examined the restatement methods of the comparative information and the related disclosures for the purpose of our audit of the consolidated financial statements as of and for the year ended 31 December 2013.

3 In our opinion, the consolidated financial statements of the HERA Group as of and for the year ended 31 December 2013 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 n° 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 period then ended.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.812.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Dante 7 Tel. 01029041 - **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43100 Viale Tanara 20/A Tel. 0521275911 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel.0458263001

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4 The directors of HERA SpA are responsible for the preparation of a report on operations in compliance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the specific section on corporate governance and ownership structure, solely with reference to 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 n° 58/98, with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard n° 001 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the report on operations and 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 n° 58/98 presented in the specific section of the aforementioned report are consistent with the consolidated financial statements of HERA SpA as of 31 December 2013.

Bologna, 8 April 2013

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 of 2

2.08.02 Board of Statutory Auditors

To the Shareholders' Meeting of the Company Hera Spa,

The consolidated financial statements of the company Hera Spa as at 31 December 2013, 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 01 April 2014, 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 2013 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 2013. 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 2013.*
- *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 181,708 thousand and group shareholders' equity amounting to EUR 2,305,723 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 2013 in conformity with the rules that govern the drawing up of consolidated financial statements.

Bologna, 01 April 2014

Board of Statutory Auditors

Chairman, Board of Statutory Auditors	*Sergio Santi*
Standing auditor	*Antonio Venturini*
Standing auditor	*Elis Dall'Olio*

CHAPTER 4

Remuneration report

4.01 Report on remuneration

Introduction

This document is drafted in accordance with the provisions of article 6 of the Code of Conduct for Listed Companies established by Borsa Italian SpA, as well as article 123-ter of Legislative Decree 58/1998 (**Testo Unico della Finanza, TUF**), which requires listed companies to make available to the public at least 21 days before the date of the shareholders' meeting held to approve the financial statement, a Remuneration Report prepared on the basis of the regulations laid out in article 84-quater and Annex 3A, Schedule 7-bis of the Regulation implementing the TUF adopted by Consob through resolution no. 11971 of 14 May 1999 (the "**Issuer's Regulation**").

In compliance with the provisions of article 84-quater, paragraph 4 of the Issuers' Regulation, this report also provides evidence of the investments held, either directly or through subsidiaries, trust companies or individual nominees, by the members of the Board of Directors, the members of the Board of Statutory Auditors, the General Managers or spouses not legally separated and the minor children of such persons.

Section I

1 Introduction

The first section of this report outlines the principles and basic characteristics of the remuneration policy as applied to the top figures of the Hera Group. It should be noted that the Group managers holding strategic responsibilities are the General Manager of Operations and General Manager Development and Market.

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 seeks to be a business that withstands the test of time and to improve 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 a factor that contributes to improving corporate performance and the creation of value in the medium to long-term.

With a view to responsible reward and in keeping with the recommendations contained in Article 6 of the Borsa Italian SpA Code of Conduct, the Board of Directors, with the support of the Remuneration Committee, has therefore defined the remuneration policy for 2013.

Pursuant to paragraph 6 of article 123-ter of the TUF, the meeting is called on to decide on this Section I of the Remuneration Report.

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' Regulation"), the remuneration policy described in this document applies to the members of the administrative bodies and to the General Managers.

The table below lists the members, currently in office, of the Board of Directors and the Board of Statutory Auditors of Hera Spa, originally appointed at the Shareholders' Meeting of 29 April 2011, as well as the General Managers.

Name and Surname	Office held
Tomaso Tommasi di Vignano	Chairman (executive)
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)
Daniele Montroni **	Director (independent)
Stefano Manara ****	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)
Giovanni Perissinotto *	Director (independent)
Cesare Pillon *	Director

BOARD OF STATUTORY AUDITORS

Name and Surname	Office held
Sergio Santi	Chairman
Elis Dall'Olio	Standing auditor
Antonio Venturini	Standing auditor
Roberto Picone	Alternate auditor
Massimo Spina	Alternate auditor

DIRECTORS WITH STRATEGIC RESPONSIBILITIES

Name and Surname	Office held
Roberto Barilli	Hera Spa General Manager of Operations
Stefano Venier	Hera Spa General Manager of Development & Market

* in office since 1 January 2013
** resigned as of 14 March 2013
*** deceased since 18 March 2013
**** appointed through co-optation by the Board of Directors on 28 August 2014, to substitute for resigning member Daniele Montroni

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 any type of supplementary remuneration.

The CEO proposes policies for Group directors to the Remuneration Committee, which expresses its opinion and presents 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 Organization, who takes care of the implementation of these policies.

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 renewed, in its latest format, on 2 May 2011, comprises the following non-executive, independent directors: Giorgio Razzoli acting as Chairman, Bruno Tani, Marco Cammelli and Stefano Manara, who as of 28 August 2013 substituted the outgoing Daniele Montroni. 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 3 times during 2013, and all meetings were attended by the Chairman, the CEO and the Group Director of Human Resources and Organization of Hera S.p.A. The meetings of the Remuneration Committee lasted, on average, of one hour and thirty minutes.

During the meetings held in the 2013 financial year, all regularly recorded in the minutes, the following subjects were discussed:

- Variations in the 2012 final balance, corporate objectives component.
- Presentation of the 2012 Report on remuneration
- Accounting for 2012 variations in remuneration for company heads
- Variations in 2013 remuneration for company heads
- Salary guidelines for 2013.
- Balanced Scorecard system 2013 for Group Directors, Executives and Managers.
- Preliminary study concerning long-term incentives for top management and the possible introduction of retention systems.

4 Hera group remuneration policy

4.01 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 as well, in order to check the consistency of the company's remuneration scheme, with the dual purpose of retaining directors and keeping costs down;
- 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 standardized remuneration comparisons and analyses that are consistent with the development of the Group's organizational framework over time.

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 recognized 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 occupies an intermediate position, between operators that concentrate more on regulated activities and operators involved in the more risky business of production activities. Overall, the risk profile is very conservative.

The remuneration currently 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 emphasize 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 dividend development and 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 36% of gross annual fixed remuneration for Executive Directors, taking into account individual performance and the multiplier based on company results;

- once again 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 its highly 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 currently planning to include a long-term variable component.

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 concerning the correlation 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;
- Non-executive Directors (hereinafter referred to 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, Rossella Saoncella, Mauro Roda, Luca Mandrioli, Fabio Giuliani, Enrico Giovannetti, Marco Cammelli, Giancarlo Tonelli, Giovanni Perissinotto, Cesare Pillon and Stefano Manara.

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 Euro50,000 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 Euro25,000 gross per year.

The same Board of Directors decided, on 12 May 2011, to award the Vice Chairman a fixed annual sum of Euro100,000 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.

In line with best practices, they also receive D&O Liability insurance coverage against civil responsibility towards third parties as well as insurance coverage for professional and extra-professional accidental injury and death.

5.02 Executive Directors and General Managers

On 15 May 2013, the Board of Directors resolved:

- with regard to the office of Chairman, the confirmation, for 2013, of fixed compensation equal to Euro350,000 gross;
- with regard to the office of CEO, the confirmation, for 2013, of fixed compensation equal to Euro350,000 gross;

The aforementioned compensations also include all services and offices held in the Group's subsidiary and associate companies.

The Chairman, CEO and General Managers come under the scope of the remuneration policies defined for the top management of the company, whose methodology is based, as stated previously, on the weighting methods for the positions, market comparisons and an incentive scheme 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:

- following a proposal by the executive directors, the Board of Directors decided on 15 May 2013 to reduce the variable amount for executive directors from 40% to 30% of the total gross fixed compensation slated for reaching 100% of the targets, both in relation to the 2012 financial year balanced in 2013 , and the 2013 financial year balanced in 2014.

- the Hera Spa Board of Directors decided, for the 2013 financial year, 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 compensation slated for reaching 100% of the targets.

In relation to non-monetary benefits, in addition to the insurance policies outlined previously in point 5.01, the company car is available for use.

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 specialization and the organizational role along with 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 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 includes all Hera S.p.A. and Group subsidiary company Directors and Executives. The scope includes 42 Directors and 81 Executives. An evaluation form with similar settings is planned for the Chairman and the CEO as well.

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:

- objective-oriented projects, defined according to the Group's 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 behavior set out in the leadership model adopted by the Group.

Each area is divided into a series of pre-set objectives, each with a specific performance indicator. 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 actually reached (result) and the specific weight of the individual objective.

The result of the evaluation carried out using the aforementioned individual Balanced Scorecard system is weighted through a company results profile, which takes into account the performance recorded by the Group with reference, for 2013, to four parameters:

- EBITDA
- Net Profit
- Net Financial Position (PFN)
- Customer Satisfaction Index (ICS)

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 36% of fixed remuneration, which breaks down as follows:

> 30% for on-target results X company results multiplier equal to 1.2, to be applied if and when the company's targeted economic-financial results are exceeded, to the degree foreseen for each single indicator

The maximum bonus that the General Managers can receive is 30% of fixed remuneration, which breaks down as follows:

> 25% for on-target results X company results multiplier equal to 1.2, to be applied if and when the company's targeted economic-financial results are exceeded, to the degree foreseen for each single indicator

The maximum bonus, expressed in percentage terms of gross annual fixed remuneration of the director, varies according to the results of the incentive system and the office held by the manager, in a range between 20% and 26% of the individual gross annual remuneration.

The table below illustrates the mechanism for measuring accrued bonuses:

A	Gross Annual Remuneration (RAL)
B	Bonus Target (% RAL)
C	Individual objectives achieved (% Bonus Target)
D	Weighing coefficient (corporate performance)
E	% Bonus paid out = B x C x D (%)
€	Value of the Bonus paid out = 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.

7 Compensation for cases of resignation, lay-off or termination of the employment relationship

With the termination of their mandates, termination also comes into effect, without having been applied, previous agreements regarding payments to the Chairman and CEO in cases where the employment relationship ends before the due date, excepting possible cases 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-mentioned provisions, there are no agreements for cases of early termination of the employment relationship.

Section II

1 Introduction

This second section of the report outlines 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 policies for directors' remuneration, it should be noted that, with respect to the positions held by the directors (excluding the Chairman, Chief Executive Officer and Vice Chairman) in the Group companies, in the Remuneration and Risks and Controls Committees well as the Executive Committee, the directors involved are awarded a total salary of € 25,000 gross per year.

The value of the bonus received in 2013 by each figure is also indicated, in relation to the degree of achievement of the targets set in the previous year.

2 Description of the compensation paid to Directors and General Managers

This section contains the details of payments made during 2013, 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 made up exclusively of fees associated with the Administration role. The aforementioned compensations also include all services and offices held in the Group's subsidiary and associate companies. Note that during 2013 he received a bonus with regard to the results of the previous year, equal to Euro98,700. following the achievement of an overall performance index of 94% and following the reduction of the variable amount as previously stated in point 5.02.

CEO

The fixed payments for Maurizio Chiarini are made up exclusively of fees associated with the Administration role. The aforementioned compensations also include all services and offices held in the Group's subsidiary and associate companies. Note that during 2013 he received a bonus with regard to the results of the previous year, equal to Euro98,700. following the achievement of an overall performance index of 94% and following the reduction of the variable amount as previously stated in point 5.02.

Vice Chairman

Giorgio Razzoli only received a fixed payment of Euro100,000 as the fee for his office.

Non-executive Directors

Mara Bernardini, Filippo Brandolini, Luigi Castagna, Pier Giuseppe Dolcini, Roberto Sacchetti, Bruno Tani, Valeriano Fantini, Rossella Saoncella, Mauro Roda, Luca Mandrioli, Fabio Giuliani, Enrico Giovannetti, Marco Cammelli, Giancarlo Tonelli, Daniele Montroni and Stefano Manara 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.

General Manager of Operations

The General Manager of Operations, Roberto Barilli, received compensation of Euro339,562 in the form of gross annual remuneration as director. Note that during 2013 he received a bonus with regard to the results of the previous year, equal to Euro73,213, following the achievement of an individual performance index of 92.5% and a Group performance index of 94%.

General Manager of Development & Market

The General Manager of Development & Market, Stefano Venier, received compensation equal to Euro338,671 in the form of gross annual remuneration as director. Note that during 2013 he received a bonus with regard to the results of the previous year, equal to Euro79,119, following the achievement of an individual performance index of 100% and a Group performance index of 94%. He furthermore received a non-recurring allowance of Euro80,000 gross.

Statutory Auditors

The members of the Board of Statutory Auditors received fixed compensation for the office of Auditor determined by the Shareholders' Meeting.

Compensation received in Group companies

Remuneration for the Executive Directors, Directors, General Managers and Managers for positions held within Group company structures and/or committees, are redirected in their entirety to Hera SpA. The total redirected to the Parent Company for the year 2013 was approximately 780,000 Euros.

Bologna, 20 March 2014

The Chairmain of the Board of Directors:
Tomaso Tommasi di Vignano

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	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Tomaso Tommasi di Vignano	*Chairman*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				350,000		98,700		6,543	2,014	457,257		
(II) Compensation from subsidiaries and associated companies												
(III) Total				350,000		98,700		6,543	2,014	457,257		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Maurizio Chiarini	*CEO*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				350,000		98,700		6,529	2,461	457,690		
(II) Compensation from subsidiaries and associated companies												
(III) Total				350,000		98,700		6,529	2,461	457,690		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Giorgio Razzoli	*Vice Chairman*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				100,000				5,516		105,516		
(II) Compensation from subsidiaries and associated companies												
(III) Total				100,000				5,516		105,516		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Mara Bernardini	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000				1,017		51,017		
(II) Compensation from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000				1,017		76,017		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Filippo Brandolini	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000				4,352	1,788	56,140		
(II) Compensation from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000				4,352	1,788	81,140		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Luigi Castagna	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000				2,445		52,445		
(II) Compensation from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000				2,445		77,445		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Pier Giuseppe Dolcini	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000				4,737		54,737		
(II) Compensation from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000				4,737		79,737		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Roberto Sacchetti	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000				4,878	1,894	56,772		
(II) Compensation from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000				4,878	1,894	81,772		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Bruno Tani	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000	25,000			1,732		76,732		
(II) Compensation from subsidiaries and associated companies												
(III) Total				50,000	25,000			1,732		76,732		
Notes					I) as a member of the Remuneration Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Stefano Manara	*Director*	28.08.2013 - 31.12.2013	Next shareholders' meeting									
I) Compensation in the company preparing the financial statements				17,204	8,602			325		26,141		
(II) Compensation from subsidiaries and associated companies												
(III) Total				17,204	8,602			325		26,141		
Notes					I) as a member of the remuneration Committee (for the period 28.08.2013-31.12.2013)							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation: Bonuses and other incentives	Variable non-equity compensation: Profit sharing	Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
Rossella Saoncella	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000	25,000			1,142		76,142		
(II) Compensation from subsidiaries and associated companies												
(III) Total				50,000	25,000			1,142		76,142		
Notes					I) as a member of the Control and Risk Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation: Bonuses and other incentives	Variable non-equity compensation: Profit sharing	Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
Mauro Roda	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000				2,001		52,001		
(II) Compensation from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000				2,001		77,001		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Luca Mandrioli	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000	25,000			985		75,985		
(II) Compensation from subsidiaries and associated companies												
(III) Total				50,000	25,000			985		75,985		
Notes					I) as a member of the Control and Risk Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Fabio Giuliani	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000	25,000			1,418		76,418		
(II) Compensation from subsidiaries and associated companies												
(III) Total				50,000	25,000			1,418		76,418		
Notes					I) as a member of the Control and Risk Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Enrico Giovannetti	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000				2,022		52,022		
(II) Compensation from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000				2,022		77,022		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Marco Cammelli	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000	25,000			3,446		78,446		
(II) Compensation from subsidiaries and associated companies												
(III) Total				50,000	25,000			3,446		78,446		
Notes					I) as a member of the Remuneration Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Giancarlo Tonelli	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000				1,244		51,244		
(II) Compensation from subsidiaries and associated companies				25,000						25,000		
(III) Total				75,000				1,244		76,244		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Giovanni Perissinotto	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000	25,000			1,858		76,858		
(II) Compensation from subsidiaries and associated companies												
(III) Total				50,000	25,000			1,858		76,858		
Notes					I) as a member of the Executive Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Cesare Pillon	*Director*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				50,000				1,858		51,858		
(II) Compensation from subsidiaries and associated companies												
(III) Total				50,000				1,858		51,858		
Notes												

Directors no longer in office

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Valeriano Fantini	*Director*	01.01.2013 – 18.03.2013	no longer in office as of 18.03.2013									
I) Compensation in the company preparing the financial statements				10,752.69						10,752.69		
(II) Compensation from subsidiaries and associated companies				5,376.34						5,376.34		
(III) Total				16,129.03						16,129.03		
Notes				II) for offices held in Group companies (the period 01.01.2013 – 18.03.2013)								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Daniele Montroni	*Director*	01.01.2013 – 14.03.2013	Resigned as of 14.03.2013									
I) Compensation in the company preparing the financial statements				10,215.05	5,107.53					15,322.58		
(II) Compensation from subsidiaries and associated companies												
(III) Total				10,215.05	5,107.53					15,322.58		
Notes					I) as a member of the Remuneration Committee (period of 01.01.2013 – 14.03.2013)							

Control body

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Sergio Santi	*Chairman of the Board of Statutory Auditors*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				120,000				3,094		123,094		
(II) Compensation from subsidiaries and associated companies												
(III) Total				120,000				3,094		123,094		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Elis Dall'Olio	*Standing Auditor*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				80,000						80,000		
(II) Compensation from subsidiaries and associated companies												
(III) Total				80,000						80,000		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Antonio Venturini	*Standing Auditor*	01.01.2013 - 31.12.2013	Annual Financial Report approval as of 31.12.2013									
I) Compensation in the company preparing the financial statements				80,000						80,000		
(II) Compensation from subsidiaries and associated companies												
(III) Total				80,000						80,000		
Notes												

General Managers

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Roberto Barilli	*General Manager of Operations*	01.01.2013 - 31.12.2013										
I) Compensation in the company preparing the financial statements				339,562		73,213		18,152	2,788	433,715		
(II) Compensation from subsidiaries and associated companies												
(III) Total				339,562		73,213		18,152	2,788	433,715		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Stefano Venier	*General Manager of Development & Market*	01.01.2013 - 31.12.2013										
I) Compensation in the company preparing the financial statements				338,671		159,119		19,147	2,545	519,482		
(II) Compensation from subsidiaries and associated companies												
(III) Total				338,671		159,119		19,147	2,545	519,482		
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
Tommasi di Vignano Tomaso	Chairman		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	98,700						
		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			98,700						

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Chiarini Maurizio	CEO		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	98,700						
		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			98,700						

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Barilli Roberto	General Manager of Operations		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	73,213						
		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			73,213						

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Venier Stefano	General Manager of Development & Market		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		*Balanced Scorecard system (related approval date)*	79,119						
		Plan B (related approval date)	ut 80,000						
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total			159,119						

Surname and Name	Offices in Hera Spa	subsidiary	N. shares held at the end of the preceding financial year	N. shares purchased	N. shares sold	N. shares held at the end of the current financial year
Tomaso Tommasi di Vignano (1)	Chairman	Hera Spa,	30,000	1,764	-	31,764
Maurizio Chiarini	CEO	Hera Spa,	39,200	2,305	-	41,505 (4)
Giorgio Razzoli	Vice Chairman	Hera Spa,	-	-	-	-
Mara Bernardini	Director	Hera Spa,	17,400	1,024	-	18,424
Filippo Brandolini	Director	Hera Spa,	-	-	-	-
Marco Cammelli	Director	Hera Spa,	-	-	-	-
Luigi Castagna	Director	Hera Spa,	75,000	4,411	-	79,411 (2)
Pier Giuseppe Dolcini	Director	Hera Spa,	2,750	-	-	2,750
Valeriano Fantini (in office until 18/03/2013) (3)	Director	Hera Spa,	24,500	-		24,500 (3)
Enrico Giovannetti	Director	Hera Spa,	-	-	-	-
Fabio Giuliani	Director	Hera Spa,	-	-	-	-
Luca Mandrioli	Director	Hera Spa,	-	-	-	-
Mauro Roda	Director	Hera Spa,	-	-	-	-
Roberto Sacchetti	Director	Hera Spa,	12,500	-	12,500	-
Rossella Saoncella	Director	Hera Spa,	-	-	-	-
Bruno Tani	Director	Hera Spa,	110,000	6,470	-	116,470
Giancarlo Tonelli	Director	Hera Spa,	-	-	-	-
Giovanni Perissinotto	Director	Hera Spa,	-	-	-	-
Cesare Pillon	Director	Hera Spa,	-	-	-	-

Surname and Name	Offices in Hera Spa	subsidiary	N. shares held at the end of the preceding financial year	N. shares purchased	N. shares sold	N. shares held at the end of the current financial year
Stefano Manara (in office since 28/08/2013)	Director	Hera Spa,	-	-	-	-
Daniele Montroni (1) (in office until 14/03/2013)	Director	Hera Spa,	2,750	-	-	2,750 (5)
Sergio Santi	Chairman of the Board of Statutory Auditors	Hera Spa,	28,100	-	-	28,100
Elis Dall'Olio	Member of the Board of Statutory Auditors	Hera Spa,	8,500	500	-	9,000
Antonio Venturini	Member of the Board of Statutory Auditors	Hera Spa,	-	-	-	-
Roberto Barilli	General Manager of Operations	Hera Spa,	-	-	-	-
Stefano Venier	General Manager of Development & Market	Hera Spa,	-	-	-	-

(1) indirect possession through spouse (2) of the 79,411 shares held, 2,064 are held by the spouse (3) shares held as of 18/03/2013, the date the individual left office (4) of the 41,505 shares held, 15,882 are held by the spouse 5) shares held as of 14/03/2013, the date the individual left office

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