HERA GROUP CONSOLIDATED FINANCIAL REPORT

AS AT 31ST DECEMBER 2012

Focus on figures and performance numbers, results and key indicators

4.5 *billion*

REVENUES

Revenues from supplied services go up, totalling 4,492.7 million

662 *million*

EBITDA

Ebitda from business activities goes up once again, totalling 662.0 million

+13.5 %

HERA NET PROFIT

The increasecompared to year 2011

GRUPPO HERA

Hera Group Consolidated Financial Statements - Financial year ended 31 December 2012

0 Introduction

1 Directors' report

2 Hera Group Consolidated Financial Statements

3 Report on remuneration

CHAPTER 0

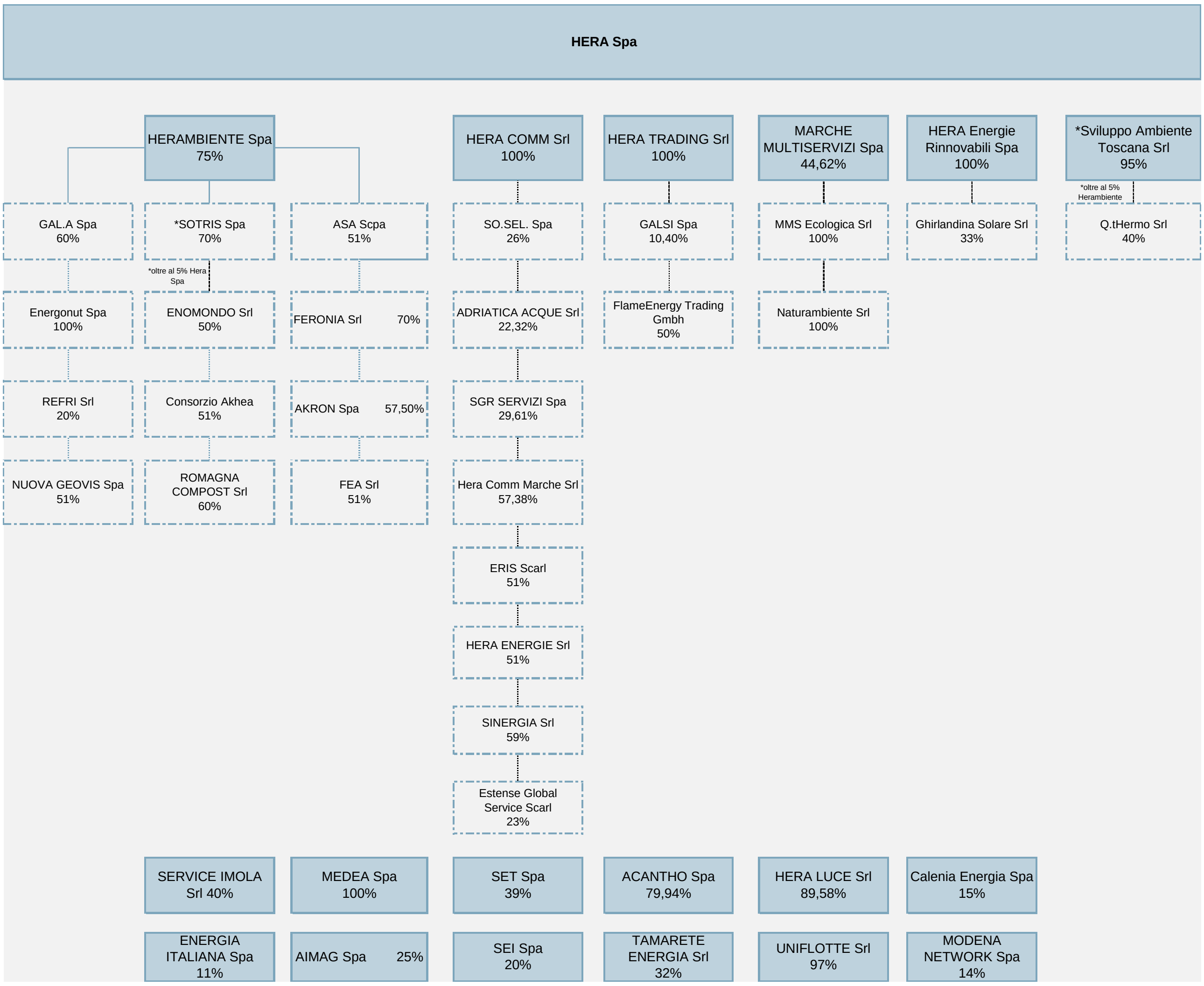
Introduction

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



Investments held by Hera Spa

Formula Line is undergoing liquidation proceedings

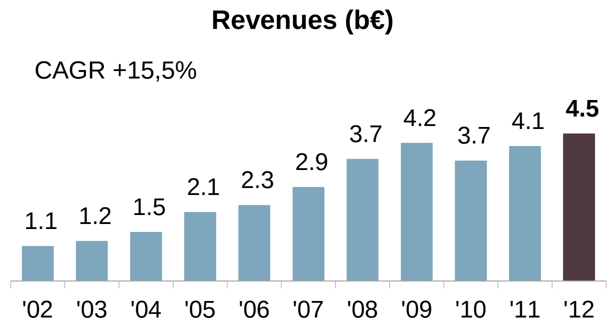
Hera Servizi Cimiteriali, Hera Servizi Funerari, Hera Socrem are being sold.

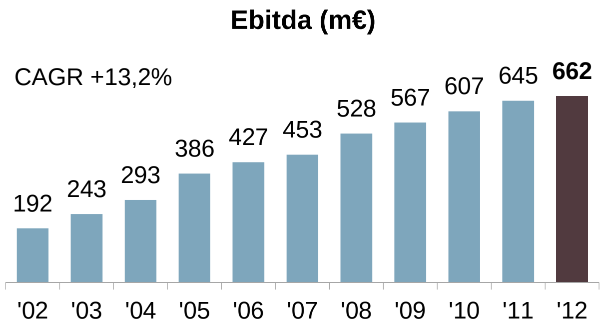
Administrative and auditing boards

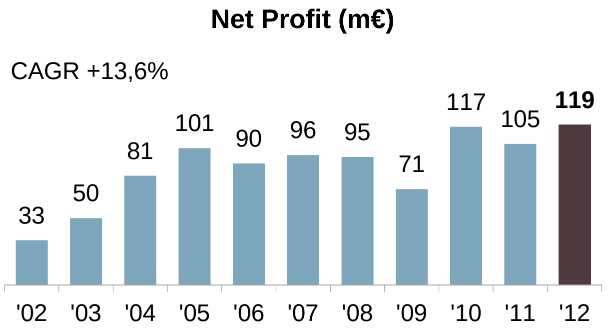
Board of Directors	
Chairman	Tomaso Tommasi di Vignano
Deputy Chairman	Giorgio Razzoli
Chief Executive Officer	Maurizio Chiarini
Director	Mara Bernardini
Director	Filippo Brandolini
Director	Marco Cammelli
Director	Luigi Castagna
Director	Pier Giuseppe Dolcini
Director	Valeriano Fantini***
Director	Enrico Giovannetti
Director	Fabio Giuliani
Director	Luca Mandrioli
Director	Daniele Montroni****
Director	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 statutory auditor	Antonio Venturini
Standing statutory auditor	Elis Dall'Olio
Internal Control Committee	
Chairman	Giorgio Razzoli
Member	Fabio Giuliani
Member	Luca Mandrioli
Member	Rossella Saoncella
Remuneration Committee	
Chairman	Giorgio Razzoli
Member	Marco Cammelli
Member	Daniele Montroni****
Member	Bruno Tani
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Deputy Chairman	Giorgio Razzoli
Member	Maurizio Chiarini
Member	Giovanni Perissinotto**
Ethics Committee	
Chairman	Giorgio Razzoli
Member	Filippo Bocchi
Member	Mario Viviani
Independent Auditors	
	PricewaterhouseCoopers

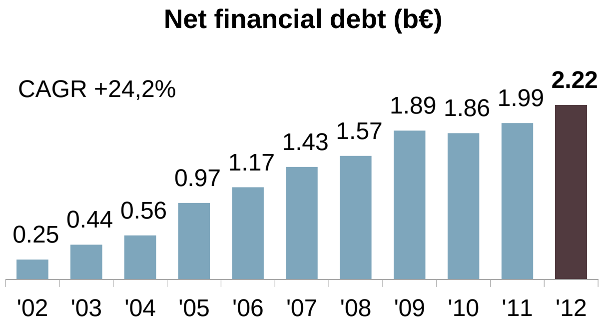
** in office since 1 January 2013   ** in office since 24 January 2013   ***died on 18 March 2013   ****outgoing as of 14 March 2013*

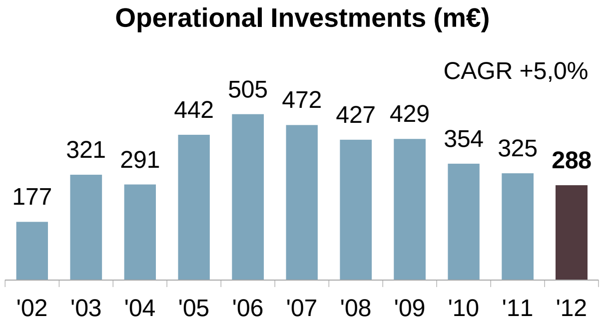
Key financial information

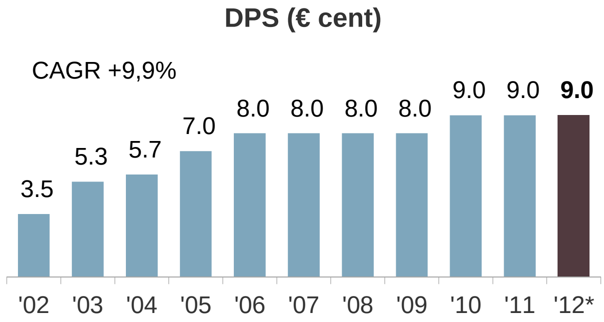












** Proposal of the Board of Directors to be put to the Shareholders' Meeting in April 2013*

The business combination operation with Acegas Aps

Hera's progressive area expansion strategy, through consolidation of multi-utility companies in the neighbouring areas of the reference territory, has led the Group to cover 70% of the customers in Emilia-Romagna and penetrate in the Marche region.
Hera continued the expansion route in 2012 with a merger through incorporation with Acegas Aps, an operation that was the most significant in absolute terms realised by the Group to date.
The industrial presence of Acegas Aps is focused on the Energy, Water Cycle and Environment sectors and contributes both to the dimensions of each of Hera's main businesses and those of the supervision of the chain. The merger with Acegas Aps reinforces all the competitive positions on the liberalised markets: a leader in the environment, third in gas and fifth in electricity and also expanding its presence on the regulated markets. This allows the best way of meeting the competitive challenges of a market that covers the North-East and the prospect of future tenders for the awarding of concession services.

Furthermore, the new actuality can be proposed with greater vigour as a further combination within contiguous areas, characterised by a high fragmentation of companies supplying services.

The merger with Acegas Aps, effective commencing from 1 January 2013, takes the Group to a dimension of "pro forma" 2012 production value of €5.3 billion, a EBITDA "pro forma" of about €791.3 million and a net profit "pro forma" of about €144.3 million, with a financial solidity witnessed by the ratio between net borrowings and a "pro forma" EBITDA of around 3.4x, confirming it as the second national group amongst the Local Utilities, with leadership and positioning of absolute significance in all businesses and the first by market cap.

The potential synergy of the 'operation can be expressed by the new organisational structure, which was preliminarily estimated as about € 25 million/year when fully operative. This is achievable in the various operational areas given the complementariness of the business portfolio, which will be added to the effects of the Group's possible further developments after the merger, both at territorial level and individual business areas. The attainment of these synergies will improve the merger operation as far as concerns the earnings per share for the entire shareholding.

The delisting procedure anticipated, following the positive result of the takeover bid with share swap that led to the 92.7% concentration of the Acegas Aps shares in the Hera Group, is presently taking place.
The merger with Acegas Aps was the sole significant one recently carried out in the sector and has obtained the appreciation of the Italian Strategic Fund, which is intent on supporting the consolidation process of the sector. In fact, the Italian Strategic Fund proceeded in August 2012 to sign an agreement for acquiring shares in Hera with the contribution of financial means to support the Group's future development as a strategic partner.

Strategic approach and business plan

Hera's strategic objective has always been the creation of value from a multi-stakeholder perspective, in the medium-and long-term, competing autonomously and **effectively** in liberalised markets. The objective is to replicate the "unique" business model for expanding the Group and **managing primary services in an increasingly efficient manner** in order to **satisfy the main stakeholders**. This strategy has continued, from 2002, to sustain an uninterrupted growth in the results through all the main levers available. The **strategy is based on its strong points**, in other words an "open" organisational model, capable of allowing an efficient increase in size through external lines, national leadership in the waste sector and a loyal, extensive customer base concentrated in the reference area.

The Group's strategic imperative is to preserve the customer base by paying great attention to the service quality, after sales support service and an integrated offering of a complete set of primary services to the multi-business portfolio (with traditional gas, refuse and electricity services). Furthermore, the development strategy has aimed at the maintenance of a balance between the various activities, to maintain the low variability of the Group's results.

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

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

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

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

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

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

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

These basic strategies, though with an appropriate trend to the new reference scenario, are once again confirmed in the **2012-2016 business plan** (presented in October 2012). The future growth expectations in fact rest on the continuation of improving the efficiency, completion of the Acegas Aps merger, a predictable further expansion for already identified and started external growth lines, (an operation with the Aimag multi-utility and maintenance of the area coverage with gas distribution services) and, finally, on continuation of the expansion strategies in the liberalised markets. The anticipated cash generation from these "organic" growth initiatives meets the strategic objective of improving the financial solidity and maintaining a constant dividends distribution policy throughout the plan period.

The expansion strategies for external lines also remain in the logics applied to date in the business plan until 2016; in fact, they constitute a priority for expansion in the "multi-business" sector in the neighbouring territories and for strengthening positions on the free markets. These strategies are directed at maintaining a "balanced" assets portfolio and can be expressly pursued thanks to the current flexibility of the financial structure, considered to be amongst the soundest in the industry.

Business sectors

Hera is the leading domestic operator in the **environment sector** by quantity of waste collected and treated. **Waste collection** regulated by concession contracts has developed over the years through the subsequent inclusion of companies, and now covers all the areas from Modena to Pesaro-Urbino. Thanks to constantly raising customer awareness and supporting local institutions, the Hera waste collection system is based on recycling the majority (over 50%) of waste materials (glass, paper, plastic, metals and biomasses) and on the development of the energy content of the remaining part, through waste-to-energy treatments and extraction of biogases.
This effective system has made a considerable contribution to the decrease in the amount of urban waste disposed of directly in landfills, thereby reducing soil pollution.

The **waste treatment and disposal activities** have benefited, over time, from significant expansion and renovation of the plant structure. The multi-year plan for modernisation of 8 plants was completed in 2011. In 2013 the plant base is enriched with another 2 WTEa (in Trieste and Padua) with the merger with Acegas Aps, effective from 1 January 2013; 1 WTE acquired from Veolia during the course of the financial year in Molise (Energonut) and the last WTE in Florence commenced the request procedure for the authorisation for the construction, the treatment plant for bio-masses were further strengthened and the material coming from differentiated waste collection selected.
Today, this plant set-up totals 81 (without considering the Acegas Aps contribution), capable of meeting the waste treatment and enhancement requirements of every typology, constituting the Group's excellence on a national scale, which has supported the considerable expansion of business volumes in the decade and the satisfying of complex disposal and land reclamation requirements at production sites.
With generation of over 0.7 TWh the Group has become one of the leading concerns committed in the recovery of electricity from waste.
For the purpose of best rationalising the business in accordance with the market logics, the Hera Group incorporated Herambiente in 2010, to which were transferred all the liberalised disposal, treatment and waste recovery operations. The Group opened the shareholding structure of Herambiente in the same year to the Eiser infrastructure investment fund, thus ensuring financial support for future development. Integration with Acegas Aps further reinforced the Group's leadership in the sector with an expansion of the action area. In fact, the bases situated in the North-East of the country gives Hera a greater competitive strength in those markets.
Since its establishment, Hera has also operated in the field of **integrated water services**, 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 north of Le Marche, based on long-term concessions (on average until 2023).

Following the mergers, physiological development of the activities and investments made, the Group, excluding the Acegas Aps contribution, has substantially doubled its customers, strengthened the purification plants, expanded the distribution and drainage system networks by about 10 thousand linear km and increased the business volumes to an average annual rate of 4%. The water network, like all Group networks, is currently controlled by a single remote control system, created in 2007 and deemed to be one of the most advanced in Europe. Remote monitoring of networks has made it possible to optimise maintenance and supervision processes, 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) has been amongst the best domestically.

The whole environmental control system, from analysis of the water before distribution, to the collection and purification systems for the waste water, has recorded important progress and guaranteed a high service quality and maximum customer safety.
The Group is the second most important operator in Italy by sales volumes, with a continuous and extensive presence in the reference territory.
At the end of the financial year, the AEEG Authority defined a transitory tariff system for the 2012-2013 periods, which ended the regulatory uncertainty of the last 18 months. The core principles of the tariff system permit continuing the plant modernisation plan and development of the activities with greater comfort.
The Group almost entirely covers the reference territory in the **gas sector** as well. This includes distribution and sales services, plus methane gas trading, as well as district heating operations. Hera is currently among the leading “local” firms and the fourth nationally in terms of sales volumes. In spite of the liberalisation of the sales market, the Group has maintained and developed its original customer base, reaching 1.12 million users, in other words almost doubling it in ten years, thanks to successive mergers. The Acegas APS contribution permits a significant widening of the customer base, the opening in new interesting markets (such as those of North-East Italy) and will take the Group to third place in the Italian market commencing from 1 January 2013.
Sales have also more than doubled in this period, with volumes handled reaching more than 3.5 billion cubic metres. The distribution network, developed through direct investment and the acquisition of companies, has reached 14 thousand km. Acegas Aps brings an important dowry of plant structures that permit looking, with optimism, at the future tenders for the gas distribution concessions in all reference areas.

The unstable situation of the energy markets has forced the Group to follow prudent and flexible procurement policies, gathering the opportunities deriving from the slow process of opening and developing the raw material import capacities and the Italian and international wholesale market. Hera has a multi-year gas importing capacity of almost 500 million cubic metres per year through the TAG gas pipeline (Russian gas). It has also gradually diversified internal (domestic) sources, striving for maximum flexibility through annual agreements (multi-year contracts currently cover 10% of total supplies). Lastly, there has been an organisational breakdown that has led to the incorporation of a sales company (Heracomm) and a trading company (Heratrading). Thanks to these, Hera has established direct operational activities in Baumgarten and other European hubs. This supply portfolio structure has protected Hera from the risks of purchasing “predetermined” materials many years ahead and, in recent years, has allowed it to derive benefits from the growing availability of methane gas in the country.
Sales volumes relating to district heating have also almost doubled. As is known, this is a way of transforming energy into heat more efficiently and with less impact on the environment than independent home heating systems.
The district heating network has been developed in urban areas in the territory near the large waste-to-energy and cogeneration plants built in the last ten years, thereby exploiting heat sources that would not otherwise be used.

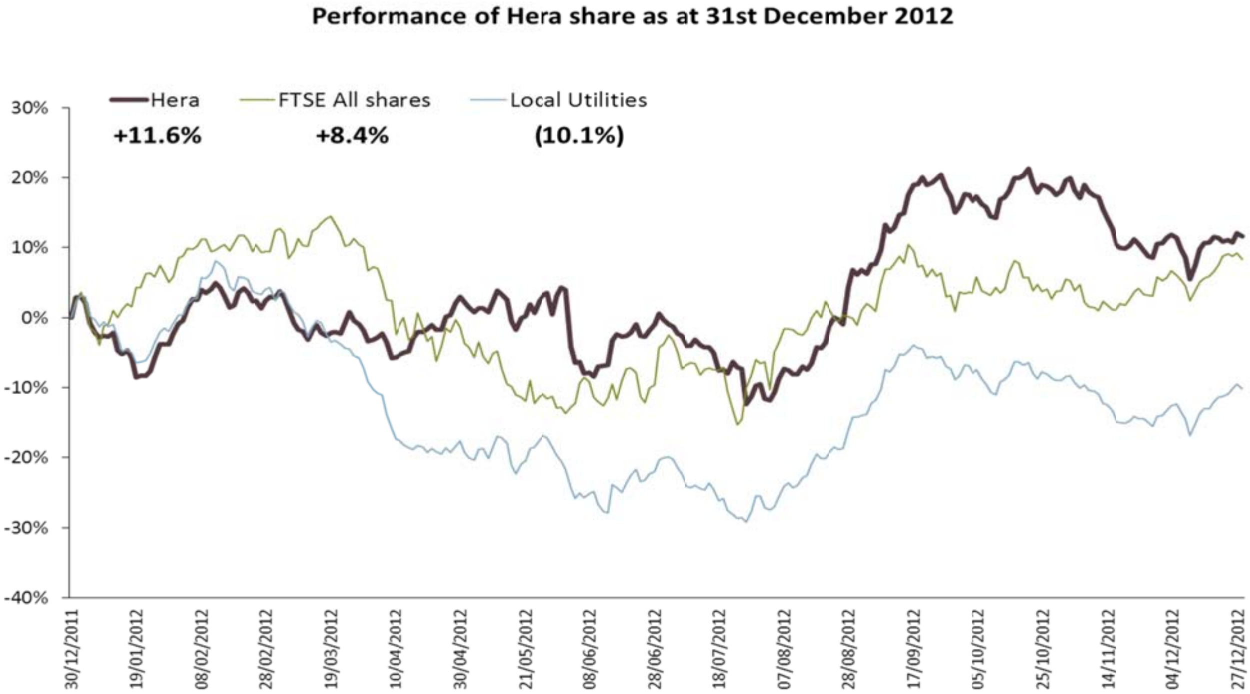
The dual fuel commercial strategy has allowed the **electricity market to develop** at sustained growth rates, both through cross-selling activities to existing customers and through expansion into new markets. The strategy has been capable of defending the existing customers in the gas sector, as previously shown (and achieving important market shares), with annual sales of about 10 TWh, on a decupled base of over 540 thousand customers (compared to 49 thousand on commencement in 2002).

Commercial development in the electricity sector has been accompanied by a parallel **cautious development in electricity generation for the sustainable management of customer demand.** Over the years, Hera has been involved in the construction of two base-load new generation CCGT **plants** in Campania (an area with a poor infrastructure), with a capacity of 1,200 MW installed.
The relatively contained financial commitment has permitted access to electricity at cost prices, while the signing of special contracts ("*PPAs*") that provide flexible supply conditions, ensure a low risk profile. In this field, since the Group's incorporation it has held a stake equivalent to 5.5% in Tirreno Power through Energia Italiana.
These plants have been built through a joint venture with the purchase of minority stakes by foreign partners of international standing. The acquisition of 32% of Tamarete Energia should also be recalled. This company has its base in Ortona (CH) and in 2010 completed the **construction of a combined cycle plant with 104 MW installed**.

In 2008, an 80 MW gas cogeneration plant was completed in Imola, which ensures self-sufficiency for the province if there is a national grid black out. Lastly, the Hera generation equipment saw the development of over 110MW of clean energy from WTE plants, a further 13 MW from biomass thermo-electric plants, as well as the development of small biogas and photovoltaic generation plants, which complete the diversified portfolio of the Group's sources.
Hera remains an operator with a relatively contained presence in the generation business; the greater part of the demand for electricity from end customers is in fact prevalently covered with a portfolio of widely diversified bilateral supply contracts and market trading.
The electricity distribution business recorded important development from its constitution. The merger with the Modena multi-utility (Meta Spa) in 2005 and acquisition of the Enel electricity network in the province of Modena, contributed to the expansion of the network, reaching a dimension of almost 10 thousand kilometres that, thanks to the investments made, is completely equipped with electronic meters and managed remotely by a sole, technologically advanced, remote control centre. The Acegas Aps combination contribution is also important in this sector, specifically for the commercial potentiality of development that those markets can offer to an integrated actuality of the new Group's size.

Share performance on the Stock Exchange and shareholder relations

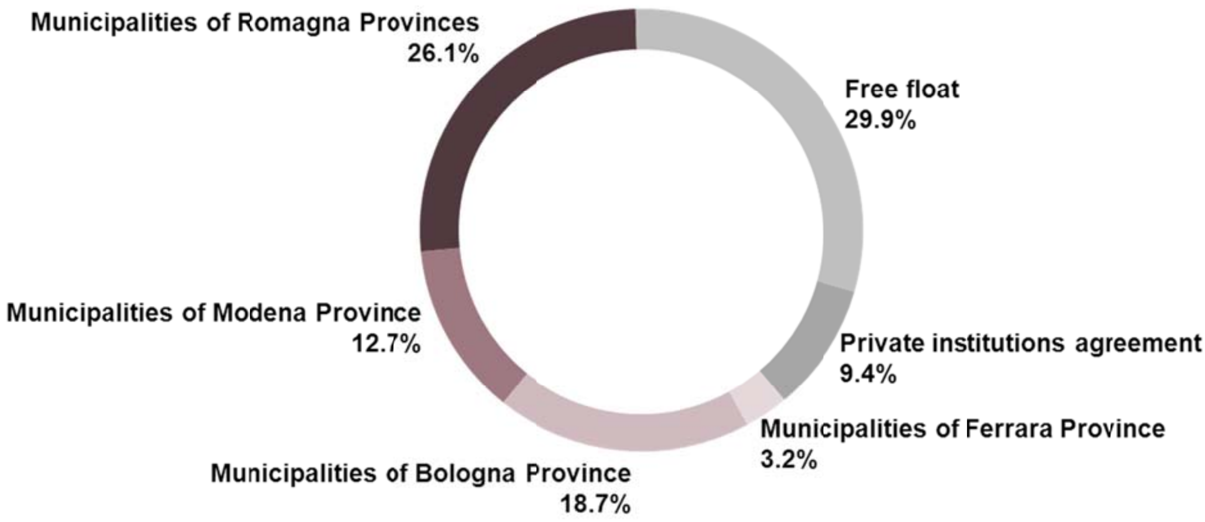
The stock's performance on the Stock Exchange in 2012 illustrated in the following chart shows +11.6% (up from 1.09€ to 1.22€), exceeding the stock market (+8.4%) and in a countertendency compared to the local-utility sector (-10.1%).



The Hera stock maintained a stable performance in the first part of the year, despite the persistence of both the political and financial macro short-term economic situation, supported by the good results of the 2011 annual financial statements, the payment of a stable dividend compared to the previous year and positive interim financial statements. The performance then accelerated sharply from the end of the month of July, reaching a value of 1.20€. It maintained this until the year-end, or when the merger agreement with the listed company Acegas Aps was concluded and the signing of the conditional commitment to participate in a future share capital increase by the Italian Strategic Fund (controlled by the Loan and Deposit Fund). The average daily trading level in 2012 stood at 1.3 million shares, with an average value of €1.8 million.

The market rating of the Hera Group at the end of 2012 implies a 2012 EV/EBITDA multiple of 5.2 times, a 2012 P/E slightly exceeding 11 times and a Dividend Yield of 7.3%. The market cap, equal to 70% of book value, seems not to fully reflect the Group's improved financial solidity compared to competitors, the prospects of further growth anticipated in the business plan and the opinion of the financial analysts, which expresses an average valuation exceeding 20% compared to the year-end.

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



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

Since 2006, Hera has conducted a treasury share buyback programme, with a maximum of 15 million shares, for a total amount of €60 million. This programme aims to finance any opportunities to buy small companies and to rectify any unusual fluctuation in the Group's share price compared with its major domestic competitors. The Shareholders' Meeting held on 27 April 2012 renewed the treasury share buyback plan for a further 18 months, for a maximum overall amount of €40 million and a maximum of 25 million shares. Hera held approximately 13.8 million treasury shares in its portfolio as at 31 December 2012.

Over the course of the last ten years, **remuneration for shareholders** has always involved constant or increasing dividends, even at the most delicate times following mergers or during the macroeconomic crisis of recent years. The Board of Directors' proposal, to be submitted to the approval of the Shareholders' Meeting, is a dividend per share of € 9 cents, which also confirms the commitment of the business plan to 2016, published in October 2012.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Dividends approved (ml€)	27.6	42.0	48.2	71.2	81.3	82.5	82.5	88.9	99.9	100.4	100.4
DPS (€)	0.035	0.053	0.057	0.070	0.080	0.080	0.080	0.080	0.090	0.090	0.090

** Board of Directors' dividend proposal*

The Group has, from its listing, promoted and increased relations with the financial analysts to ensure investors have a plurality of independent opinions. Over time, this coverage has increased to 14 studies, with international brokers such as Citigroup and Merrill Lynch. The financial crisis of recent years has caused profound restructurings in the banks, reducing their number to 11 studies (in the last 2 years the studies of Exane, Merrill Lynch, Mediobanca, Sogen and Unicredit were interrupted); despite this, Hera still enjoys a professional “coverage”, balanced between domestic and international broker studies: Alpha Value, Banca Aletti, Banca Akros, Banca IMI, Centrobanca, Cheuvreux (in the phase of a merger with Kepler), Citigroup, DeutscheBank, Equita, Intermonte and Kepler. Furthermore, the Banca Akros, Cheuvreux, and DeutscheBank analysts have included Hera stock amongst the best investment opportunities for 2012. At the end of 2012, Hera will rate a balancing between “Buy”/”Outperform” valuations and “Hold/Neutral” opinions, with no negative opinion. The 12-18 month stock average target price, expressed by analyst evaluations, is €1.5 per share. In 2013, ICBPI commenced research on Hera with a “Buy” recommendation.
The Hera stock is included in the “SRI” multiples indices: in fact, it has formed part of the “Kempen SNS Smaller Europe SRI Index” for years. In 2008 it was also included in the ECPI Euro Ethical Index. In 2009 it was included in the “ECPI EMU Ethical Index”, consisting of 150 companies with sustainability characteristics consistent with the “ECPI SRI” methodology and listed on the European Union economic-monetary market.
The Group’s main means of communication with shareholders and stakeholders is the website **www.gruppohera.it.** During the course of the ten years the section dedicated to shareholders/financial operators (“Investor Relations” section) has seen continuous improvement. For the fourth consecutive year the Hera on-line financial communication rose onto the podium of the national Webranking classification, styled by KWD webranking Italia amongst the major domestic listed companies: in 2012 the Group's site in fact conquered second place, positioning itself ahead of many large Italian Companies and was best instrument communication instrument of the Italian utilities.
Since its establishment in 2002, Hera has placed special emphasis on direct communication with investors, culminating in a Road Show introducing the stock in Italy and abroad (United Kingdom, France, Switzerland, the Netherlands, Germany, Austria, Scandinavian countries, Belgium, Luxembourg and the United States). Hera maintained an average of 350 contacts in 2012 with the European and American investors. Timeliness of reports and communication transparency has been further improved, including in response to the profound sense of uncertainty that our country is still passing through at this time.

Notice of calling of the Shareholders' Meeting

Shareholders are called to the Ordinary Shareholders' Meeting in the Auditorium of the CNR CONGRESS CENTRE at 101 Via Gobetti, Bologna on **30 April 2013 at 10.00** am, on single call, to discuss and resolve the following matters:

Agenda

Extraordinary Part

1. Amendments to articles 16 and 26 of the Articles of Association; inherent and consequent resolutions.
2. Amendments to article 17 and the "Transitory Rule" as well as introduction of article 34 of the Articles of Association: inherent and consequent resolutions.

Ordinary Part

1. Financial statements as of 31 December 2012, Directors' Report, proposal to distribute the profit, and report of the Board of Statutory Auditors: consequent resolutions;
2. Presentation of the corporate governance report and remuneration policy decisions;
3. Renewal of the authorization to purchase treasury shares and procedures for arrangement of the same: consequent provisions.
4. Appointment of a member of the Board of Directors, taking effect at a later date.

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

Right to attend and participate by proxy

Those who are eligible to attend the Shareholders' Meeting are those who are entitled to vote at the end of the accounting day of 19 April 2013 (record date) and those from whom the Company has received the relevant notification from an authorized intermediary. Those who are only shareholders following this date will not have the right to take part in and vote at the meeting.

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

The Company has appointed Servizio Titoli S.p.A. as a representative whom shareholders with voting rights can, by 26 April 2013, nominate as a proxy with instructions for voting on all or some of the proposals on the agenda. The proxy for the above-mentioned representative should be conferred in the appropriate manner using the dedicated proxy form available on the Company website www.gruppohera.it
The proxy for the appointed representative is not effective with regard to proposals for which voting instructions have not been given.

Other shareholders' rights
Shareholders can ask questions about items on the agenda before the actual meeting, though not later than 25 April 2013, in the manner indicated on the Company's website www.gruppohera.it. The answers will be published on the website by 28 April 2013.
Shareholders who, even jointly, represent a fortieth of the share capital, can ask, within 10 days of the publication of this notice, for the inclusion of subjects to be discussed indicating the further topics proposed in the question. Questions should be presented in writing in the manner indicated on the Company's website www.gruppohera.it.

Bologna, 26 March 2013

The Chairman of the Board of Directors

(dott. Tomaso Tommasi di Vignano)

CHAPTER 1

Directors' report

1.01 Introduction

The eleventh financial statements published by Hera since its establishment again confirm growing financial results and validates the multi-utility strategic plan in a long-term multi-stakeholder perspective. In fact, from its establishment, the Group has always shown its capability to achieve growth, including in crisis scenarios as at present.

The unfavourable **macro-economic context**, initiated in 2008 with the financial system crisis, culminated in a broader crisis of the sovereign debt in some peripheral European countries. This led to Italy's credibility being at historical lows during the course of 2012 (the Italian spread against the German Bund ended 2012 at 317 basis points, after having exceeded 520 basis points in the second half of the year). Italy has had moments of political instability that resulted in the early fall of the institutional government and installation of a technical government ("Monti Government") that has operated in an emergency to exit from the contingent critical situation. The country nevertheless was left with a resigning Government at the year-end, only authorised for "ordinary administration" and with the impossibility to continue the urgent institutional reforms considered as indispensable. In Italy, the crisis and the austerity policies imposed by the general financial situation and stringent European criteria profoundly affected the economy in 2012: the first signs of recession, manifested at the end of 2011, in fact protracted and amplified during the course of 2012. The seasonally-adjusted Gross Domestic Product (GDP) of 2012 shows a fall of -2.4% compared to +0.5% in 2011 and the estimates for 2013 are for a GDP with still negative growth rates, around -1%. In Italy the industrial output levels have shown a negative trend of -6.7% that is added to -5.0% in 2011, the exports increase was reduced to +2.3% (compared to +11.4% in 2011), as did the imports reduce by-7.7% compared to a positive figure in 2011. This context was also influenced by the fall in demand, investments (respectively -3.9% and -8%) and energy consumption, where a drop in gas industrial business of -3.9% was registered and a slowdown in the demand for electricity (-2.8% compared to +0.6% in 2011).

Hera also continued, in this difficult context, to follow its strategies with consistency, producing further growth of the financial results and laying the bases for major future development, illustrated in the business plan to 2016, published in October 2012.

The strategy on the liberalised markets permitted considerable growth in the number of customers in the **electricity** sector **i**n 2012 (+59 thousand customers), confirming the Group's commercial strength in an increasingly competitive market and pegging the effect of the domestic consumption reduction. The Hera Group was able to use the lever of new and effective policies, commercial strengths and after sales support, which have determined a high degree of existing customer loyalty and favoured effective cross selling action. The expansion of the Group's electricity business has contributed, together with a flexible upstream policy, to contain the reduction of the unitary margins of the businesses and the fall of consumption in the electricity sector, as well as the negative 'impact of the change in "fair value" in the financial year.

In the **gas market,** the Group reported sales volumes in 2012 up by +4.8% (to about 3.5 compared to 3.3 billion cubic metres in 2011), both due to the favourable climatic conditions of the winter months (offsetting the effects of the fall in demand) and the increase in trading (1.40 compared to 1.25 billion cubic metres in 2011). The positive increase in the profitability of the gas area is also a consequence of the effectiveness of the procurement policies and the market conditions for raw material.

The **urban and industrial waste disposal market** showed a contraction of volumes in the first half of the financial year due to the crisis of the production and consumption system as well as due to exceptional events that slowed production (the February snow reduced utilisation of the Group's dumps). Thanks to its strong market position, the Group was successful in ending the financial year with an overall fall of the volumes in the order of -4.9% (compared to -18.7% registered in the first quarter of the year). The impacts of the reduction in household consumption (which impacted on production of urban waste to the extent of -2.1%) was controlled with a stable trend in industrial waste volumes, a trend contrary to 2011.The action to improve the efficiency of the waste management system continued during the year: differentiated collection involved over 51% of urban waste and incineration treatment was up by 3.5% (from 923 to 955 thousand tonnes), with incentivised electricity production up by 2.2%. The actions implemented permitted a final EBITDA result for the area slightly down compared to 2011, excluding the negative impact of the end of the CIP6 contract paid to the Bologna (Frullo) WTE plant.

Energy distribution, urban waste collection and water services activities managed under licence, which represent 54% of the Group's EBITDA, contributed to the improved results in 2012, which were also helped by investments made and by adjustments to the tariffs paid by the Authorities. Specifically, a new transitory tariff system was defined for water services for 2012-2013, which has eliminated the uncertainty of the sector caused by the abrogative referendum of June 2011 and permits a more regular development of the investments and activities.

The **development strategy for external lines** has led to the Hera Group controlling a majority interest of the Acegas Aps Group (effective date of the merger with the Acegas Aps Holding: 1 January 2013). The economic-financial effects of the combination will consequently be on the financial statements figures for the 2013 financial year. As described in the introduction to these financial statements, the Acegas Aps operation represents the most significant combination created by the Group and is estimated to bring potential synergies of about an incremental EBITDA of €25 million when fully operative in the next 4 years, as well as create value in terms of an increase in earnings per share (about +8%). Finally, Energonut (of the Veolia Group) was acquired in November with an incineration plant in Molise that benefits from a Cip6 contract maturing in 2016. Hera's expansion has also involved the photovoltaic generation business with operations that have led to the Group's overall capacity of nine MW installed.

The accounts for the financial year end with a +13.4% increase in net profit, thanks also to the contribution of positive non-recurring effects (tax and revaluation of assets at market value). Removing the non-recurring effects from the year's results and not considering the Cip6 contract (terminated at the end of 2011) contribution in the 2011 annual results for a homogeneous comparison, growth of all the principal operational results and net profits is recorded.

From the financial viewpoint the financial year has shown a slightly negative operational **cash generation,** though discounting a non-recurring current assets increase of +€140 million and investments of about 288 million Euros. Following the earthquake, which occurred halfway through the year in some restricted areas of the region, legal directives were, promulgated that imposed payment deferrals in the areas hit, provoking a prolonging in encashing receivables.

The impact of the earthquake can only be considered relative to working capital, because the Group has not recorded significant property damage or slowdowns in services operations. The impact should instead be mentioned on current assets connected to the economic situation, which negatively influenced the payment times by the base customers and the reduction of the trade payables connected to the lower investments for the year, which contributed to increasing current assets to the same extent as trade payables.

The Group's **net debt**, which also discounted the loan for the non-recurring M&A activity (acquisition of Energonut for €50 million and some photovoltaic plants for a total of €14 million) and the dividend payment to the shareholders and minorities (€117 million overall), ended at €2.210 million. This maintains the Debt/EBITDA index at slightly above 3.2 times (excluding the disbursement for the Energonut acquisition, which only contributed to the financial results commencing from the conclusion the operation, realised at the end of 2012) and confirms the Group's financial solidity is amongst the best of the sector.

The 2012 financial year represents solid confirmation of the expectations contained in the five-year plan notified to the financial markets in the month of October, for both the results achieved and the completion of the Acegas Aps combination, on which about 50% of the growth prospect of the business plan to 2016 depends. In light of the solidity of the economic and financial indicators of the Group, the Board of Directors has decided to propose a **dividend of €9 cents per** share to the Shareholders' Meeting. This is in line with that for the previous financial year and maintains the policy followed from the Group's incorporation.

1.02 Corporate events and significant events after the end of the financial year

Corporate events

The 2012 financial year was characterised by the continuation of corporate rationalisation actions on the Group's structure, which has led to the disposal / liquidation of 7 companies, cancellation from the Register of 4 companies, withdrawal from 1 company, acquisition of 5 new equity investments, incorporation of 2 new companies, acquisition of further equity investments in 2 investee companies and 1 merger that has led to the extinction of 4 companies.
Corporate rationalisation actions during the course of the 2011 financial year had already resulted in the liquidation of 2 companies, cancellation from the Register of 5 companies, withdrawal from 2 companies and acquisition of further equity investments in 2 investee companies, as well as 3 mergers / transformation.
In this connection, we note the principal M&A transactions that occurred in 2012:

Acegas APS Holding Srl – Acegas APS Spa

On 25 July 2012 Hera Spa and Acegas APS Holding Srl, a company that controls 62.691% of Acegas-APS Spa, which is a multi-utility listed on the Stock Exchange and operating in North-East Italy, signed a framework agreement with the object of definition of the methods through which a consolidation project could be achieved between the two Groups.
Consequently, in implementation of this project, the merger of Acegas APS Holding Srl with Hera Spa was completed with effects commencing from 1 January 2013. This resulted in Hera acquiring 62.691% of Acegas APS Spa's share capital.

Feronia Srl

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

Sviluppo Ambiente Toscana Srl - Q.tHermo Srl

On 7 February 2012, Hera Spa and Herambiente Spa incorporated a company called Sviluppo Ambiente Toscana Srl, following the award of the tender arranged by Quadrifoglio Spa for the construction of the WTE plant in Florence. The purpose of this company, of which they respectively hold 95% and 5% of the share capital, was the development, design and completion of interventions and investments relating to environmental services.
In connection with this operation, on 16 May 2012, Sviluppo Ambiente Toscana Srl and Quadrifoglio Spa incorporated Q.tHermo Srl, a company having the purpose of the design, construction and management of the waste to energy plant in Sesto Fiorentino, of which they respectively hold 40% and 60% of the share capital.

Amon S.r.l.

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

Esole S.r.l.

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

Juvi Sviluppo Italia - 02 Srl

On 1 March 2012, Hera Energie Rinnovabili S.p.A. acquired the entire share capital of Juvi Sviluppo Italia - 02 S.r.l., a company owning a photovoltaic plant situated in the Municipality of Petriolo (MC).

CTG RA S.r.l.

On 8 March 2012, Hera Energie Rinnovabili S.p.A. acquired the entire share capital of CTG RA Srl, a company owning a photovoltaic plant situated in the Municipality of Faenza (RA).

Dyna Green Srl

On 13 March 2012, Hera Trading Srl sold the entire equity investment, equal to 33% of the share capital, held in Dyna Green Srl, a company operating in the sector of research and development of sources for the purchase of hydrocarbons.

As an effect of this transaction, Hera Trading Srl exited from the Dyna Green Srl shareholding structure.

Amon Srl - Esole Srl - Juvi Sviluppo Italia - 02 Srl - CTG RA Srl

On 28 June 2012 the merger of Esole Srl, Amon Srl, Juvi Sviluppo Italia - 02 Srl and CTG RA Srl with Hera Energie Rinnovabili Spa, already the sole shareholder of the merged entities, was completed (all these companies operating in relation to renewable energies).

Energonut Spa

On 05 November 2012, commencing from 31 October 2012, Herambiente Spa acquired the entire share capital of Energonut Spa from the Veolia Group, This company operates in the environment sector and owns a waste co-incineration plant situated in the Pozzilli industrial area in the Isernia Province (Molise).

Marche Multiservizi Spa

On 18 December 2012, Hera Spa acquired from the Province of Pesaro Urbino 550,157 shares of Marche Multiservizi Spa, a multi-utility operating in the territory of the Pesaro – Urbino Province. Hera Spa consequently increased its equity investment in Marche Multiservizi Spa from the previous 40.54% to 44.62%.

Significant events after the end of the financial year and outlook

Hera Spa takeover bid with share swap on the totality of the listed shares of Acegas APS Spa

On 2 January 2013, following the completion of the merger of Acegas APS Holding Srl, Hera Spa launched an obligatory total public offer of acquisition and exchange of all ordinary shares of Acegas APS Spa, directed at the latter's delisting.

As at 6 March 2013, Hera Spa had increased its shareholding in Acegas APS Spa from 62.69% to 92.94%.

Authorisation for the Board of Directors to increase the share capital of Hera Spa

The Shareholders' Meeting of 15 October 2012 attributed to the Board of Directors, pursuant to art. 2443 of the Italian Civil Code, the facility, exercisable for a maximum period of three years from the date of this shareholders' resolution, to increase the share capital divisibly on payment, including several times, for a maximum nominal amount of €80,000,000 corresponding to a maximum number of 80,000,000 ordinary shares with regular entitlement and having the same characteristics as those already issued at the date of issuance, to be offered to shareholders as an option pursuant to art. 2441.1., 2 and 3 of the Italian Civil Code.

The Fondo Strategico Italiano Spa (FSI - Italian Strategic Fund) equity holding controlled by the Cassa Depositi e Prestiti Spa (Loan and Deposit Fund), has evaluated whether to invest in Hera's share capital, in view of the combination with the Acegas-Aps Group. It undertook to subscribe for all the shares corresponding to the option rights possibly acquired by HERA's key stakeholders as well as to the option rights possibly not taken up, on the happening of certain conditions and provided that the subscription was for a number of shares such as to allow the same to hold shares of at least 3% of HERA's share capital placed as options, or rather FSI is able to subscribe for at least 2.6% through acquisition of option rights from some HERA shareholders.

Hera Servizi Cimiteriali Srl – Hera Servizi Funerari Srl – Herasocrem Srl

In connection with the project of disposal of the funeral and cemetery services, Hera Spa sold to the Bologna Municipality and Socrembologna Srl, respectively, the equity investments held in Hera Servizi Cimiteriali Srl and Herasocrem Srl, subordinating the effectiveness of such sales to the conclusion of the procedure to public evidence arranged by the Bologna Municipality and to the consequent selection of a private partner for the management of the cemetery and funeral services.

Definition of the deeds directed at the fulfilment of the aforesaid transactions is in course.

Famula On-line Spa

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 to the sale of the company to the Parent Company, Hera Spa.

Hera Spa - Uniflotte Srl

Hera Spa, with effects commencing from 1 January 2013, in the perspective of rationalisation and to improve the efficiency of the investee companies' business, sold the ownership of all its vehicles and containers to Uniflotte Srl, a 97% held company with the purpose of maintenance and hire of vehicles and equipment, both its own and that of third parties.

Modena Formazione Srl

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

1.03 Group performance to 31 December 2012

Consolidated summary results of the Hera Group:

(€ millions)	31-dec-11	% Inc.	31-dec-12	% Inc.	% Change
Revenues	**4,105.7**		**4,492.7**		**+9.4%**
EBITDA	**644.8**	**15.7%**	**662.0**	**14.7%**	**+2.7%**
Operating Margin (EBIT)	334.5	8.1%	335.4	7.5%	+0.3%
Net Profit	**126.8**	**3.1%**	**134.4**	**3.0%**	**+6.0%**

1.03.01 Financial results and investments

The 2012 results show growth compared to the last year, despite the persistence of an unfavourable economic trend that has significantly reduced consumption and the turnover of the production activities. It should be mentioned that 2012 also suffered from the absence of the CIP6 incentive for the production of electric power at the Bologna FEA waste to energy plant.

In terms of volumes sold, there were higher quantities of gas and heat sold, while there were lower quantities of waste disposed of, electricity sold and water supplied.

Recapitulated below are the main corporate events that the Hera Group completed during the 2012 financial year:

- Hera Energie Rinnovabili acquired 100% of four companies operating in the electric power production sector in February 2012. Each of these has a 1 MWh ground photovoltaic plant; these companies were subsequently merged with Hera Energie Rinnovabili.
- The HERAmbiente Group consolidated Feronia Srl line-by-line from February 2012. This company manages a dump in the Finale Emilia Municipality (MO).
- The HERAmbiente Group acquired 100% of Energonut in October 2012. This company manages an incineration plant in the Pizzolli Municipality (IS).
- The Marche Multiservizi Group included Marche Multiservizi Falconara in its scope of consolidation from July 2012, with retroactive effect to the first of January 2012. This company operates urban hygiene services in the Falconara e Unione Municipality of the 5 municipalities.

As already shown in the previous financial years' financial statements, the Consolidated Statement of Comprehensive Income recognises the application of the interpretation of the IFRIC 12 accounting standard "Service Concession Arrangements" that amended the method of recording corporate events for those companies operating in regulated sectors by specific concessions. At accounting level, the effect of the application of this standard, with results unchanged, is the representation in the income statement of the investment works carried out on the concession assets, limited to the network services. Therefore, higher other operating revenues of €129.3 million for 2012 and €143.6 million for 2011 are shown; in addition, there were lower capitalised costs of €33.8 million in 2012 and €35.5 million in 2011 and higher operating costs for services, materials and other operating expenses of €95.5 million in 2012 and €108.1 million in 2011.

The table below contains the financial results for the years 2011 and 2012:

Income statement (€ millions)	31-Dec-11	% Inc.	31-Dec-12	% Inc	Abs. Change	% Change
Revenues	4.105,70	0,00%	4.492,70	0,00%	387	9,40%
Other operating income	210,2	5,10%	203,6	4,50%	-6,6	-3,10%
Commodities and materials	-2.440,10	-59,40%	-2.726,00	-60,70%	285,9	11,70%
Service costs	-870,5	-21,20%	-912,7	-20,30%	42,2	4,80%
Other operating costs	-39,8	-1,00%	-46,8	-1,00%	7	17,60%
Personnel costs	-370	-9,00%	-382,1	-8,50%	12,1	3,30%
Capitalised costs	49,3	1,20%	33,4	0,70%	-15,9	-32,20%
EBITDA	**644,8**	**15,70%**	**662**	**14,70%**	**17,2**	**2,70%**
Depreciation amortisation and provisions	-310,3	-7,60%	-326,6	-7,30%	16,3	5,30%
Operating profit (EBIT)	**334,5**	**8,10%**	**335,4**	**7,50%**	**0,9**	**0,30%**
Financial operations	-113,2	-2,80%	-128,7	-2,90%	15,5	13,70%
Other non-operating revenues	-	0,00%	6,7	0,10%	6,7	100,00%
Pre-tax profit	**221,2**	**5,40%**	**213,4**	**4,80%**	**-7,8**	**-3,50%**
Taxes	-94,5	-2,30%	-79,1	-1,80%	-15,4	-16,30%
Net profit for the period	**126,8**	**3,10%**	**134,4**	**3,00%**	**7,6**	**6,00%**
Attributable to:						
Shareholders of the Parent Company	**104,6**	**2,50%**	**118,7**	**2,60%**	**14,1**	**13,50%**
Non-controlling interests	22,2	0,50%	15,7	0,30%	-6,5	-29,20%

The EBITDA was up from €644.8 in 2011 to €662.0 in 2012, +2.7%; operating profit from €334.5 to €335.4 ; the pre –tax profit was lower by 3.5%, down from €221.2 to 213.4 and net profit was up from €126.8 at 31 December 2011 to €134.4 for 2012, +6.0%

Revenues increased by €387.0, +9.4%, up from €4,105.7 in 2011 to €4,492.7 million in 2012. The main reasons are: (i) higher gas sales, (ii) higher gas and electricity revenues, as an effect of the raw materials prices increase, of about €280 million overall, and (iii) higher revenues from integrated water services supply.

The increased costs of the commodities and materials of €285.9 compared to 2011, suffered from the higher gas sales and raw materials prices increase, about €280 as stated afore.

Other operating costs (service costs up by €42.2 and other operating expenses up by €7.0), grew by €49.2 (+5.4%) overall; 75% of the increase is due to higher vectorial costs and electricity and gas transport.

Personnel costs grew by 3.3% from €370.0 at 31 December 2011 to €382.1 in 2012. This increase is prevalently due to the remuneration increases by the CCNL (National Collective Labour Agreement), partially offset by to reduction of the average despite the entry of MMS Falconara and Energonut to the scope of consolidation.

The amount of the capitalised costs, which reduced from €49.3 to 33.4, is mainly related to lower works on the plants and other works amongst Group companies.

The Group consolidated EBITDA at 31 December 2012 was up €17.2 million (+2,7%) from €644.8 to €662.0 million, despite the lower revenues of about €18.0 million relating to the termination of the CIP6 incentive on the FEA waste to energy plant in the Bologna zone. The good result of the Gas and Water Cycle areas is In evidence You are referred for the details to the chapters dedicated at the individual business sectors.

Amortisation, depreciation and provisions increased to 5.3%, up from €310.3 million in 2011, to €326.6 million in the 2012 financial year. The change is mainly due to: (i) higher depreciation for new plants, (ii) higher depreciation and provisions due to the changes in the scope of consolidation, (iii) to higher provisions by Hera spa for non-recurrent disputes with social security institutions liabilities and sundry charges.

The 2012 operating profit was €335.4 million, up by 0.3% compared to the similar period of 2011 for the reasons previously described.

The Financial Management result at 31 December 2012 was €128.7 million, up compared to €113.2 million in 2011.

The higher charge is due to an increase in the average debt and to a lesser extent the increase of the IAS 19 value, relating to the discounting of the post-employment benefits (TFR) provision, and lower profits from subsidiaries compared to the same period of 2011.

The acquisitions during the 2012 financial year of Energonut Spa and the companies operating in the photovoltaic sector (Amon Srl, Esole Srl, Ctg Ra Srl and Juwi Sviluppo Italia Srl) determined the recording of “badwill” in the income statement of €6.7 million. This amount was determined during the “purchase price allocation” by comparing the acquisition value with the net assets and liabilities acquired, expressed at “fair value”. However. you are referred to the explanatory notes to the financial statements for a description, under the accounting profile, of this transaction.

In light of what is described above, the pre-tax profit fell from €221.2 million in 2011 to €213.4 million in 2012, a reduction of 3.5%.

Taxes fell from €94.5 million in 2011 to €79.1 million in 2012 and comprise positive non-recurrent effects of €18.2 million relating to the reimbursement of the IRES (Corporate Income Tax) due following the recognised deductibility of the IRAP (Regional Business Tax) relative to the pending and assimilated personnel expenses, pursuant to Legislative Decree 201/2011 and Legislative Decree 16/2012.

The decrease in the tax rate in 2012, at 37.0%, compared to 42.7% in 2011, is mainly attributable to the aforesaid positive non-recurrent effect of the IRES (Corporate Income Tax) of previous financial years, the positive effect of the IRAP (Regional Business Tax) paid in 2012, relative to the pending and assimilated personnel expenses, and lack of incidence of the positive non-recurrent effects relating to the emancipation conducted in 2011.

The net profit at 31 December 2012 was therefore declared as €134.4 million, up by 6.0%, compared to €126.8 million at 31 December 2011. Net of the non-recurring effects of the 2012 and 2011 taxes” the net profit would reduce by €3.1 million, -2.6%.

(€/millions)	31-Dec-11	31-Dec-12	Abs. Chg	% Chg
Pre-tax profit	221.2	213.4	-7.8	-3.5%
Income taxes for the period	(102.0)	(97.3)	-4.7	-4.6%
Adjusted net profit	**119.2**	**116.1**	**-3.1**	**-2.6%**
Lower non-recurring taxes	7.6	18.2	+10.6	+140.1%
Net profit for the period	**126.8**	**134.4**	**+7.6**	**+6.0%**

the Group's share of the net profit is instead €118.7 million, up by 13.5% compared to €104.6 at 31 December 2011. The cause of this inversion is mainly attributable to the improvement achieved by the companies fully controlled by the Parent Company Hera S.p.A.

Analysis of the Group's capital and financial structure

The evolution of the trend of the Group's net capital employed and sources of funds for the financial year ended as at 31 December 2012, compared with the previous year, is noted.

Invested capital and sources of financing (€/millions)	31-Dec-11	Inc%	31-Dec-12	Inc%	Abs. Chg	% Chg
Non-current assets, net	4,292.7	111.0%	4,418.7	107.5%	126.0	+2.9%
Working capital,net	(31.5)	-0.8%	114.2	2.8%	145.7	-462.5%
(Provisions)	(394.7)	-10.2%	(421.4)	-10.2%	(26.7)	+6.8%
Net invested capital	**3,866.5**	**100.0%**	**4,111.5**	**100.0%**	**245.0**	**+6.3%**
Equity	1,879.4	48.6%	1,894.9	46.1%	15.5	+0.8%
Long-term borrowings	2,323.1	60.1%	2,366.8	57.6%	43.7	+1.9%
Net (cash)/short-term borrowings	(336.0)	-8.7%	(150.2)	-3.7%	185.8	-55.3%
Net borrowings	1,987.1	51.4%	2,216.6	53.9%	229.5	+11.5%
Total sources of financing	**3,866.5**	**100.0%**	**4,111.5**	**100.0%**	**245.0**	**+6.3%**

The net invested capital during the course of 2012 increased by 6.3% from €3.866.5 to €4,111.5 million both as an effect of the higher net non-current assets and the higher net current assets.

Net non-current assets at 30 December 2012 amounted to €4,418.7 million against €4,292.7 million at 31 December 2011, an increase of 2.9% both as an effect of the investments made during the year and the expansion of the of the scope of consolidation the Hera Group with the acquisition of new subsidiaries with high capital intensity.

The net working capital were up registering an increase of about €145.7 compared to December 2011. The change is due firstly to an increase in trade receivables, as an effect of the earthquake that hit areas of the Emilia Romagna region served by the Hera Group and deferment of receipts from Green Certificates, already partially received at the start of 2013, as well as a reduction in trade payables, as an effect of seasonal lower purchases of raw materials. Finally, an increase of the tax receivables, as an effect of the corporate income tax deduction relative to the regional business tax for 2012 and recording the recovery of the corporate income tax for the years from 2007 to 2011 pursuant to Legislative Decree 201/2011, explains the change in current assets.

The provisions at the 2012 financial year-end amounted to €421.4 million, an increase of 6.8% compared to €394.7 million at December 2011.

The shareholders' equity rose from €1.879.4 to €1.894.9 million as an effect of the dividends declared of €114.0 million.

Reconciliation statement

The reconciliation statement between the Parent Company's statutory position and the consolidated financial statements at 31 December 2012 is given below.

Reconciliation between separate and consolidated financial statements

	Net profit	Equity
Balances separate financial statements	116,171	1,692,110
Dividends recorded in the year	(84,262)	
Valuation with equity method of investments measured at cost	1,520	20,114
Carrying amount of consolidated companies		(503,461)
Equity and profit for the year of consolidated companies	77,871	512,920
Allocation of differences to assets of consolidated companies		
and related amortization and depreciation:		
- Goodwill arising on consolidation		54,965
- Intangible assets	(549)	4,395
- Property, plant and equipment	(238)	974
- Income from tax consolidation	4,708	
Other adjustments due to elimination of intercompany transactions	3,437	(30,133)
Total	**118,658**	**1,751,884**
Attribution to non-controlling interests	15,700	142,978

Analysis of the Group's net debt:

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

€/millions		31-dec-12	31-dec-11
a	**Cash and cash equivalents**	**424.2**	**415.2**
b	**Other short-term financial receivables**	**47.3**	**42.9**
	Short-term bank borrowings	(74.7)	(78.8)
	Short-term portion of bank borrowings	(225.7)	(39.1)
	Other short-term borrowings	(17.1)	(0.5)
	Lease payments due within 12 months	(3.8)	(3.7)
c	**Short-term borrowings**	**(321.3)**	**(122.1)**
d=a+b+c	**Net cash/(short-term borrowings)**	**150.2**	**336.0**
e	**Long-term financial receivables**	**17.6**	**11.0**
	Long-term bank borrowings and bonds issued	(2,371.0)	(2,328.8)
	Other long-term borrowings	0	0
	Lease payments due beyond 12 months	(13.4)	(5.3)
f	**Long-term borrowings**	**(2,384.4)**	**(2,334.1)**
g=e+f	**Net long-term borrowings**	**(2,366.8)**	**(2,323.1)**
h=d+g	**Net borrowings**	**(2,216.6)**	**(1,987.1)**

The net debt as at 31 December 2012 was €2,216.6 million, compared to €1,987.1 million in 2011. The increase in net debt is due to the investments made and dividends distributed during 2012, as well as enlargement of the Group's scope of consolidation, with the acquisition of subsidiaries with high capital intensity.

Borrowings constitute prevalently by medium to long-term loans, covering about 88% of the total borrowings are confirmed, duly balancing the Group's equity structure that is characterised by a high level of non-current assets.

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

Hera Group Investments

The Group's tangible and intangible investments amounted to €287.9 million compared to €324.9 million of the corresponding period of last year. Financial equity investments were made of €1.3 million in the same period, relating to the acquisition of shareholdings in Q. Termo for the construction of the Florence incinerator.

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

Total Investments (€mln)	31-Dec-11	31-Dec-12	Abs. change	Change %
Gas segment	52.2	40.3	-11.9	-22.8%
Electricity segment	33.8	32.0	-1.8	-5.3%
Integrated water cycle segment	100.6	93.5	-7.1	-7.1%
Environment segment	70.1	47.9	-22.2	-31.7%
Other services segment	14.0	12.2	-1.8	-12.9%
Central structure	54.2	62.0	+7.8	+14.4%
Total Operating Investments	**324.9**	**287.9**	**-37.0**	**-11.4%**
Total financial investments	0.0	1.3	+1.3	+0.0%
Total	**324.9**	**289.3**	**-35.6**	**-11.0%**

Investments in the Gas service were higher than in the same period of the previous year. Gas service interventions in the reference area refer to network extensions, land reclamations, strengthening networks, and distribution plants. Included in remote heating are network extension works in the Bologna areas (€4.5 million), Imola (€2.7 million), Forlì Cesena (€1.2 million), Ferrara € (1.2 million) and Modena (€0.5 million). Investments in Heat Management relate to structural interventions in heating systems run by Group companies.

Gas (€ mln)	31-Dec-11	31-Dec-12	Abs. change	Change %
Networks	34.1	28.7	-5.4	-15.8%
District heating/heat management	18.0	11.4	-6.6	-36.7%
Other	0.1	0.1	+0.0	+0.0%
Total Gas	**52.2**	**40.3**	**-11.9**	**-22.8%**

The investments in the Electric Power service prevalently regard extension of the service and the extraordinary maintenance of plants and distribution networks in the Modena and Imola areas and the network support services. Investments were up compared to the same period of the last year due to Hera Energie Rinnovabili's acquisition of photovoltaic plants. Investments in electricity and heat production plants (CCGTs) refer to the completion of the Imola CHP plant, while industrial cogeneration activities relate to creating new plants for companies in the area.

Electricity (€ mln)	31-Dec-11	31-Dec-12	Abs. change	Change %
Regional	25.1	27.7	+2.6	+10.4%
Imola CCGT	4.3	3.1	-1.2	-27.9%
Cogeneration	4.4	1.2	-3.2	-72.7%
Total Electricity	**33.8**	**32.0**	**-1.8**	**-5.3%**

As far as the Integrated Water Cycle is concerned, investments mainly referred to the extension, land reclamation and upgrading of networks and plants, in addition to regulatory compliance, particularly for purification and sewerage. Interventions in the Water Cycle reduced compared to the corresponding period of last year.

integrated Water Cycle	31-Dec-11	31-Dec-12	Abs. change	Change %
Aqueducts	50.1	46.3	-3.8	-7.6%
Purification	**27.2**	25.5	-1.7	-6.3%
Sewerage	23.3	21.7	-1.6	-6.9%
Total Integrated Water Cycle	**100.6**	**93.5**	**-7.1**	**-7.1%**

Maintenance and upgrading on existing plants in the environment sector in the territory reduced compared to last year. As far as concerns investments in relation to waste to energy plants (WTEs), no new plants were constructed in 2012.

Environment	31-Dec-11	31-Dec-12	Abs. change	Change %
Composters/Digesters	9.5	15.7	+6.2	+65.3%
Dumps	12.6	9.4	-3.2	-25.4%
WTEs	23.4	8.4	-15.0	-64.1%
RS Plants	10.1	5.2	-4.9	-48.5%
Market	1.0	1.0	+0.0	+0.0%
Collection plants	5.5	3.2	-2.3	-41.8%
Transhipment, selection and other plants	8.1	4.9	-3.2	-39.5%
Total Environment	**70.1**	**47.9**	**-22.2**	**-31.7%**

Investments were reduced in the Telecommunications area of the Other Services segment compared to the same period of 2011. The 'Other' item includes investments in cemetery services, which include construction of the new cremation centre.

Other Services	31-Dec-11	31-Dec-12	Abs. change	Change %
Telecommunications	10.0	8.8	-1.2	-12.0%
Public Lighting and Traffic Lights	1.5	1.9	+0.4	+26.7%
Other	2.6	1.6	-1.0	-38.5%
Total Other Services	**14.0**	**12.2**	**-1.8**	**-12.9%**

Investments in the Central Business Unit increased overall, compared with the previous year, as an effect of construction of the new offices and vehicle fleet maintenance. Other investments include the completion of laboratories and remote-monitoring units.

Central Business Unit	31-Dec-11	31-Dec-12	Abs. change	Change %
Property works	23.3	27.9	+4.6	+19.7%
Information systems	17.0	18.1	+1.1	+6.5%
Fleets	10.3	12.9	+2.6	+25.2%
Other Investments	3.6	3.0	-0.6	-16.7%
Total Central Business Unit	**54.2**	**62.0**	**+7.8**	**+14.4%**

1.03.02 Regulatory framework and regulated revenues

Reference regulations

The regulatory framework within which the HERA Group operated during 2012 was characterised by a partial reform of the local public services and important directives on the energy front. Both the domestic and local institutions have agreed on the evolution of the reference legislative body for the HERA Group's activities.

On matters of **local public services,** in the first place it is recorded that, with ruling 199 of 20 July 2012, the Constitutional Court declared article 4 of Legislative Decree no. 138/2011 as illegitimate, as it re-proposed the same content of article 23-*bis*, already abrogated by the referendum of June 2011.
Amongst the more significant, article 4 impeded the direct awarding of public services by local authorities and presented different deadlines based on the company structures of the awardees ('in house' companies, mixture of public/private and listed). Consequently, the declared unconstitutionality of the article in question resulted in the continuation of the existing awards until their natural expiry date.
With reference to in 'house' awarding, it is noted that with the decree on the "spending review" - Legislative Decree no. 95 /2012 converted with law 135/2012 - the Government reproduced the prohibition to proceed with the procedures of the direct awarding to the services companies with entirely public capital of an amount exceeding the €200,000 threshold. From the time that this legislation was adopted on a previous with respect to the Constitutional Court's ruling and that was confirmed during conversion of the Legislative Decree, subsequently to the Court's ruling, it is evident that the legislator's wish was to minimise recourse to direct awarding.

As far as concerns the local public services of economic relevance, article 34 of Legislative Decree 179/2012, known as "development 2", endorsed the obligation for awarding entities to publish a report on their the Legislative Decree Internet site that explains, for the chosen form of awarding, the reasons and the existence of the anticipated requisites for the Community ordinance and the specific contents of the obligations for public and universal service, also indicating the economic compensations where provided. Furthermore, the same decree attributes to the government entities of the territorial areas numerous optimal functions, among which are the choice of the management form and the relative awarding and control.
Finally, it is noted that Legislative Decree 174/2012 reordered accounting controls in the territorial entities, implementing numerous practical innovations. The regulations must provide an appropriate IT system directed at recording the financial relationship between the owner entity and the awarding company, the company's financial, management and organisational position, the service agreements, the quality of the services and compliance with legislation on public finance restraints. Furthermore, the decree provided that the overall results of the local authority operations and the investee companies be recorded in the consolidated financial statements.

The legislative context within the scope of the more specific **water and environmental services** was characterised by a reorganisation of the governance of public services and rationalisation of the expenses connected thereto.
It is noted that law 214/2011 provided for the transfer the regulation and control functions for integrated water to the Regulatory Authority for Electricity and Gas.
On 3 October 2012, in implementation of the aforesaid law, the Prime Minister Decree (DPCM) was published, which identified in article 3 the individual assignments transferred to the Authority, based on to which the latter may define service quality objectives, prepare and periodically review the tariff method and make proposals for the revision of the prevailing legislation.

At regional level, the Emilia-Romagna region complied with the directives of law 191/2009, anticipating with LR 23/2011 the identification of a sole optimal territorial area including the entire regional territory and re-attributing the functions of the old provincial Agencies to a new public body equipped with administrative, accounting and technical autonomy: The Territorial Emilia-Romagna Agency for water and waste services (ATERSIR). In a second phase, as established by the PMD of 25 March 2011, the Territorial Area Authority was finally eliminated on 31 December 2011. Therefore, for the entire year 2012, ATERSIR was the reference institutional interlocutor in the matters of its authority

On the environmental front the new regulations of greater interest regarded the reform of the municipal levy on waste (TARES), initially regulated by art. 14 of Legislative Decree 201/2011. The 2012 Stability Law (law 228/12) made some changes to the original text, the most marked of which provided for an increase in the levy, given that the TARES revenue must fully cover not only the collection and disposal costs of the waste, but also those of the indivisible municipal services (such as public lighting and road maintenance). The collection of the levy is entrusted, until 31 December 2013, to the parties that, at 31 December 2012, conducted the waste management service. The timings for the payment of the levy are currently being debated in parliament: the Legislative Decree of 14/01/2013 deferred the due date of the first instalment of the levy from January to July, but an Environment Ministry Legislative Decree is expected that will reformulate the calendar dates for payment of the levy so as to attenuate the negative effects on users and operators of the extension.

Finally, it is noted that from the July 2012 the Emilia-Romagna Region agreed the guidelines for preparation of the Regional Waste Management Plan (PRGR), which must follow the challenging objectives of Differentiated Collection, materials recovery and development of new disposal strategies. The guidelines document, published in July, has been followed by a series of meetings and debates between the local authorities, operators and the trade associations: the distribution of the first draft of the PRGR was expected by the end of 2012, but currently has not yet been published.

With regard to the **energy sector**, the main regulatory news of the year was introduced by Legislative Decree 1/12 (known as “Grow Italy”). The news of greater impact for the HERA Group regarded the revision of the formula for determining some economic conditions for the supply of gas to the protected customers. Specifically, the decree provided, which already commenced from the second quarter of 2012, that the Regulatory Authority for Electricity and Gas introduce, in the update formula of the variable consideration to cover supply costs, a reference for a gradually growing portion of the gas prices recorded on the markets. In the expectation that the Italian gas market reaches an adequate degree of liquidity, the European target markets were assumed.

Again the “Grow Italy” decree provided that the storage capacity made available downstream of the redetermination of the strategic storage and new calculation methods of the modulation obligations, assigned for the offering to the industrial companies for integrated transport and re-gasification services. The storage reform continued during the 2013 with the Ministry of Economic development (MSE) Decree of 15 February 2013, which revolutionised the allocation criteria for gas storage. Based on said decree, part of the volumes destined for modulation service, equal to 2.5 billion m^3, shall be assigned through auction. Again, through auction a quantity of 1.7 billion m^3 shall be assigned, destined to whatever party may make a request, even if not a supplier of civil customers. With the MSE Decree of 15 March 2012 the regional objectives on matters of development of the renewable sources were also defined These are being implemented by the objectives of the National Action Plan (PAN), prepared by the MSE to adopt the indications of the 20-20-20 objective, approved by the European Commission, to its vote.

This decree, known as “Burden sharing”, departs from the domestic objective values to 2020 established for consumption from renewable sources, divided between electric power and thermal energy, and divided between Italian regions based on the commencement levels of individual regions and the estimated development potential based on geographic restraints of environmental sustainability and availability of resources. The objective levels for the Emilia-Romagna Region are 400 ktep (thousand of petroleum tonnes equivalent) for electrical renewable and 828 ktep for thermal renewables. It is worth noting the fact that the Burden Sharing objectives are significantly different compared to those of the Emilia-Romagna Regional Energy Plan, indicating an absolute lower value (almost half) and dividing the objectives between electric and thermal power in an opposed manner (with the PER most focused on EP and the Burden Sharing on TP). 2012 was also a significant year with regard to the updating of the legislation on **incentivising renewable energy sources**. The reorganisation of the incentivation mechanisms had commenced in 2011 with Legislative Decree 28/2011, which was then implemented, during 2012, through some Ministerial Decrees, aimed at directing the country towards the achievement of domestic targets assigned by the European Community. The mechanisms put into effect are directed at both incentivising the production of electric and thermal power from renewable sources and reducing gross final energy consumption by the incentivation of energy efficiency interventions. The more significant ordinances, promulgated in 2012, are the decrees of 5 and 6 of July that regulate the incentivation of production of electric power from photovoltaic solar plants (known as “fifth energy account”) and from renewable sources plants other than photovoltaic. It is also noting the two Decrees published on 28 December 2012, the first of which regulates the incentivation of production of thermal energy from renewable sources and small energy efficiency interventions, and the second determines the quantitative domestic objectives for energy saving must be carried out by the electricity and gas distribution companies for the three-years 2013-2016 and for upgrading the white certificates mechanism. These implementing decrees were then been initiated and followed by ordinances from supervisory institutional entities (firstly the Electricity Service Operator and the Regulatory Authority for Electricity and Gas), aimed at regulating specific technical and application rules.
Again, on the energy front it is recorded that, in September 2012, the Ministry of Economic Development published a public consultation document to commence a comparison the contents of the future National Energy Strategy (SEN). The general objectives and the related action priorities are identified in the draft distributed by the MSE. This programme document, which provides the guidelines for the next energy policies domestically, aims at the achievement of environmental decarbonisation targets, a reduction of the energy costs and energy procurement independence. Amongst the action priorities, the SEN identifies the promotion of energy efficiency interventions, the development of Italy as a gas Hub, the restructuring of refining and fuel distribution networks and modernisation of the domestic and local governance systems. The consultation phase terminated on 30 November 2012 and to date further developments are anticipated that will be implanted by the next government.

Gas, Electricity and Integrated Water Service Regulating

2012 was characterised by an important regulatory activity by the Regulatory Authority for Electricity and Gas, due also to the accompanying start and end of the different regulation periods regulation electricity and gas distribution, as well as formulation of the new tariff system for the integrated water service.

With reference to the **gas sector,** the first significant regulation of the year was the 28/12/R/gas resolution, with which the Authority amended and added to the ARG/gas 155/08 resolution regarding the directives for the installation of electronic measuring systems with remote reading and management functions (called **smart gas meters**). The 28/12 resolution, specifically, re-modulated the deadlines originally anticipated, though maintaining the distinction between measuring systems categories, and introduced a standard costs system for the recognition of the investments made in electronic measuring systems, even though connected to the costs effectively incurred by a profit-loss sharing mechanism. Finally, specific tariff recognition mechanisms for the costs of the remote management and reading systems were introduced, as well as costs deriving from metrological verification obligations. The 28/12/R/gas resolution was the subject of appeal before the Lombardy Regional Administrative Court from some distributors, including HERA SpA, in connection with the tariff recognition of costs themes, both with reference to the new meters ad those substituted by virtue of the obligations introduced; furthermore the appeals also referred to temporal installation obligations judged as incompatible with the sector's technological maturity. The 28/12 resolution was added to a number of times with subsequent ordinances during the year, lastly by resolution 575/12/R/gas. These additions, however, did not amend the main guidelines of the regulatory plan instituted with resolution 28/12. At present, the regulation provides for the measuring systems (GDM) of a higher class than G40 and the replacement of all the measurers installed by 29 February 2012. The replacement objectives for the GDMs of the classes between G16 and G40 are positioned, gradually and with intermediate obligations, between 2013 and 2015; finally, the replacement of 60% of those GDMs dedicated to the mass market (classes G4 and G6), installed, must be carried out by 31 December 2018, in any event except for the obligation to replacement by that date all the meters with expired metric stamp duty.

Furthermore, the Authority's regulations on the thematic inherent in **Overdue Payments** and the **Default Gas Service** continued in 2012. Specifically, the Authority started the transitory period for first application of the Consolidated Gas Overdue Payments Text (TIMG) with resolution 166/12/R/gas, and introduced some obligations for distributors directed at containing the overdue payments phenomenon. Amongst the main changes introduced there is the distributor's 'obligation to ensure a number of supply suspensions for overdue payments of the end customer, calculated by distribution plant, as well as interrupt gas supply in the cases where it is not possible, due to inaccessibility of the meter, to suspend it. The costs related to both the interruption and restoring the supply, incurred in relation to the obligations of resolution166/12, are covered by the Authority. Instead, appertaining the Default Gas Service, the Authority, with resolution 352/12/R/gas, defined the criteria for covering the costs of the service for the distributors in relation to the gas supply costs, operating costs as well as charges related to the customers' overdue payments. Furthermore, with the subsequent 540/12/R/gas resolution the Authority introduced further additions to the Default Service regulations directed at a first and provisional start thereof. The additions specifically regarded the postponement of the service start-up date to 1 February 2013 (compared to 1 January 2013 initially provided), meanwhile delineating the possibility for the distributor to alternatively make use of either the territorially authorised Last Resort Supplier (FUI) or a Transitory Supplier selected by a tender. However, subsequently to this resolution the Lombardy Regional Administrative Court acted, accepting the appeal presented by some distributors against resolution 99/11, de facto annulling the regulatory plan up to when it is promulgated relative to the Default Service and TIMG.

The Authority appealed against this ruling to the Council of State, requesting its suspension for serious and irreparable damages, this suspension was granted to the end of January 2013, by a one time and valid decree at least until the pronouncement on the true and proper suspension, anticipated for April 2013. Subsequently the Authority promulgated another resolution, 25/13/R/gas, with which it provided on the one hand the possibility for the FUI to choose not to run the default service, not even transitorily. On the other hand, because of the restrictness of the terms, there was the possibility for the distributor to make use of a directly selected Transitory Supplier and therefore without public evidence procedures.

Again, with reference to the gas sector, the Authority provided with resolution 436/12/R/gas for the extension to 31 December 2013 for the application period of the directives contained in the Consolidated Act for the **regulating of quality and tariffs for the gas distribution and measurement services,** valid for the regulation period 2009 – 2012 (TUDG). This allowed at the same time for a postponement of the Fourth Regulation Period start until 2014. From the **tariff** viewpoint, the main effect of the extension, as delineated by the Authority, was the determination of an anchored return on capital for 2013, common to the electricity sector, at the free risk return of 2011 This was contrary to expectations that anticipated the determination of a free risk rate on a 2012 base and its maintenance based on tariffs for the four-years 013-16, or at least for the two-years 2013-14. Simultaneously, again in the perspective of alignment with the electricity sector, the Authority raised the Debit/Equity ratio from 0.5 to 0.8 and revised the average taxation rate. Finally, as far as concerns the recognised operating costs, the productivity recovery rate was confirmed commencing from the costs determined for 2012, with application of the *décalage* already introduced previously.

Instead, with regard to the **gas quality** regulation, the extension to 2013 provided for maintenance of the same annual improvement rate on the dispersions notified by third parties that was fixed in the third regulatory period, with the consequence that the 2013 levels/objective will be more challenging. Furthermore, measures directed at mitigating the financial impact of the incentivation mechanisms in the regulation were identified, in the case of a gas accident that is the responsibility of the merchant. Again, with reference to the gas quality, it is noted that, with resolution 368/12/R/gas the Authority arranged to determine the incentives and penalties relating to the safety recoveries of the natural gas distribution service for 2010, which was for merchants participating in the incentives and penalties system, including HERA SpA.

A further change in 2012 came from resolution 229/12/R/gas, with which the Authority approved the **Gas Settlement** Consolidated Text (TISG). The Authority completed with this regulation reform of the gas balancing system introducing a new set of rules directed at increasing certainty and transparency in the determination of the physical items to which the terms and conditions determined in the same market (balancing price) must be applied. In the TISG, which will come into effect commencing from 1 January 2013, the most significant change is the transfer from the distributors to SNAM Rete Gas of the Allocation process responsibility.

Finally, in 2012 significant relevance has been given to the consultation process relating to the **reform of the definition of the natural gas raw material component** for the purpose of the determination of the economic conditions for the supply of the protection service. The Authority, with resolution 263/12/R/gas, adopting the provisions of article 13 of Legislative Decree 1/2012, continued on the path that it had already undertaken with resolution 116/12/R/gas, directed at the progressive insertion in the calculation formula of the Wholesale Marketing Component (CCI), new references to the market prices for gas procurement, alongside the customary parameters deriving from the importation contracts. It is useful to recall that the Authority, with resolution 116/12/R/gas had already amended the calculation formula of the CCI, taking effect from April 2012, in order that it might also progressively contemplate a “market index”. The Authority, with resolution 263/12, increased the weighting of the market index, fixing it at 5% for the 2012-2013 thermal years. Finally, with the recent Consultation Document 58/13/R/gas the Authority made further proposals directed at completing the reform of the CCI calculation methods.

The Authority proposed in this document increasing the market index weighting to 20% for the period April 2013-September 2013 and taking it to 100% for the following thermal years, in the meanwhile anticipating a gradualism mechanism directed at containing impacts on the revenues and margins of the sales intermediaries.

As far as concerns the **electricity sector,** 2012 was the first year of the Fourth Regulatory Period on matters of **tariffs and quality for distribution and measurement of electricity**. The tariff regulation is based on the ARG/elt 199/11 resolution, which approved the integrated TIT, TIME and TIC texts, while the quality regulation is entrusted to the ARG/elt 198/11 resolution, which approved the Electricity Quality Consolidated Text (TIQE). As far as concerns the new tariff framework, you are referred to the subsequent specific section. In connection with service quality, the main changes certainly regard the incentives and penalties system for continuity recoveries, where the incentives for the better-served areas are reduced, but instead are increased for the worst served areas. In the second place the individual continuity regulation is changed regarding end customers for average voltage prerogative, extending this to brief interruptions also, while in past only long interruptions were included. Lastly, activation of the monitoring of the supply voltage is noted

Again, with reference to the electricity distribution, the Authority introduced with resolution 559/12/R/eel a change of the conventional loss coefficients of the distribution networks, specifically reducing the coefficients for average voltage withdrawals from networks. The Authority reserves the right to intervene subsequently to change the loss coefficients because of further elaboration for the average voltage networks also, after which the current equalisation mechanism will also be amended. The Authority reviewed for 2012 also, with resolution 559/12, the formula of the prevailing equalising mechanism provided by the Consolidated Sales Text (TIV), de facto halving the debit items of the operators with effective losses higher than the standards and consequently reducing the credit items of the operators with lower effective losses.

With reference to the electricity **sales activity,** the 538/12/R/eel resolution is certainly significant. This takes its movements from the consulting case conducted in 2012 on the reform of the recognition methods of the **overdue payments charge to the operators** of the **higher protection service**. The Authority's initial proposals regarded an increase of the security deposit, use of the unpaid ratio (invoices non-payment rate) as a parameter for the recognition of the charges and differentiation of the component for the territorial level (other than by domestic customers typology and not, however, already anticipated). The 538/12 resolution approved, with effect from 1 January 2013, the new values of the RCV (Sales Marketing Remuneration) component, differentiating it for two territorial macro-zones (Centre-North and Centre-South). Compared to the previous values, in general the component for the domestic customers is reduced for the Centre-North and increased for the Centre-South, while for the non-domestic customers it is increased for both the macro-zones, but higher (almost double) for the Centre-South. The values of the PCV (Marketing and Sales Price) consideration applied to the end customers were also updated. These remain unchanged for the domestic customers but increased for the non-domestic customers, nevertheless remaining solely domestically. Finally, the amount of the security deposit provided by the regulation is unchanged, and is equal to the expense of month's supply.

The overdue payments theme also involved the 2012 regulation as far as concerns the electricity **safeguarding service**. The ministerial decree of 21 October 2010 provided, for the purpose of minimising the credit risk adopted by the operators, for safeguarding with respect to the growing phenomenon of overdue payments, the definition, by the Authority of a reintegration mechanism for the non-recoverable charges incurred by the operators for safeguarding relating to the overdue payments of the end customers who can no longer be supplied. With resolution 370/12/R/eel the Authority defined the quantification criteria of the charges that are subject to the aforesaid reintegration mechanism, with reference to the receivables not recovered that accrued in the periods of exercise already in the course of implementation. Furthermore, with resolution 520/12/R/eel the Authority commenced a procedure directed at acquiring cognitive elements regarding the typologies of end customers that can no longer be supplied, but who are entitled to be safeguarded, and regard the overdue payments charges attributed to each typology.

With regard to the **production of electricity,** resolution 281/12/R/efr responds to the need for making the **renewable energy sources** (FER) producers not programmable regarding the costs, starting a process that intends to gradually move part of such costs to these producers (presently interacted among the consumers), so as to incentivate greater attention to the activity of forecasting emissions. The resolution therefore establishes that, when fully operational, the regulation of the production units from FERs must be uniformed to that prevailing for the generality of plants, with an approach that will require producers to update their emission plans almost to real time for fully operational imbalances. To reduce the impact on the producers, the Authority has however established the introduction of a transitory regime, valid throughout 2013, below which determined excesses (20% for the first 6 months and 10% for the remaining months) the imbalances will continue to be evaluated at the market price. With regard to insignificant plants (installed power less than 10 MVA), for which the National Grid (GSE) has the dispatching responsibility, the imbalance charge shall only be applied to the producers that use the dedicated collection regime.
Furthermore, the Development Legislative Decree (83/2012) on the **production of electricity** entrusted the Authority with the task of defining a system to safeguard the **flexible plants** necessary for the electricity system, although without additional charges for the State. Consequently the Authority published the first of the reference documents anticipated, the DCO 508/12/R/eel, centred on the architecture of the dispatching service market (MSD) and revision of the enhancement of imbalances for the ancillary services.

Instead. amongst the 2012 interventions transversal to the two gas and electricity regulated sectors those relating to the **protection of the energy consumers** were inserted. In this context resolution 153/12/R/com is certainly significant. The Authority introduced with these preventative measures (called the welcome letter or confirming telephone call to the end customer) to counter the practices of the undue contracting of end customers by retail sales companies. Specifically, should, following presentation of a complaint from an end customer for a “not requested contract”, it is established that there was a breach by the sales company of the preventative measures introduced by the ’Authority, the re-attribution of the supply point is provided for, at the first useful expiry date in the dispatching/transport contract of the previous seller. Also provided for is the periodic publication of a black list showing the number of complaints for a not requested contract recorded as founded, subdivided by each seller involved.

Also introduced with resolution 548/12/E/com, were more challenging **timings** for operators for acknowledgement of the information requests presented by the **Consumer Counter** of the Authority. It is recalled that the task of the Consumer Branch is to verify the criticalities in the operators’ (distributors and sellers) conduct with customers in relation to effective implementation of the regulatory directives. Finally, resolution 260/12/E/com instituted the **Energy Customers Conciliation Service** in an experimental form from 1 April 2013. This refers to a form of joint conciliation, which therefore leaves each party – consumer and merchant – free to reach an agreement or not with respect to disputes. The change, with respect to the joint conciliation of the Group in effect to date is, however, the significant circumstance that, in the case under examination, the conciliator, who has the function of favouring a compromise settlement between the parties, is a third party identified by the Authority.

The change, with respect to the joint conciliation of the Group in effect to date, is however the significant circumstance that, in the case under examination, the conciliator, who has the function of favouring a compromise settlement between the parties, is a third party identified by the Authority.
As far as concerns **enforcement of the regulations for the electricity and gas sectors**, the adoption of the new regulations for disciplining penalty procedures through resolution 243/12/E/com is noted, with procedural methods for evaluation of the commitments that introduce a simplified procedure for the definition of the penalty procedures that the Authority can discretionally propose to the merchant, with the effect of application of a reduced penalty (one third) and the consequent extinction of the procedure, with determined undertakings from the merchant to remove the contested breach.

With reference to the wa**ter sector**, the Authority commenced the well-known intricate consulting process on the **new transitory tariff method** in 2012, before the transfer to the Authority itself of the functions relating to the regulation and control of the integrated water service. The consultation, in which the HERA Group actively participated, saw numerous occasions of public comparison and the publication of two consultation documents. The consultation was followed by resolution 585/12/R/idr at the end of December 2012, which approved the principles of the transitory tariff method (MTT) for the determination of the costs recognised for the years 2012 and 2013. This method must be adopted by the Area Entities for preparation of the 2012 and 2013 tariff by 31 March 2013, which will be followed by final approval by the Authority before 30 June 2013. For the 2013 competences, application of the transitory method in customers' invoices (already provisional from 1 April, and definitively from 1 July) keeps the tariff structure unchanged and applies an appropriate modulation coefficient to the tariffs previously in effect that includes the effects of the new method. The 2012 competences, as well as the annual statement of the 2013 items, will be taken up in the tariff commencing from 2014. The final method will be in effect from 1 January 2014. The consultation procedure will be conducted during 2013 for the definition of this. Amongst the more significant aspects of the transitory method should be cited, with regard to the recognition of capital costs, is the valuation of the investments through the revalued historical cost method, with recognition of the investments after the fact with respect to the time of realisation, and net of the goodwill recorded. Recognition of the financial and tax charges (in place of the rate of return provided by the previous systems), is calculated on the capital employed through standard references, as well as a risk coverage considered correct for the sector. To offset the two-year lag with which the investments are recognised in the tariff, a 1% lump sum increase of the financial charges is provided commencing from the investments made in 2012. Also provided is the constitution of a specific reserve fund in which the part of depreciation recognised in the tariff covered by the contributions to the sinking fund converges. Finally, the method provides an efficiency improvement and gradualist path for individual territorial areas in four annual quotas. For capital costs these converge with the cost recognised by the new method provided by the Authority commencing from the costs anticipated in the area plans, while operating costs, known as "efficients" converge with the cost anticipated by the area plans commencing from the 2011 final cost figures.
Resolution 585/12 does not deal with the theme of the restitution to the end users of portion of tariff remuneration on capital employed for the period 21 July 2011 - 31 December 2011 following the referendum result of 20 July 2011. In this regard, the Council of State, with its opinion of January 2013, confirmed the Authority's prerogative on tariff matters, including with reference to this item. Consequently, the Authority with resolution 38/13/R/idr commenced the procedure for determination of the criteria and methods of restitution of the 2011 return on capital, with conclusion of the procedure expected in May 2013.

2012 was also characterised by the promulgation of the Authority's measures on matters of **tariff concessions and payments Instalments** for the populations hit by the **seismic events of May 2012**. The consequent ordinances transversally regard the three regulation sectors of the Authority (gas, electricity and integrated water service) and, with reference to the energy sectors, have impacts on both the distributors and sellers. These measures have a significant impact for the HERA Group, given its marked presence in the territories hit by the seismic events. Specifically, with resolutions 235/12/R/com and 314/12/R/com the Authority provided for the suspension, for the period from 20 May to 20 November 2012, of the payment terms of the invoices relative to the supply of gas, electricity and integrated water service. For the purpose of mitigating the financial exposure of energy sales operators, the Authority provided the facility for sellers to request an advance from the Equalisation Fund for the Electricity Sector (CCSE) on receivables deriving from the invoices with suspended payments.

The advances, from which HERA COMM Srl also benefitted, substantially adopted the form of an interest-bearing loan, but on concessional conditions. The subsequent resolution 6/13/R/com published in January 2013, other than commencing the instalment plan for appropriate periods of 2012, suspended receivables, introduced the awaited tariff concessions system., This was substantiated by a 50% reduction of the energy distribution tariffs and those for the integrated water service, valid retroactively from 20 May 2012 for a two-year period. The lower revenues for the operators subject to this obligation shall be reintegrated therewith by appropriate mechanisms currently being defined by the Equalisation Fund for the Electricity Sector. The concessions system, which also involves the interest-bearing additional tariff services, was extended to the 104 municipalities identified by the Ministry of Economy and Finance Decree of 1 June 2012, in which the Mantua and Ferrara municipalities are included.

Finally, it is noted that the Group was subject to two inspection visits by the Authority during 2012. The first, commissioned with resolution 198/12/R/eel, verified the figures relative to the continuity of the electricity service distribution for 2011, and concluded with the Authority's assessment of full compliance with the rules on recording and classification of interruptions. The second, in connection with a checks programme of three electrical network operators, commenced with resolution 104/12/E/eel, regarded the control of the correct application of the provisions of the Consolidated Text of Active Connections (TICA), with reference to the practices relating to the connection requests received in the period 2008-2012. Currently the result of the inspection visit is not known.

Gas distribution: tariff framework

2012 is the fourth year of the third regulatory period (2009-2012) of tariffs for gas distribution and metering. The reference regulations for these four years was introduced with a resolution of the Regulatory Authority for Electricity and Gas (hereinafter Authority) ARG/gas 159/08 of November 2008 and recently extended to 2013 with resolution 436/2012/R/gas.

The tariff plan defined by resolution 159/08 ensures each operator of the attainment of *permitted revenues* determined by the Authority on the basis of the recognised costs, expressed by the *reference tariffs*, and number of hand-over points served, de facto making the corporate revenues independent from the volumes distributed. This can be done by using tariff equalisation mechanisms, which allow operators to use the Electricity Equalisation Fund to settle differences between their own permitted revenues and the revenue generated by invoicing the sales companies. These latter revenues arise from the *compulsory tariffs* determined by the AEEG based on macro-regional size.

The Council of State, with Ruling no. 2521/12 of 28/2/2012 ended the uncertainty situation of the tariff framework introduced by numerous administrative appeals undertaken by some operators adverse to resolution 159/08. The Authority, to adopt the ruling, with resolution 315/12/R/gas adopted changes to the regulation that mainly involved the modulation of the productivity annual recovery rate of recognised operating costs, with a decreasing trend during the course of the regulatory period. Secondarily, though without impacts for the HERA Group, the regulation changed application of the gradualist mechanism in the recognition of capital costs, anticipating activation by individual operators, and limited application of the office tariff compared to the previous situation.
On the basis of resolution 315/12, the new annual productivity recovery rates for HERA SpA are, in place of the previous fixed value of 3.2%, now 3%, 2.8% and 2.6% respectively for the 2010, 2011 and 2012 updates, maintaining the value of the initial recognised operating costs unchanged. This redefinition therefore, has a slightly improving effect for the HERA Group, compared to the previous values.

Resolution 315/12 also definitively approved the reference tariffs for 2009 and 2010, based on the changes of the productivity recovery delineated above. Resolution 450/12/R/gas finally, completed the approval framework, publishing the reference tariffs for 2011 and 2012 for the first time.

In this context the Hera Spa's revenues for the year, in relation to gas distribution and measurement, were €159.2 million against the volumes distributed of 2,204 million m^3 and a corresponding average unitary income of €7.22 cent/m^3

Gas distribution and metering - Regulated revenues	2011	2012	% chg
Hera Spa			
Revenues (€/millions)	153.3	159.2	3.8%
Volumes (millions cubic meters)	2230	2204	-1.2%
Average revenue per unit (€cent/cubic meter)	6.87	7.22	5.1%

There are different reasons for the €5.9 million growth in revenues compared with 2011. First, between 2011 and 2012 an increase was registered of about €7 million in revenues permitted by the tariff method, largely referred to the granting of the fourth and last *gradualist* portion on recognition of capital costs, and secondarily on the remuneration of the net investments made in 2010. Such increases are nevertheless mitigated to the extent of €1.1 million, by secondary effects mainly deriving from the general equalisation mechanism in effect.
Marche Multiservizi SpA is included in the scope of consolidation for 2012. Therefore, the consolidated revenues from gas distribution and measurement, the volumes distributed and the average unitary income for the HERA Group are shown below.

Gas distribution and metering - Regulated revenues	2011	2012	% chg
Consolidated Hera Group			
Revenues (€/millions)	166.9	174.1	4.3%
Volumes (millions cubic meters)	2389	2360	-1.2%
Average revenue per unit (€cent/cubic meter)	6.99	7.38	5.6%

Finally, it is specified that the Net Capital Employed value for regulatory purposes for gas distribution and measurement, based on the revenues for the year indicated for 2012, can be estimated at €932 million for the HERA Group.

Electricity distribution: tariff framework

2012 was the first year of the fourth tariff regulation period (2012-2015) for the Transmission, Distribution and Measurement of electricity. The reference integrated texts (TIT for Transmission and Distribution and TIME for Measurement) were approved with resolution ARG/elt 199/11.
As far as concerns the distribution service, the principal change of the new tariff method concerns the introduction of a regulated and defined restraint on 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), with operating costs calculated on the final average domestic values recorded by the Authority and appropriately modulated to take account of the effects of the tariff equalisations for the third regulatory period. Drawing up a restriction for each company is more detailed than the previous tariff system and at the same time responds to the cost reflection principles of recognised revenues.
From the recognition of the costs viewpoint, other than for updating the rate of return on capital employed, now 7.6% by virtue of the changed conditions of the economic/financial system, another change is recognition of the so known "*regulatory lag"*. This means an increase of the return on capital rate, to cover the financial charge consequent to the delay of two years after the investments were made, commences being recognised in the tariff. This increase amounted to 1% and applied to investments made in 2012, therefore valid on the 2014 tariffs. Finally, full recognition of the depreciation commencing from 2012 should be noted. The effect of driving the price cap applied in previous regulatory periods is no longer discounted.
Approval of the reference tariffs for 2012 for electricity distribution for HERA SpA was deferred by resolution 157/12/R/eel to subsequent regulations, not yet known to date. In this context, the values of 2012 revenues recorded is based on appropriate conservative estimates in a continuity logic with the expense values from the third regulation period taking, however, into consideration the changes in the method of recognition of capital costs, with an adequate degree of caution on the operating costs level, as well as isolating the effect of the change of the distributed volumes.
Moreover, during the course of 2012 the Astoria, with resolution 338/12/R/eel, approved the amount of the marketing costs equalisation for the distribution service for 2009. Instead, there were no resolutions for approval of equalisation of the measuring service revenues and costs, the approval state of which is to date only consolidated until the end of the 2009 competences. All other items of equalisations provided by the TIT or other ordinances for the distributing companies, including the equalisation of the difference between effective and standard network losses (TIV, resolution 156/07 - the Equalisation Fund for the Electricity Sector arranged in 2012) to approve the relative amounts until the 2011 competence.

In the overall framework delineated above, the revenues from electricity transmission, distribution and measurement tariffs were estimated at 52.8 million for 2012, against a level of distributed volumes of 2,233 million kWh and average unitary income of €2.36 cent/kWh.

Therefore, compared to 2011, against a reduction of 3.1% in distributed volumes (from 2,304 to 2,233 million kWh), a substantial stability was recorded in revenues that reduced by 0.1 million (-0.2%), from 52.9 to 52.8 million.

Distribution, metering and transmission Electric Energy, regulated revenues	2011	2012	% chg
Hera Spa			
Revenues (€/millions)	52.9	52.8	-0.2%
Volumes (millions KWh)	2304	2233	-3.1%
Average revenue per unit (€cent/KWh)	2.29	2.36	3.1%

The stability of the recognised revenues was due to the positive effects introduced by the new tariff method, which allows the set-off of the effect deriving from the reduction of the distributed volumes, as well as secondly with the revision of fees for past financial years.

Water cycle: tariff framework

2012 was the fifth year of the 2008-2012 regulatory period, signed with all ATOs (optimal territorial areas), with the exception of the Modena and Bologna ATOs for which the tariff agreement was renewed respectively for the 2010-2014 and 2011-2015 periods.

The comparison with the 2011 financial year figures shows an increase of the unitary revenue for 2012 of 6.7%, compared to the previous year. This specifically derives from application of the tariff agreements resolved by ATOs, which provided for the tariff convergence towards full costs coverage.

Hera Group consolidated Water cycle - tariff revenues	31-Dec-11	31-Dec-12	% chg
Tariff revenues (€/millions)	438.43	465.80	6.2%
Volumes (millions cubic meters)	254	253	-0.4%
Average revenue per unit (€cent/cubic meter)	172.79	184.32	6.7%

Urban hygiene: tariff framework

In December 2012, urban waste management services were provided in 187 municipalities, of which 50% (93 municipalities) adopted the tariff regime pursuant to Presidential Decree No. 158/99, serving a population accounting for 65% of the territory served; 50% of the municipalities are still operating under the TARSU (Tassa Rifiuti Solidi Urbani - Solid Urban Waste Tax) regime.

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

Hera Group consolidated Urban hygiene - tariff revenues (TIA + TARSU)	2011	2012	% chg
Tariff revenues (€/millions)	414.4	435.0	5.0%
Residents served* (000)	2778.5	2841.0	2.2%
Average urban revenue (€/resident)	149.1	153.1	2.7%

* number of residents served as at 01/01

The overall increase of 5.0% in the regulated revenues, for the urban hygiene service to the municipalities under concession, is mainly to be attributed to the average tariff increase of about 3.4%, which also recovers the inflation increase of the costs.

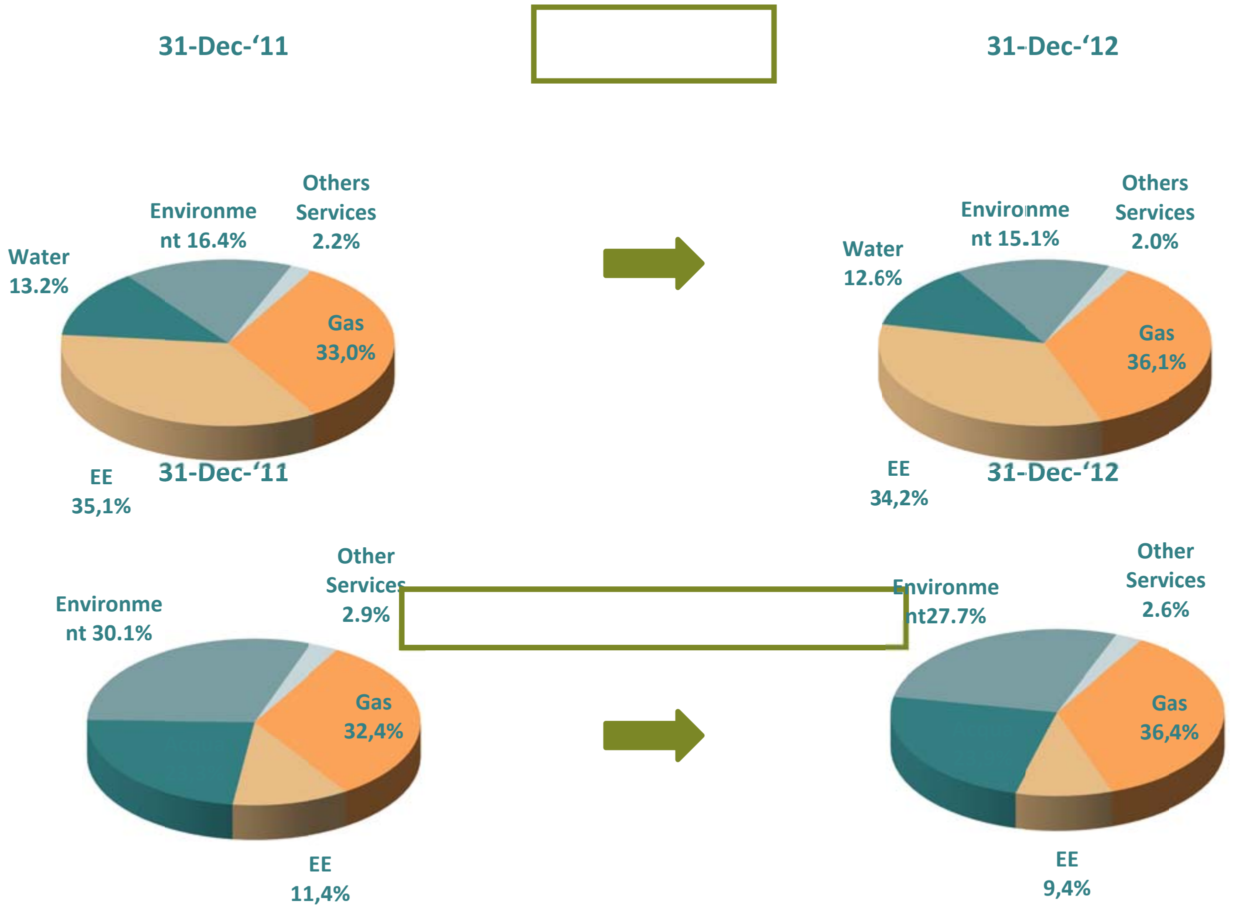
The remaining fourth part is to be attributed to the entry of new municipalities in the perimeter of the Marche Multiservizi Group and to income from initiatives of better control of the parties subject to tariffs

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

Breakdown of the business portfolio



The following sections give an analysis of the operating results by business segment. The income statements per business segment include the overhead costs and the financial exchanges between them evaluated at current market prices.

The analysis by business segment considers the evaluation of higher revenues and costs, without an impact on the EBITDA, relating to application of IFRIC 12, as shown in the Group Consolidated Statement of Comprehensive Income. The business segments that experience application of the aforesaid standard are: the Methane Gas distribution service, Electricity distribution service, all the Integrated Water Cycle services and the Public Lighting service.

Analysis of operations in the Gas Segment

As at 31 December 2012, the Gas segment showed notable growth compared to the same period of last year, both in absolute terms and in terms of percentage of contribution to the Group's EBITDA, which was 36.4%, up by 4.0 percentage points compared to the same period of last year, as illustrated in the table below:

(mln/€)	31-Dec-11	31-Dec-12	Abs. Chg	% chg
Gross operating margin area	**208.7**	**240.7**	**+32.0**	**+15.3%**
Gross operating margin Group	644.8	662.0	+17.2	+2.7%
Percentage share	32.4%	36.4%	+4.0 p.p.	

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

Quantitative data	31-Dec-11	31-Dec-12	Abs. Chg	% chg
Number of customers (thousands)	1,114.5	1,116.3	+1.8	+0.2%
Gas volumes distributed (millions cubic meters)	2,389.2	2,360.1	-29.1	-1.2%
Gas volumes sold (millions cubic meters)	3,321.0	3,478.9	+157.9	+4.8%
- of which trading volumes	*1,252.6*	*1,396.0*	*+143.4*	*+11.4%*
Heat volumes provided (Gwht)	499.3	526.0	+26.7	+5.3%

he volumes distributed, down from 2,389.2 million cubic metres in 2011 to 2,360.1 in 2012, a 1.2% reduction, which exceeded the average domestic fall in demand (-0.2%); moreover, it can be noted that, despite the overall colder temperatures registered in 2012, compared to 2011 (+2.4% degree days), the fourth quarter of 2012 had slightly milder temperatures (-0.8% degree days) compared to the same period of last year.

The volumes of gas sold instead rose from 3,321.0 million cubic metres in 2011 to 3,478.9 in 2012, a 4.8% increase compared to the same period of 2011. This was both as an effect of the growth in volumes brokered, thanks to both the expansion of the wholesalers portfolio and higher supplies to large consumption points such as the thermo-electric power stations, and an increase in the volumes sold, partially linked to an increase of the number of customers served (+0.2%).

The volumes of heat supplied were up from 499.3 GWht for 2011 to 526.0 in 2012, a 5.3% increase, linked to the higher temperatures registered in 2012 overall and the higher activations in the 2012 financial year.

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

Income statement (mln/€)	31-Dec-11	Inc.%	31-Dec-12	Inc%	Abs. Chg	% chg
Revenues	1,490.2		1,769.3		+279.1	+18.7%
Operating costs	(1,224.7)	-82.2%	(1,459.7)	-82.5%	+235.0	+19.2%
Personnel expenses	(70.1)	-4.7%	(77.8)	-4.4%	+7.7	+11.0%
Capitalized costs	13.3	0.9%	9.0	0.5%	-4.3	-32.3%
EBITDA	**208.7**	**14.0%**	**240.7**	**13.6%**	**+32.0**	**+15.3%**

Revenues increased by 18.7%, from €1,490.2 million in 2011 to €1,769.3 million in 2012, because of increased sales revenues of about €250 million, 80% linked to the increase in the cost of raw materials and the remainder to higher volumes sold and brokered. The cost increase in raw materials, and as a consequence in revenues, is due to both the growth of the wholesale marketing component and the higher average cost of natural gas. The remaining difference is due to the higher revenues from the regulated distribution service of €7.2 million and higher revenues from the remote heating business due to the higher volumes of heat sold.

The 19.2 % increase in operating costs is mainly due to: (i) an increase of the natural gas raw material cost and greater volumes sold and brokered of about 210 million, for the reasons already shown previously, (ii) higher vectoring costs of natural gas.

The EBITDA in the Gas segment therefore increased by €32.0 million from €208.7 to €240.7 million, despite a reduction of the marginality percentage from 14.0% in 2011 to 13.6% in 2012. The result of the segment can be attributed to higher sales margins, due to good raw material purchase agreements and greater volumes sold and brokered, higher distribution revenues, greater recognitions of white certificates and a higher margin for heat sold.

Analysis of operations in the Electricity Segment

The Electricity segment fell at the end of 2012, compared to the 2011 financial year, both in absolute terms and contribution to the overall Group marginality, as shown in the table below:

(mln/€)	31-Dec-11	31-Dec-12	Abs. Chg	% chg
EBITDA area	**73.2**	**62.3**	**-10.9**	**-15.0%**
EBITDA Group	644.8	662.0	+17.2	+2.7%
Percentage share	11.4%	9.4%	-2.0 p.p.	

The EBITDA fell from €73.2 million at 31 December 2011, to €62.3 million in 2012, a €10.9 million reduction. The greater part of this decrease is due to the change of the Fair Value of the hedging transactions on electricity sales, which in 2011, in relation to the petroleum price trend, produced a positive valuation in 2011 and negative in 2012.
The quantitative figures for the segment, which do not include trading activities, are given in the table below:

Quantitative data	31-Dec-11	31-Dec-12	Abs. Chg	% chg
Number of customers (thousands)	482.1	541.1	+59.0	+12.2%
of which eligible/only distribution	257.0	246.2	-10.8	-4.2%
of which eligible	225.1	294.9	+69.8	+31.0%
Volumes sold (Gw/h)	9,996.1	9,535.0	-461.1	-4.6%
Franchised customers	-	-	+0.0	+0.0%
Eligible customers	9,996.1	9,535.0	-461.1	-4.6%
Distributed volumes (Gw/h)	2,303.9	2,233.4	-70.5	-3.1%

The reduction of -4.6% in the volumes sold was determined by the lower consumption related to the aforesaid economic trend, though with a 12.2% growth in the customers portfolio.
The volumes distributed fell by 3.1%, showing a slowdown in consumption, which is reflected, even if in a lower manner, in both the reference territories of Emilia Romagna and Tuscany (-2.1%) and the domestic average (-2.0%).
The main results of the segment are given in the table below:

Income statement (€/millions)	31-Dec-11	Inc.%	31-Dec-12	Inc%	Abs. Chg	% chg
Revenues	1,585.2		1,678.4		+93.2	+5.9%
Operating costs	(1,497.0)	-94.4%	(1,599.9)	-95.3%	+102.9	+6.9%
Personnel expenses	(26.4)	-1.7%	(24.3)	-1.4%	-2.1	-8.0%
Capitalized costs	11.4	0.7%	8.0	0.5%	-3.4	-29.9%
Gross operating margin	**73.2**	**4.6%**	**62.3**	**3.7%**	**-10.9**	**-15.0%**

Revenues rose from €1,585.2 million in 2011 to €1.678.4 in 2012, a 5.9% increase, principally due to the raw material price increase, despite the reduction of the volumes sold.
The increase in operating costs (+6.9%) is connected to the higher purchase costs of the material and vectoring of the electricity. The effect of valuation of the hedging transactions on purchases of the raw material destined for sale, already mentioned above, is also recalled.

It should be stressed that activities involving renewable sources, +2.1 million compared to last year, and industrial cogeneration contributed to the electricity segment increase in margins by 8.0% up by 6.3 percentage points compared to last year. This was also due to acquisitions of new companies operating in the photovoltaic sector and the better performance of the Group's cogeneration power station.

Analysis of operations in the Integrated Water Cycle segment

The Integrated Water Cycle segment showed growth at 31 December 2012, compared to the same period last year:

(€/millions)	31-Dec-11	31-Dec-12	Abs. Chg	% chg
Gross operating margin area	**150.2**	**158.3**	**+8.1**	**+5.4%**
Gross operating margin Group	644.8	662.0	+17.2	+2.7%
Percentage share	23.3%	23.9%	+0.6 p.p.	

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

Income statement (€/millions)	31-Dec-11	Inc.%	31-Dec-12	Inc%	Abs. Chg	% chg
Revenues	596.7		617.1		+20.4	+3.4%
Operating costs	(347.3)	-58.2%	(355.0)	-57.5%	+7.7	+2.2%
Personnel expenses	(106.1)	-17.8%	(108.3)	-17.5%	+2.2	+2.1%
Capitalized costs	6.9	1.2%	4.4	0.7%	-2.5	-36.1%
Gross operating margin	**150.2**	**25.2%**	**158.3**	**25.7%**	**+8.1**	**+5.4%**

Revenues of €617.1 million climbed by 3.4% compared to 31 December 2011, as an effect of the higher supply revenues for application of the tariffs agreed with the territorial authority that provide for tariff convergence towards full costs coverage. The revenues increase was mainly limited by the lower volumes supplied and the smaller contribution from connections: these two factors were particularly influenced by the persistence of the aforesaid negative economic trend.

Operating costs increased by 2.2% compared with the same period in the previous year, which was related to: (i) increased energy costs for operating plants for all of the integrated water service and (ii) the higher costs for meeting the water emergency of the summer months of 2012, a period when average rainfall was extremely reduced.
The following table shows the main quantitative indicators for the segment:

Quantitative data	31-Dec-11	31-Dec-12	Abs. Chg	% chg
Number of customers (thousands)	1,184.2	1,188.7	+4.5	+0.4%
Volumes sold (millions of cubic meters)				
Water distribution	253.7	252.7	-1.0	-0.4%
Sewerage	222.6	220.8	-1.8	-0.8%
Purification	221.4	217.0	-4.4	-2.0%

Volumes of water supplied were lower than 2011, 0.4% for the aqueducts, while sewerage was 0.8% and purification volumes were 2.0%. The reduction of the purification volumes is to be considered in relation to the alignment of registers, which exclude those users, who are not connected to centralised purification plants or are temporally inactive, from subjection to payment for a purification portion.

The EBITDA was therefore €158.3 million at 31 December 2012, against €150.2 million last year, a 5.4% increase due to higher revenues that reflect the application of the tariffs that provided for convergence towards full coverage of the operating costs.

Analysis of operations in the Environment segment

The Environment segment shows a fall in marginality, as reported in the following table:

(€/millions)	31-Dec-11	31-Dec-12	Abs. Chg	% chg
Gross operating margin area	**194.2**	**183.5**	**-10.7**	**-5.5%**
Gross operating margin Group	644.8	662.0	+17.2	+2.7%
Percentage share	30.1%	27.7%	-2.4 p.p.	

The Hera Group operates in an integrated manner throughout the entire waste cycle, with facilities that include 81 urban and special waste treatment and disposal plants managed by the HERAmbiente Group, to which are added the 4 managed by the Marche Multiservizi Group. The HERAmbiente Group acquired 100% of Energonut in October 2012. This company manages an incineration plant in the Pizzolli Municipality (IS).
An analysis of the operating results achieved in the Environment segment is shown below:

Income statement (€/millions)	31-Dec-11	Inc.%	31-Dec-12	Inc%	Abs. Chg	% chg
Revenues	740.1		737.8		-2.3	-0.3%
Operating costs	(412.7)	-55.8%	(409.1)	-55.4%	-3.6	-0.9%
Personnel expenses	(148.4)	-20.1%	(153.8)	-20.8%	+5.4	+3.6%
Capitalized costs	15.2	2.1%	8.6	1.2%	-6.6	-43.4%
Gross operating margin	**194.2**	**26.2%**	**183.5**	**24.9%**	**-10.7**	**-5.5%**

Revenues at 31 December 2012 show a 0.3% fall compared to the similar period of last year, down from €740.1 to €737.8 million. This decrease is the sum of multiple factors: (i) termination of the CIP6 incentive on the FEA waste to energy plant in the Bologna zone (about €18,0 million), (ii) lower volumes of waste disposals, (iii) higher revenues from electricity production due to full waste to energy plant operations in Rimini, Biogas plants and start-up of the new digester plants, and (iv) higher revenues from environmental hygiene services as an effect of the application of the tariffs approved by the territorial authorities that converge towards full costs coverage.

The capitalised costs reduction is mainly related to miscellaneous plant works and works amongst Group companies specifically related to the completion of construction of the waste to energy plants.

The higher personnel costs were 80% due the addition of MMS Falconara in the Marche Multiservizi Group and the remainder to the remuneration increases for the national contract.

Differentiated collection, in terms of percentage incidence on the total volumes collected, reached 51.6% at the end of 2012, against 50.6% for the same period of 2011.

An analysis of the volumes marketed and processed by the Group in the 2012 financial year, compared to the same period of 2011 is given below:

Quantitative data (thousands of tonnes)	31-Dec-11	Inc.%	31-Dec-12	Inc%	Abs. Chg	% chg
Urban waste	1,808.7	35.4%	1,770.6	36.5%	-38.1	-2.1%
Market waste	1,573.3	30.8%	1,558.8	32.1%	-14.5	-0.9%
Commercialized waste	**3,382.0**	**66.2%**	**3,329.4**	**68.6%**	**-52.6**	**-1.6%**
Plant by-products	1,725.1	33.8%	1,526.8	31.4%	-198.3	-11.5%
Waste treated by type	**5,107.1**	**100.0%**	**4,856.2**	**100.0%**	**-250.9**	**-4.9%**
Landfills	1,268.3	24.8%	1,219.4	25.1%	-48.9	-3.9%
WTEs	923.0	18.1%	955.0	19.7%	+32.0	+3.5%
Waste sorting plants and others	299.2	5.9%	320.4	6.6%	+21.2	+7.1%
Composting and stabilization plants	574.7	11.3%	485.9	10.0%	-88.8	-15.5%
Inertization and chemical-physical plants	815.0	16.0%	752.4	15.5%	-62.6	-7.7%
Other plants	1,226.9	24.0%	1,123.2	23.1%	-103.7	-8.5%
Waste treated by plant	**5,107.1**	**100.0%**	**4,856.2**	**100.0%**	**-250.9**	**-4.9%**

An analysis of the quantitative figures shows a 1.6% reduction of the waste marketed, due to both a fall in urban waste (-2.1%) and market volumes (-0.9%); despite the aforesaid negative economic trend, the waste reduction was attenuated, compared to previous quarters, by strong marketing commitment and the consolidation of Energonut. by-products reduction from plants was, instead, to be put in relation to the different weather conditions: specifically the lower overall rainfall, compared to the same period of last year, caused less filter production.
With regard to the waste disposal flows per plant, the general fall in waste impacted all typologies with the exception of the screening plants, following the increase of differentiated collection and waste to energy plants, which benefited from the consolidation of Energonut by 25.5 thousand tonnes.

The EBITDA of the Environment segment was therefore down by €10.7 million compared to last year, falling from €194.2 million of 31 December 2011 to €183.5 million in 2012. This result is to be attributed to a reduction of volumes disposed of and incentives on electricity production, as shown previously, despite Energonut's €6.4 million contribution and the improved Urban Hygiene business due to higher revenues and greater operating efficiencies.

Analysis of operations in the Other Services segment

As at 31 December 2012, the Other Services segment result reduced compared to last year, down from an EBITDA of €18.5 million to 17.3 million for the same period of 2012, as the following table shows:

(€/millions)	31-Dec-11	31-Dec-12	Abs. Chg	% chg
Gross operating margin area	**18.5**	**17.3**	**-1.2**	**-6.9%**
Gross operating margin Group	644.8	662.0	+17.2	+2.7%
Percentage share	2.9%	2.6%	-0.3 p.p.	

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

Income statement (€/millions)	31-Dec-11	Inc.%	31-Dec-12	Inc%	Abs. Chg	% chg
Revenues	98.7		98.0		-0.7	-0.7%
Operating costs	(63.7)	-64.5%	(66.1)	-67.5%	+2.4	+3.8%
Personnel expenses	(19.0)	-19.3%	(17.9)	-18.2%	-1.1	-5.8%
Capitalized costs	2.5	2.6%	3.3	3.3%	+0.8	+31.5%
Gross operating margin	**18.5**	**18.8%**	**17.3**	**17.6%**	**-1.2**	**-6.9%**

The fall in margins in the segment is due both to the Public Lighting Business, which suffers from the aforesaid increase in energy and cemetery costs, while the performance of the Telecommunication Business is in line with the previous year.

The main operating indicators, shown in the following table, show a slight increase in lighting points, despite fewer municipalities served.

Quantitative data	31-Dec-11	31-Dec-12	Abs. Chg	% chg
Public lighting				
Lights (thousands)	296.2	296.3	+0.1	+0.0%
Municipalities served	59.0	58.0	-1.0	-1.7%

1.04 Commercial policy and customer care

2012 confirmed the commercial strategy pursued in previous years, based on two main lines:

- Commercial Development
- Optimisation of Customer Management

Commercial Development

HeraComm's guidelines for commercial development, consistent with that done to date, were based on principles agreed by the Group, which permit the consolidation and increase the growth of the customer base, combining this with environmental and financial sustainability of the services offered.

2012 saw growth in the numbers of contracts and customers, up by about 2%. This growth, even though differing from one service to the other, was positive in all the sectors managed, as is noted in the table (figures in thousands), in a difficult macro-economic context. This growth was achieved thanks to intense marketing that permitted a 12% increase in the electrical supply points and 0.2% in gas supply points.

Contracts	31/12/12	31/12/11	Chg abs. no.	% Chg
Gas	1,116.3	1,114.5	1.8	0.2%
EE	541.1	482.1	59.0	12.2%
Water	1,188.7	1,184.2	4.5	0.4%
TIA	1,000.2	994.1	6.1	0.6%

These results were achieved due to:

- the quality of the offer portfolio: innovation, transparency, multi-service and easily managed;
- constant growth of the sales force, both direct and indirect, which has the development spirit through a plurality of purchase channels of high commercial quality, also diversified based on the characteristics of the customer segments reached, with the involvement of an ever-greater number of commercial partners.

At the same time, the commercial development policy, based on the following Hera supporting pillars, reinforced through directed actions, was confirmed:

- multiservice offering: simplification of customer management, proposing a sole receiving party and a single bill for the energy services (gas and electricity) and for those in concession (water and urban hygiene) in the territories served;
- economic convenience and openness: proposing offers that are always competitive and clear, and suited to the needs of all customers (over thirty offers are available, many of which can be further personalised).
- proximity to the customer: being physically close to the customers through the network of about 120 branches; being rapidly accessible through call centres and the web site; being socially responsible and contributing with our activities to the growth of the territory and local communities.
- sales network: develop high quality selling, with diversified channels as a function of the customer characteristics. A network that is based on three cores: CRM structures, key internal accounts, indirect sales. High quality does not mean relinquishing, even in a growth phase, the network's maintenance of high standards of conduct, constant control of the work, the choice of partners that share that expressed in the Group's Code of Ethics and commercial Code of Conduct for the sales of gas and electricity, growing in such a way the satisfaction perceived in the end customers.

- simplification of management: autonomous management through the *HER@ ON-LINE* portal, and the ability to request electronic billing and domiciliation of utility bills.

The commercial strategy is confirmed as spread throughout all customer segments:

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

Households and the small business customers continue to represent the segments with greater development; the segments with large customers were the subject of a revision of the existing portfolio, aimed at the company's maintenance and growth in long-term and sustainable commercial relationships.

Hera Comm launched the new "Prezzo Netto Hera Casa", "Prezzo Netto Hera Lavoro" and "Prezzo Netto Hera Impresa" (Hera Net Household, Work and Company Price) in the Households and the Business and Industry segments in 2012. These initiatives offered electricity and gas based on the Wholesale Markets prices (PUN for electricity and TTF for gas), where usually the producers, sales companies and large energy customers buy. This offering permits the transfer to the small customers of the advantages, which arise from the opportunities of the 2012 energy scenario, proposed by these exchange platforms that are otherwise precluded to them. The offering fully responds to the principles of convenience and openness towards the customer, conserving the dual fuel logic.
With regard to the sale of electricity to companies, the Green Energy option was reconfirmed with the Verde Energia brand.
In support of the existing offering portfolio, at the end of 2012 a further dual fuel offering called "Prezzo Fisso Hera Casa" and "Prezzo Fisso Hera Lavoro" (Fixed Household and Work Price) was launched, addressed to the household and small enterprises segments, which permits blocking the benchmark price of the raw material for 2 years. In the perspective of environmental sustainability, the households segment offering was also spread in the version "Prezzo Fisso Hera Casa Natura" (Hera Fixed Household Nature Price), with the raw material price blocked for 2 years, obligatory electronic despatching of the bill and, for the electricity service, the guarantee of 100% green energy.

The habitual offering formulae for larger customers were also expanded with the introduction of tariffs related to the wholesale markets, aimed at the customer's requirements.

In terms of proximity to the customer, as well as strengthening the contact tools with particular reference to those via the web, 2012 saw the birth of new sales channels, thanks to agreements with a partner (Coop Adriatica) characterised by the strong radication the reference territories and capable of sharing the Hera principles.

Optimisation of Customer Management

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

- Group Invoicing and Collection System
- Management channels

Group Invoicing and Collection System

Through its unified systems, Hera issued more than 18 million bills in 2012, pursuing the multi-service strategy that allows our customers to simplify their administration and reduce payment costs.

Electronic billing, activated in the second half of 2008, saw a 65% increase in the number of customers requesting activation of the service in 2012, rising from around 39,000 at the end of 2011 to some 65,000 in December 2012, due also to the “Regala un albero” (Give a tree) campaign. This campaign for planting trees on new applications for the service commenced in 2012 and shall continue in 2013. This corresponds to over 88,000 bills that, at every billing date, are sent by email. This allows a reduced environmental impact and a saving of 15.8 tonnes in atmospheric emissions of CO^2, equivalent to the CO^2 absorption capacity of 2,250 trees, i.e. 900 more trees per year.

The vast range of choice of payment methods available to Hera customers for paying bills RID (direct debits), banks, post offices, Sisal and Lottomatica betting shops, online with a credit card and Coop Adriatica, Reno and Estense sales outlets) is confirmed as very appreciated by customers who, in 2012 as well, expressed high satisfaction in the customer satisfaction survey.

The self-reading service, available via web, SMS and telephone, which allows billing for actual consumption at each billing date, including for gas and water, continues to see growing use and appreciation by customers.

Management channels

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

Hera has the following contact channels:

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

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

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

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

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

Average waiting time at offices (min.)	2006	2007	2008	2009	2010	2011	2012
Average	23.85	21.88	18.5	14.7	14.5	10.3	9.51

The volume of the contacts managed by the Hera Group channels (+ 9.6% compared to 2011) is confirmed as high and growing in 2012

This further confirms the success of the openness policy towards the end customers that will always be pursued out by the Hera Group, which also incentivated direct contact through communication campaigns. The strategy is also confirmed as winning by the positive feedback from the customer satisfaction surveys, in which the contact channels surveyed acknowledged high approval, up compared to last year, in opinions on capillarity, accessibility and response quality, denoting a distinctive Group trait.

Work continued on standardising and rationalising corporate procedures, together with improvement of the information systems, alongside a continuous training plan, both technical and in the role of contact staff. This resulted in increased customer satisfaction, both in terms of clarity of the replies provided and capacity to resolve problems; to this was added a simultaneous reduction of the conversation times and important commercial results.

Call Centres were again confirmed in 2012 as the channel most utilised by the end customer; in the percentage distribution of the weighting of channels on the total contacts managed it scored 60%. The Households Call Centre managed a volume of 1,453,000 calls during the year, up by over 6% compared to last year. The Companies Call Centre also had increased volumes. It managed 355,000 calls (+27% compared to 2011), in line with the increase of the customers base managed.

The call centre was involved in some process innovations in 2012 that privileged the development of the problem solving capacity and the comprehension of the customers' requests. It also proceeded with extending the companies call centre opening time by two hours, taking this to 20.00 from Monday to Friday, as already done for households in 2011.

The indicators of technical performance (% response calls, average waiting times, % response calls within 2 minutes monitored during the year were in line with the declared corporate objectives and those for 2011 and amply better than those provided by AEEG. The 2012 objective is to focus attention on the improvement of technical indicators on the business world and ensure Household Call Centre stability, where it has already reached high approval from the customer base.

The branches, the second management channel, recorded an increase in contacts of about 7% compared to 2011, thus totalling about 640,000 over the year. The total Group branches active in 2012 was 120, of which 78 in Emilia Romagna.

Both the average waiting times (Tma) and the % of customers with waiting times exceeding 40 minutes (FS40) for the branches were improved as well as the same prefixed objectives of 2011. The first improved by 6% to about10 minutes, while the second stopped at 4%. The tempo average waiting times for business customers was about 3 minutes and the % of customers with a waiting time exceeding 40 minutes was just 0.13%.

The branches were concerned in some innovations and consolidations in 2012, which positively affected the performances for the end customer, from optimization of the resources management (S.PR.I.N.T. project - a provisional tool of branch flows), to reorganisation of the business flows (Lean Organization projects) at the Forlì-Cesena, Imola and Ravenna branches. These included the wish to maintain the current territorial capillarity, improve service quality and increase the total branch opening times, investing in improvement, development and optimization of the Hera Outlets.

The web growth continues, this channel is of great importance in prospect, which saw a further increase in entry practices during the year compared to 2011, about + 26%, thus taking its weighting of the contacts from 9.5% to 10.6%. Registrations on the HER@ ON-LINE branch during the course of 2012 were up by about 37,000, taking overall customers recorded to about 165,000, +28% compared to last year.

An analysis of revisits to the Online Services (HER@ ON-LINE) commenced in 2012 in a perspective of usability and services offered by the portal, commencing by usability studies including through direct interviews with customers. From the results that emerged from the tests and indications in the interviews conducted, a new interface prototype was designed and created with new interaction and organisation of contents, with a new look & feel graphic. The revision of HER@ ON-LINE will see the light in spring 2013.

1.04.01 Customer satisfaction

Since its establishment in 2002, the Group has benefited from a sound customer base, attentive to the quality of the top rated services and loyal thanks to many years of services management by municipally focused companies which then came together to form Hera. The strategic and commercial challenge has therefore been to preserve the intangible asset of the customer base following company mergers under the new ‘Hera’ brand in all local areas of the reference market. The quality of its multi-utility offering and after-sales service has always been an area to which the Group has paid special attention. Over the years, the Group has constantly monitored the sentiments of its customers through a process of listening and continuous interaction.
Hera has invested heavily in improving the **quality of its service** by reducing service interruption times, by offering a rapid and efficient emergency service, through improved consumption measurement and meter reading systems and by more frequent analyses of water resource quality and environmental impact assessment. The quality of its services and **customer care** has always been of particular strategic importance to the Group and has driven it to make significant improvements to the service it offers. This can be seen clearly in its annual reports over the past seven years, for example in terms of reduced waiting times at counters, improved service from customer help desks, resolving an increasing number of customer requests in shorter periods of time and, lastly, by the functionality of its website, which continues to maintain a high degree of customer satisfaction.

The results of these activities are monitored annually by **market research into both “retail” and “business”** customers. The investigations reveal a constant increase of degree of satisfaction with the service and after sales support, up to the achievement of a high approval index (average vote of about 7/10), with a very meagre concentration of the “low” satisfaction evaluations and a greater concentration of customers at positive levels and a major part of extremely positive evaluations.
Single billing, together with improvement and reorganisation of after-sales service performance, has led to a rapid recovery in good levels of customer satisfaction that has stabilized at levels of around 7 tenths (defined by a “delighted” opinion).Added to this is the improvement in Hera’s image, often perceived as a reliable, transparent, innovative and sustainable company, attentive to its customers.The degree of customer satisfaction therefore reached and maintained a high level in the last 5 years. The market surveys also indicated that, associated with the increased degree of satisfaction are a greater perception “of convenience”, propensity towards “cross selling” and positive “referrals” with other potential customers (above all in the “free market clientele” segment).This evidence supports Hera’s multi-utility strategy, especially in the choices it has pursued in upstream energy activities, which are the conditions for a truly competitive offering.These factors are at the root of the commercial success that the Group has achieved over the past seven years. Expansion in the different markets has produced a significant, constant growth in customer numbers.In this respect it is an iconic figure for the electricity sector and continues to show double-digit growth rates despite increasingly high competitive pressure.Reducing the level of dissatisfaction of existing gas service customers has also allowed Hera to consolidate its dominant position in the reference area markets.Keeping the customer base and the continuous development on the liberalized markets constitute the principal confirmation of the commercial strategies and shows the effectiveness of the strategic plan pursued that has placed customer satisfaction at the centre of the priorities.This “recipe” has to date shown its capacity to sustain direct competition with players of significant dimensions, including international, and has formed solid grounds to continue with the growth path, despite an increasingly difficult and turbulent context.

1.05 Trading and procurement policy

Business analysis

Macroeconomic context

2012 was a difficult year for both world commerce, contracting compared to the two previous years, and global growth, on which the uncertainties related to the unstable American economic still weigh, and the continuing recession in the Euro zone.

In the latter segment, against a modest growth rate in Germany, Greece appears to be still in great difficulty, Spain has strong unemployment problems and Italy was confirmed as in recession despite the continuing strong exports and the non-EU countries were especially hit.

The coexistence of the public accounts adjustments in various European countries is aggravating the crisis situation of the euro segment: in the labour market unemployment has reached high levels and appears destined to still grow due to the contraction of economic activity; the consumer demand of households and businesses is contracting, mirroring a historic lack of confidence of consumers and businesses.

To all this is added a reduction in foreign demand and trading between EU countries and, as in a vicious circle, the collapse in the Euro area imports again negatively hits global commerce.

On the financial markets front, the decisions of the European Central Bank have plugged speculative attacks, but certainly were not so effective as to be successful in removing the problems.

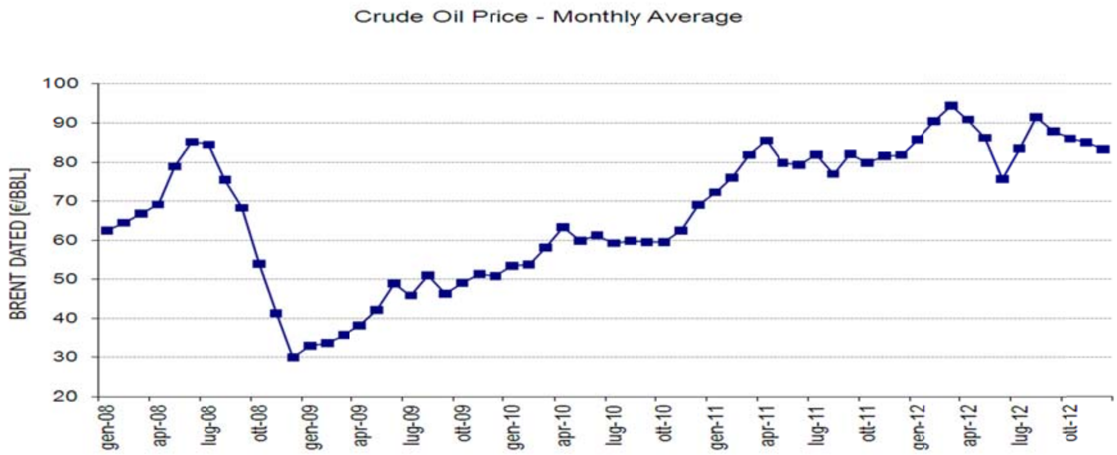
As to Italy, 2012 ended negatively: the GDP contracted to lows by a reduction in domestic demand, already historically weak, and investments. Weighing above all on the domestic consumption of households was reduction of income, due to greater tax pressure and to the loss of jobs: in fact it seems that the increase in the unemployment rate is not stopping.

To all this is added a further credit constriction no longer related to the collection difficulties of the banks, but worsening conditions and charges for granting loans motivated by the banks with the negative forecasts on the economy.

The country’s technical government in office from November 2011 was successful in containing the spread between Italian securities and German bunds the increase in which, for a country such as Italy with government debt that in October broke though the €2,000 billion barrier, means a worsening of the already too onerous interest charges on the debt. This was, nevertheless, obtained with austerity manoeuvres that have depressed domestic demand as underlined above.

The euro/dollar exchange rate registered an annual average of 1.287 USD per euro in 2012, a reduction of 7.5% compared to the 2011 annual average of 1.392 USD per euro.

On the petroleum market front, the 2012 prices showed growth in the first quarter, reaching a maximum of 124.5 dollars a barrel, which was followed by a quarter with negative changes before rising again in the third quarter and some stability in the last part of the year.



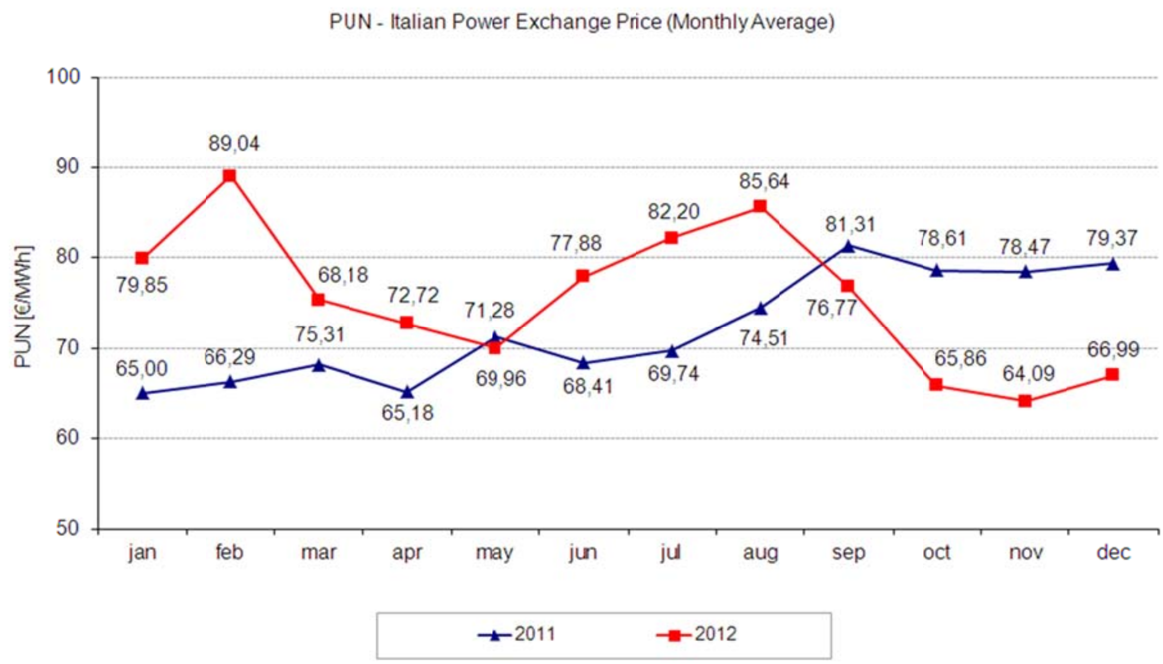
The petroleum price compared to 2011 in any case recorded an increase of 0.3% at annual level, taking it to an average of 111.58 dollars a barrel, the highest ever recorded in nominal terms. Even in 2008, against historical maximums of almost 150 dollars a barrel, the annual average in fact remained under 100 dollars a barrel.

The 2012 petroleum price in European currency recorded a 9.3% increase compared to 2011 taking it to an average of €86.70 per barrel, an increase exceeding that in dollars due to the euro loss in value against the dollar, exceeding in some months the threshold of €90 per barrel and with the exception of June, always remaining above the levels of last year.

Reference scenario

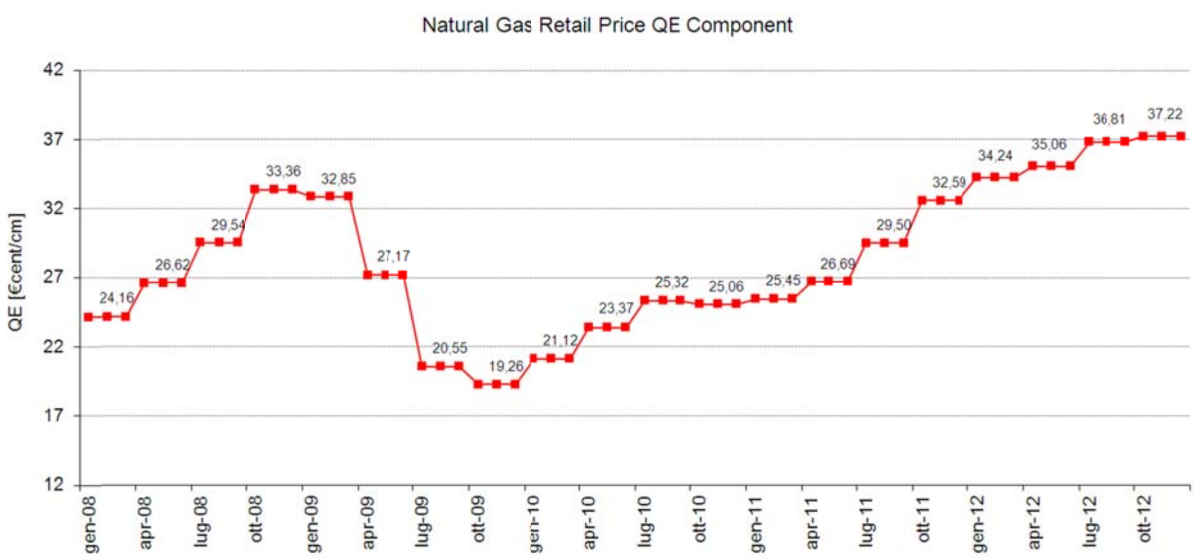
	2012	2011	% Chg
Brent Price Dated $/bbl	111.58	111.27	*0.3%*
$/euro exchange rate	1.287	1.392	*-7.5%*
Brent Price Dated euro/bbl	86.70	79.32	*9.3%*

The continuing economic crisis has strongly affected the 2012 demand for electricity, widening the gap with the offer that, on the other hand, consolidated its expansionary trend. The electricity traded on the Day Ahead Market again suffered a significant reduction (-4.4%), following that of 2011 (-2.2%), falling back to the lower levels of 2004, a year when the electricity market initiated operations. Foreign imports also fell, and to the historical lows. Sales from renewable sources plants, instead, led by the new photovoltaic and wind plants grew decisively (+24.1%). Despite the low electricity demand and the general weakening trend of the prices of the main European exchanges, the energy purchase price in the electricity market (PUN), posted a 4.5% increase (even though lower compared to +12.6% in 2011), taking it to 75.48 €/MWh, a level lower, however, than 2008 (86.99 €/MWh), the last year before the economic crisis. The sales prices of the island areas were again significantly highest than on the continent, with a spread between *Sicily* and the *Southern area* stable at around 25 €/MWh. Finally, 2012 ha definitively consolidated the growth in volumes of the Forward Market for electricity (MTE) where the *Annual 2013 baseload* ended the trading period at 70.30 €/MWh.



With regard to the natural gas demand, 2012 again recorded a fall (-4.2%), following that even more decisive of 2011 (-6.4%), descending to lower levels of over 10 billion m^3 compared to the years preceding the 2009 economic crisis. The thermo-electric sector, held in between the rising trend on international fuel markets and the enormous development of the renewable sources, suffered the sharpest contraction in gas consumption (-12.2%). On the offer side, domestic production grew (+2.8%), imports fell (-4.1%). Storage of natural gas accumulation was up (+17.3% at year-end). In the regulated gas markets managed by the GME, 38.0 million MWh (4.8 million MWh in 2011) were traded overall in 2011, of which 34.9 million MWh (92.0%) on the Balancing Platform in its first year of trading. The prices showed an upward trend, in line with the price recorded on the PSV.

In this context, the average value of the Energy Quota (EQ) in 2012, calculated by referring to the prevailing AEEG resolutions from time to time, was 35.84 € cents/m^3 compared to an average value of 28,47 € cents/m^3 in 2011.



The Green Certificates Market ended 2012 with a volume of securities traded during the 48 sessions organised by the GME of 3,806,339, down compared to 4,126,473 GCs traded in 2011, with a counter value of about €289 million (€340 million in 2011).

With regard to the CO^2 market, the European Union Allowances (EUAs) traded in 2012 were 7.21 billion units (6.1 billion EUAs in 2011).
Against an increase in the volumes, the prices performance continuously decreased by 2011. Despite the trades increase, the overall value of the transactions fell by 36% compared to the previous year, reaching about the same level as 2008.
The surplus of quotas in the Ets system, provoked a reduction of the middle price of the permissions by almost 50%: from 11.2 €/ton in 2011 to 5.7 €/ton.

The Energy Efficiency Certificates Market recorded an increase of the volumes on the market platform, compared to the previous year, with a quantity of certificates traded of 2,534,930 (1,276,797 TEEs in 2011).

Gas segment

Regulations evolution and significant events in the wholesale market

Balancing market

The activation in December 2011 of the balancing market was substantially confirmed as positive during the course of 2012. It decisively increased liquidity and contributed to generating a reliable price signal, capable of reflecting the true demand and offer conditions.
Regulation of the financial charges, however, suffered the repercussions of the disputes activated by various operators adverse to the approval resolutions for the guarantees system.
Some shippers, in the absence of an efficient guarantees system, operated by selling substantial quantities of gas procured on the balancing market, without then complying with payment on the amounts due, until accumulating a debt to Snam Rete Gas that, during the course of 2012 reached an amount of about €400 million.

Gas emergency

In early February, in relation to extreme and unpredictable climatic conditions, though not with a very low probability (one year in every 100), also unusual for the duration of the cold wave other than its intensity, the Italian gas system reacted in a particularly positive manner, the strategic reserves were untouched and it was not necessary to resort to ordinances rationing civil demand (as instead happened in 2006).
The phenomenon naturally made average prices rise to the peak PSVs (respectively 36.8 €/MWh and 65 €/MWh) and in the North-Western Europe hubs (respectively 28.3 €/MWh and 46 €/MWh).

Interruptible day ahead auction on TAG

Commencing from April, the AEEG started an allocation of the transport capacity procedure at the Tarvisio point of entry. The allocation of interruptible capacity at the Italian frontier was made possible by implementation of a similar mechanism prepared in Austria on TAG. This was a first experiment of coordinated allocation, awaiting the development of joint allocation mechanisms, as hoped for by the European legislation under discussion.
The market repercussions did not take long, during summer there was a progressive closing of the spread between the Austrian market (CEGH) and the Italian PSV and a substantial alignment of the prices on the on the two markets, an alignment that still remains.

Anti-trust enquiry on ENI – Transport capacity auctions

In March 2012 the Anti-trust Authority (AGCM) commenced the A440[1] preliminary enquiry to evaluate the ENI's possible abuse of its dominant position, in relation to the failure assign transit capacity along the TAG and Transitgas gas pipes in summer 2011. Again before conclusion of the procedure, anticipated by March 2013, ENI presented a proposal for the assignment on a continuous basis of 4 physical Gmc/as and 1 virtual Gmc/as of transit capacity along the two routes concerned for five thermal years from AT12 to AT16.
The capacity, set aside through auction on the marginal price system, was not completely allocated and has contributed to increasing the competition on the international transport markets significantly. The greater competition obviously generated lower prices and favoured the closing of the spread with con the gas markets of Northern Europe, a dynamic however already in place between PSV and CEGH following the summoning of the day ahead capacity auction the TAG activated from April.

Forward market

The AEEG, with resolution 525/2012/R/gas of 06 December 2012, in implementation of the directives mentioned in art. 32.2 of Legislative Decree no. 93 of 1 June 2011, adopted the regulatory conditions to allow Gestore dei Mercati Energetici S.p.A. the management of the physical forward markets for natural gas, including therein that of central counterparty of the trading concluded by operators on the aforesaid markets. In addition, it can operate as a user on the Virtual Exchange (PSV), with related ownership of an account on the PSV and as a user on the natural gas balancing market.

Therefore, the existing spot market will be alongside the forward market, in which it shall be possible to trade products with future deliveries:

- half-yearly (Summer or Winter);
- quarterly (Q1, Q2, Q3, Q4);
- monthly (for each calendar month);
- BoM (*Balance of Month*: the gas days of a month not yet of delivered).

The forward market start is also amongst other things the prerequisite for activation of the anticipated reform of the financial terms in the protection service.
In the final Orientation relating to the 58/2013/R/GAS consultation document, the Authority envisages that, considering the technical timing that will be necessary for the completion of the management systems, the forward market will probably start-up next Autumn.

Reform of the financial terms of the protection service

The process of revision of the formula that determines wholesale cost of gas continued during 2012; this process is still in progress.
Following various proposals, from April the Regulatory Authority for Electricity and Gas (AEEG) amended the consideration structure of the reference financial terms for wholesale marketing (CCI) of natural gas. For the first time, with resolution 116/2012/R/gas a market index was included in the formula that determines the raw material cost. The mechanism introduced in April was valid up to September 2012.
From October 2012 to March 2013, the market index value increased from 2% to 5%.
The form that will have the QE from next April is still being discussed and is the subject of a further consultation document (DCO 58/13) that substantially aims at the complete indexation of spot prices, but with higher remuneration for the suppliers with long-term contracts. Nevertheless, gradualism is provided for, through introduction of provisional components, as well as the introduction of stable components, calibrated on the specific risks related to the new organisation.
The new method should be activated by October 2013, while taking effect from April and up to September 2013 the existing market index value should be further increased to 20%.
Should the guidelines of the latest DCO be confirmed, a set-up of "hyper" regulation would be in effect, which would push detailed definition various operators' margins, with the risk of suppressing the role of the open market suppliers, leaving very few incentives for passing towards the freedom of customers to have greater protection.

.

Start of the entry-exit market in Austria

Hera Trading dedicated particular attention during the last few months of the year to redefinition of the market operating procedures and logistics, for the purpose of adjusting them to starting the entry/exit market in Austria commencing from 1 January 2013. Also reviewed were the long-term contracts relating to the capacity held on the TAG for aligning them to the new market model.

Amendment of settlement procedures by SRG

Hera Trading progressively reviewed the logistics management procedures in the second half of the year, for the purpose of aligning them to the changes made to the network code by SRG. The changes specifically regard allocation timings and methods for gas volumes at the delivery points and commence from 1 January 2013.

Introduction of day before session in the balancing market

A year from the start-up of the economic merit balancing, for the purpose of ensuring the maintenance of the safety conditions on the gas network and make the system safer and more efficient in all situations, including extreme ones, the Energy Authority approved resolution 538/2012/R/GAS, which introduced a new negotiating session that will be conducted the day before.
The new session will permit the balancing manager - SRG - to intervene in the cases where, based on the transport programmes presented by the users, it considers that the storage may be an insufficient resource to balance the system.
The balancing users and SRG can access the market. All flexible gas sources are authorised to participate in the market: Therefore, based on economic merit, quantities of gas entering or leaving storage from the import points (pipelines and regasifiers) at modulable consumer points (for example, the CCGT power stations) can be traded.

Electricity segment
Regulations evolution and significant events in the wholesale market

February cold peak

The exceptionally cold wave that hit Europe in the first two weeks of February resulted in an explosion of electricity consumption and market prices. The spikes recorded in France, in particular, provoked a reduction of the net Italian imports, leading the PUN (Wholesale Markets Prices) further towards high and sharp differences in the prices in zones.

Daily auction for cross border capacity

The AEEG approved a layout for *Rules for Intraday Capacity Allocation by Explicit Auctions on North Italian Borders* during May (resolution 179/2012/R/ eel), prepared by Terna and the French. Swiss, Austrian and Slovenian TSOs (in order RTE, Swissgrid, APG and ELES). According to this layout, the *intraday* allocation will be transitorily carried out through the explicit auction mechanism, given that the European *Target Model* imposes recourse to implicit allocation in continuous trading (first-come-first-served principle).
The mechanism was activated for France, Switzerland and Slovenia by June and at the year-end for Austria. Greece should also be included in future, but a precise date has not been fixed at the moment because effective implementation requires significant regulatory interventions in this country.

Qualification for the Swiss market

Hera Trading prepared and presented the necessary documentation to qualify as a dispatching user in Switzerland during 2012, with the intent of increasing trading operations on that market and making them more efficient.

Completion of the Tamarete Virtual Power Plant

Hera Trading and BKW, toller of the Ortona CCGT finalised the Virtual Power Plant (VPP) contract during 2012. This agreement shows financial terms and operating conditions for Hera Trading drawing electricity.
The plant, owned by Tamarete S.r.l., 32% held by Hera, completed the work on the first parallel of the various structures between June and October last year and will come into commercial production from April 2013.

Dispatching services market

The tumultuous development of the non-programmable renewable sources of recent years is pushing Terna to amplify the intervention tools for safe network operations. Following the reduction of HT wind power, the of the net foreign imports and new requisites for the distributed generation system were modulated. The latest regarding time is the recent regulation for disconnection of MT distributed generation. In the perspective of a long period, the close reality of the batteries theme remains.
It is in this context that designation of the Eastern Naples CCGT was inserted as the essential plant for 2012 - a designation also confirmed for 2013. In addition, recent investments in the Naples area transport network (installation of “reactances”) have drastically reduced operations on the MSD of the Teverola and Sparanise CCGTs held by Hera.

Reduction of peak-off peak spread

The marked installed photovoltaic power, which exceeded the threshold of 15.0 GW during 2012, created a notable price compression during daytime hours, generating an increase of the night-time hours as an indirect effect.

The hourly price profile had a generally flat trend in all the hours with occasional high prices periods, concentrated on the peak of night needs (the so-called super-peak). In recent months there was accordingly a progressive and significant reduction of the spread between the Peak and OffPeak prices until reaching, in August, only 2.4 €/MWh against an eight-month average in 2012 of 16.0 €/MWh.

Reform of payment capacity

In expectation of the definition and subsequent start-up of the future *capacity market*, Legislative Decree 379/2003 Legislative Decree introduced a transitory remuneration of the availability of electricity generation capacity in Italy (*capacity payment*). The current *capacity payment* (resolution 48/04), provides for a remuneration benefit to the parties that make a generation capacity available organised into two parts:

- a unit fee base, organised by hourly ranges and applied to the generation capacity availability in the high and average criticalities in daytime hours defined by Terna
- a further fee, as an addition to the revenues achievable in the energy markets, in the case where these revenues are lower on an annual basis at a fixed reference level, equal to the revenues that would be obtained with parity of generation in the old administered regime.

The AEEG with resolution 564/2012/R/eel reviewed the methodology of determination of the additional fee to utilise a simple market criterion for enhancement of the electricity volumes, as the basis for definition of the effective revenues.

Virtual imports

With reference to the virtual electricity importation service, the AEEG approved, with resolution 455/2012/R/eel, the regulations that discipline the insolvency proceedings for identification of the shippers for 2013.

At the year-end, Hera Trading, as the result of the allocation auction set aside by TERNA, was awarded a 5 MW allocation with reference to the French market and 30 MW allocation for the German one.

Acquisition of *import-export* rights

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 and Austrian borders, winning import and export rights across both these borders.

Risk management

Once again in 2012, 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.

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

The company has decided not to use its own personnel, and relies on services provided by the shareholders for operations. It has been active in wholesale gas trading since September 2006, and became fully operational on the Italian market as well from October 2007, limited to the Virtual Trading Point (VTP). Since October 2008 it has also been fully operational for modulated supplies to the REMIs. 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.

Dyna Green Srl

Relative to this company, whose purpose is to research and develop, on behalf of its shareholders, opportunities for purchasing and importing gas from Libya, in relation to the evolution of the gas market since 2009 and the events in Libya during 2011, the shareholders had first decided on its liquidation and then, after the subsequent interest of the shareholder Dyna Network in acquiring all the remaining shares that it did not own, the liquidation decision was cancelled and Hera Trading and Acea sold their shares to Dyna Network on 13 March 2012.

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 2012 for the purchase of authorisations, as well as the procurement process for the timely definition of CAPEX.

In April, in view of the impossibility of completing the Target Activities by 31 March 2012, the Shareholders’ Meeting approved the proposal to extend the deadline for taking the Final Investment Decision until 15 November 2012, being the last date. At a subsequent meeting held in November, the shareholders, in noting the positive progress of the authorisation that allowed for its conclusion, approved a further extension until 30 March 2013.

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

The shareholding structure remained unchanged in 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

The financial markets were characterised by great uncertainty on the solidity and stability of the Eurozone's economic-financial system during 2012, which resulted in high turbulence and volatility. Despite the downwards flattening of the market curves, a rapid growth in credit spreads and an increase was registered in the funding costs of the banks.

2012 ended with decisively positive performance in the financial markets, supported by an expansive monetary policy worldwide and important decisions taken by the international institutions to power economic growth and disseminate generalised confidence on the markets. The spread had a positive trend in the last three months of the year and, specifically, the BTP-Bund differential fell to under 300 points, a performance to be attributed to the results achieved by the corrections to the public accounts, a change in European policy with more solid from the ECB and a change in investors' perception.

The euro swap rates reached minimums in December, however the forward figures recorded at the beginning of 2013 signalled an increase for the euro structure compared to those recorded in the preceding months; this ascent should be able to continue with prospects of a rise over a 7-10 year term.

The monetary policies have shown a super expansive tenor with an increase of the programmes supporting the monetary system, particularly in Europe the short-term rates path is seen as stable at current levels with moderate rises, a lower risk aversion and improving business cycle.

The financial trends seen during the course of 2012 were immediately overturned on the "corporates" financial situations and prevalently regarding those operating in countries where the sovereign risk is high.

In this context, the Group has pursued the objective of having an adequate balance of the maturities of assets and liabilities items, correlating commitments with consistent loan sources in terms of duration and repayment methods, considering the need for refinancing the current debt structure and corporate operating methods. In addition, identifying the optimal mix between fixed and variable rates of loan sources, in connection with a cautious strategy to the risk of rates fluctuation, aimed at stabilising the financial flows in order to ensure the margins and certainty of cash flows deriving from normal operations.

To further strengthen the financial structure and support its industrial development, the Group has entered into new medium/long-term loans amounting to €327.5 million, partially utilised for the restructuring of the €70 million RBS Put Loan and partially for adequately financing its investments plan. Specifically, an important contribution was provided by the disbursement in June of a BEI (European Investment Bank) €125 million loan, repayable over 15 years at the Euribor 6 months rate plus a spread of 1.46%, to support investments for upgrading and expanding gas and electricity distribution networks. The bond issue of €102.5 million on 14 May 2012 is also noted. This was characterised by particularly long 15 and 20-year terms at the flat rate of 5.25%.

Moreover, given the current market environment, the Group obtained further committed credit facilities to keep the liquidity risk indices solid for €170 million over 2/3 years in addition to renewing those expiring in the first half of 2012, thus achieving an overall total of such lines of €420 million.
Specifically, an important contribution was provided by the disbursement in June of a BEI (European Investment Bank) €125 million loan, repayable over 15 years at the Euribor 6 months rate plus a spread of 1.46%, to support investments for upgrading and expanding gas and electricity distribution networks. The bond issue of €102.5 million on 14 May 2012 is also noted. This was characterised by particularly long 15 and 20-year terms at the flat rate of 5.25%. Moreover, given the current market environment, the Group

obtained further committed credit facilities to keep the liquidity risk indices solid for €170 million over 2/3 years in addition to renewing those expiring in the first half of 2012, thus achieving an overall total of such lines of €420 million.

It is noted that at the start of 2013 the Group seized the favourable occasion of the markets for a bond issue of €700 million over 15 years at the flat rate of 5.20%, partially utilised to refinance the puttable bonds. This transaction reopened the market for Italian corporates on particularly long maturities; the last Italian 15 years issue was priced in September 2010.
The Group arranges financial management based on the risk mitigation principle by adopting a hedging that does not provide for recourse to derivative instruments with speculative purposes.

The Group's policies and principles for management and control of financial risks, such as liquidity risk and the correlated default and covenant on debt risks, interest and exchange rate risks, are shown below.

Liquidity risk

Liquidity risk is defined as the risk whereby, due to its inability to raise new funds or liquidate assets in the market company fails to meet its payment obligations.
The following table represents the "worst case scenario" where assets (cash, receivables, etc.) are not considered, while financial liabilities are reflected in principal and interest, trade payables and interest rate derivative contracts. Revocable lines of credit expire at sight, while other funding expires at the first payment date on which repayment may be requested (put bonds are considered repaid on first exercise date of the put, even if such exercise, in view of the current market situation, results as *out-of-the-money*).

Worst case scenario	31.12.2012			31.12.2011		
(€/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	32	232	522	30	502	221
Bonds and other financial liabilities	69	107	246	153	180	46
Trade payables	1,166	0	0	1,229	0	0
Total	**1,267**	**339**	**798**	**1,413**	**682**	**268**

The Group's aim is to ensure a level of liquidity that allows it to meet its contractual commitments both under normal business conditions and during a crisis, by maintaining available lines of credit and liquidity and proceeding with the timely negotiation of loans approaching maturity, optimising the cost of funding according to current and future market conditions.
In order to ensure sufficient liquidity to cover every financial commitment, at least in the next two years (time frame of the worst-case scenario shown), the Group had, at 31 December 2012, €424 million of liquidity, €424 million non-committed credit facilities and ample scope on uncommitted credit facilities (€1,000 million).
The credit facilities and related financial assets are not concentrated with any one lender, but distributed equally among leading Italian and international banks, with utilisation much lower than the total amount available.
At 31 December 2012, the Group had a prevalently long-term debt profile that accounted for 98% of its total financial liabilities. The average term is about 8 years and 58% of the debt has a maturity exceeding 5 years.

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

Debt repayment outlays (€/millions)	31.12.2013	31.12.2014	31.12.2015	31.12.2016	31.12.2017	Over 5 years	Total
Bonds	0	0	0	500	0	852	1,352
Convertible bonds	140	0	0	0	0	0	140
Put Bonds / Loans	0	0	0	0	0	520	520
Bank debt/due to others	148	54	236	35	32	145	649
Total	**288**	**54**	**236**	**535**	**32**	**1,517**	**2,661**

Default risk and covenants on debt

The risk consists of the possibility that the loan agreements signed contain provisions that enable a lender to request early redemption of the loan on the happening of determined events, thus generating a potential liquidity risk.
At 31 December 2012, a significant part of the Group's net debt was represented by loan agreements that provide a combination of clauses, in line with international practices, which impose a series of prohibitions. The principal ones amongst these are *pari passu*, *negative pledge* and *change of control* clauses. Relative to the mandatory prepayment clauses, no financial covenants are provided on the debt, excluding that of the corporate rating limit from even only one Rating Agency below "*Investment Grade*" (BBB-).

Interest rate risk

The Group uses external funding sources in the form of medium to long-term financial debt, short-term credit lines of different types and invests its available cash primarily in immediately realisable highly liquid money market instruments. Changes in market levels of interest rates affect both the financial costs associated with different types of financing techniques and the revenue from different types of liquidity investment, causing an impact on the Group's cash flows and net interest costs.
At 31 December 2012, the exposure to the risk of adverse interest rates changes, with a resulting negative impact on cash flows, was 37% of total gross debt. The remaining 63% constitutes medium to long-term loans at flat rates exposing the Group to the risk of a Fair Value change.
Application of the interest rate risk management policy means from time to time, based on market conditions, a given combination of flat and floating rate financial instruments and hedging with derivative products.

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

Gross borrowings (*)	31.12.2012	31.12.2011

€/millions)	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
fixed rate	2,117	1,628	61%	1,889	1,620	69%
floating rate	544	1,033	39%	563	832	31%
Total	**2,661**	**2,661**	**100%**	**2,452**	**2,452**	**100%**

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

Exchange rate risk not related to commodity risk

The Group adopts a conservative approach to currency risk exposure, in which all currency positions are netted or hedged using derivative instruments (cross-currency swaps).
The Group currently has a foreign currency bond of *JPY* 20 billion, fully hedged with a cross-currency swap.

Ratings

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

The Standard & Poor’s “BBB+ Stable Outlook” rating was confirmed in the first half of 2012. On 26 November 2012, Moody’s confirmed the long-term rating of “Baa1 Negative Outlook”, positioning the Hera Group in a superior notch to the Italy Country rating (Baa2 Negative Outlook).
Given the current context of deterioration of the Italian macro-economic situation and the uncertainty on the country’s prospects, the measures and strategies of the Plan, aimed at ensuring the maintenance/improvement of satisfactory rating levels, have been strengthened further.

1.07 Research and development

The Group's research activities in 2012 chiefly consisted of the technological development of renewable sources, development of environmental monitoring and control technologies, energy efficiency and optimisation of network management and environmental services. The commitment on the renewable energies front continues with the Hera Group's construction works of the Energy Laboratory (Hlab). With regard to intellectual property management, particular emphasis was given to the enhancement of the patents portfolio.

The main research projects were:

Energy Laboratory

This is an experimental centre for applied research into technologies for the production and utilisation of energy from renewable and alternative sources. Construction began in November 2011 at the Hera Forli facility. The Laboratory will make it possible to assess various technologies, from those already available on the market to those still in the prototype phase, thanks to an advanced data measurement and acquisition network. The focus will be on the measurement of actual yields and their evolution over time. The other important aspect will concern identification and prevention of operating problems and evaluation of the real running costs. Initially, the Laboratory will have a photovoltaic section and a unit devoted to the production, storage and use of hydrogen. The conclusion of the works, initially anticipated for the end of 2012, was moved to the first half of 2013, mainly due to the difficulty of acquiring some components on the market and the abundant snow in February 2012. Management of the experimental operations will be carried out in collaboration with the Bologna University.

Emerging Pollutants Project. The term "Emerging Pollutants" means various biologically active substances of anthropic origin in personal-care products, medicines, psychoactive substances associated with drug addiction, and the related metabolites. Of these, endocrine interference agents form a special crossover category. The presence of these substances in water is considered to be one of the most important environmental problems of the last decade. Hera launched a research project in 2007 aimed at identifying the major EPs in water systems (with particular reference to natural water destined for purification), developing analytical methods for determining their quantities, conducting surveys on the presence of these substances in the water systems involved, and evaluating the removal effectiveness of current treatment systems (purification and depuration).Partnerships have been formed with the Istituto Superiore di Sanità, the Istituto Mario Negri and the study group on "Interferenti endocrini e acque destinate al consumo umano" (Endocrine interference agents and water intended for human consumption) "EDinwater" sponsored by the Fondazione Amga of Genoa. In 2010, the set of parameters to be monitored was defined, and a control plan put into effect. In 2011, a joint initiative began with the Milan Polytechnic to identify the best water treatment technologies in the purification processes. In connection with this collaboration, analyses of the treatment technologies and purification chains presently in use were carried out in 2012 to verify their effectiveness in the removal of some micro-pollutants and the need for any upgrades.

Automatic leak detection

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

Experimentation continued in 2012 with a comparison between the current sensor (accelerometer). The analysis of the data acquired continues with the latter technology.

Experimental work was commenced in parallel with the construction of a permanent leaks recording infrastructure on a citizen network is based on hydrophones applied to the hydrants. The pilot plant was constructed in Riolo Terme (RA) and put into operation in December 2012.

Bio-Hydro.

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

Evaluations of the usability 1) of the hydrogen produced in traditional PEM fuel cells and 2) the solids residues of the combined bio-production of hydrogen and methane, such as compost/fertilisers for agriculture and any pre-treatments necessary.

Automatic plant management.

This project, developed in association with ENEA, involves the development of a system for automatic management of the main operating parameters of water treatment plants. The system must maintain the process conditions of a given plant at maximum efficiency, depending on the composition of the wastewater (depuration plants) or untreated water (purification 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 data acquisition in the field was begun. The data acquired in 2010 confirmed what we knew about continuous flow sludge treatment, and revealed new characteristics in the signals relating to the quantities monitored, helping to differentiate between standard operation or malfunctions at the plant. In general, the applicability of automatic control to real-scale plants has been demonstrated. In 2011, the second phase of the project began, with the aim of developing a prototype system within three years. A prototype purification plant to scale was installed at the Trebbo di Reno (BO) purifier and the logics and control policies implement in the system were identified.

Modelling water treatment plants.

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

In connection with this work, the Group was equipped with sophisticated instruments in 2012 capable of carrying out specific laboratory analyses for the calculation of useful magnitudes and parameters for the modelling.

Energy recovery from water treatment plants.

In 2010, investigations were made into the possibility of energy recovery from water treatment plants, with a study of the technologies involved. An initial feasibility study was developed to recover energy from the Bologna depuration plant using high-performance hydraulic screws. Another two studies were commenced during 2011: the first concerns energy recovery from the mains water supply using in-pipe-turbine (IPT) or pump-as-turbine (PAT) systems, while the second relates to heat recovery from mains water using lowenthalpy heat-pump systems. In the wake of these studies, following further data analyses and field checks in the first half of 2012, it was decided to continue with the pre feasibility study of an application to optimise the possible energy recovery at a cabin for pipeline pressure reduction in the Bologna Municipality.

Characterisation and analysis of polyethylene pipes in operation.

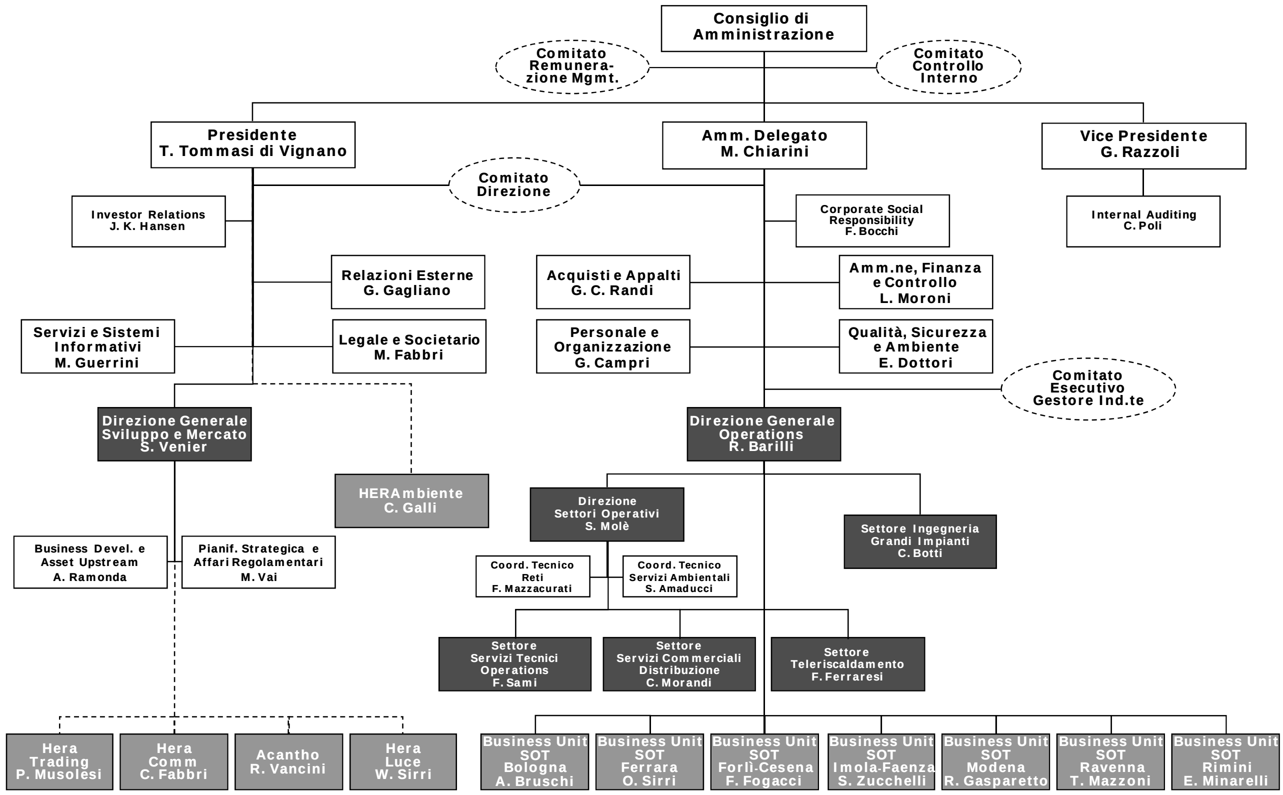
Polyethylene pipes used for the mains water supply have a higher burst rate than pipes made from other materials. To examine the causes of this situation in greater detail, a project is underway to perform a critical analysis of burst pipes, with the aim of increasing know-how about PE pipes, providing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

Study of water meters and "antifreeze" technologies.

Hera's Research & Development unit designed and conducted a series of tests in 2011, with a view to identifying meters and other devices that might reduce the incidence of water meter breakdowns under adverse weather conditions. The study, which will be completed in 2012, has already made it possible to identify a type of meter, freely available on the market, which is less vulnerable to frost than the type generally used. Within the scope of the project, the effectiveness of devices for protection of the meter was also tested (jackets, anti-freeze valves, etc.).

1.08 Human resources and organisation

Organisational chart



Human resources

As at 31 December 2012 the Hera Group's employees totalled 6,539 (consolidated companies), with the following breakdown by role: executives (133), managers (363), office staff (3.397), workers (2.646). There were the following movements in this organisation: new recruits (+205), departures (-105). The new recruitments in question were taken on essentially with a view to changing the employee mix by adding staff that are more qualified. There was a constant increase in the number of graduates, 17% of the total employees: with 1,082 graduates as at 31.12.2011 (in TI 6,484 employees), and 1,091 graduates as at 31.12.2012.

Organisation

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

In connection with the Operations Directorate General, considering the changed regulatory and market context and for the purpose of further improving the Group's territory supervision, an evolutionary path of the organisational model was commenced (with operating effects from 1 January 2013) in accordance with a business segment logic.

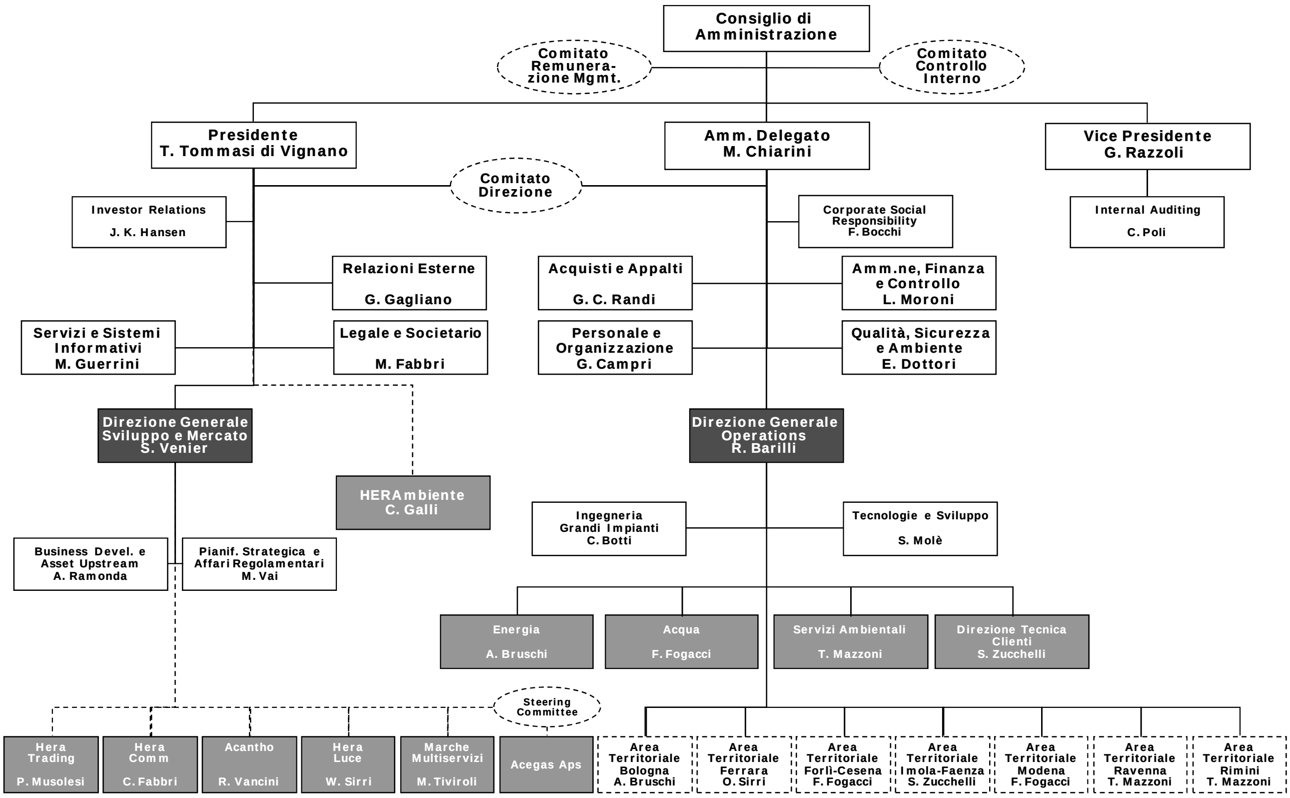
To that effect, the Energy, Water and Environmental Services Divisions were constituted, each focused on a specific strategic business segment. In addition, the Customer Technical Division was created to represent a unitary view of the technical service provided to the end customer and, for the purpose of further improving the territory supervision; seven Territorial Areas were also formed to guarantee supervision of the relations with the principal local stakeholders through a largely organic and proactive approach.

Simultaneously with the evolution of the Operations Directorate General, to develop supervision of activities mostly focused on the corporate business segments, the new organisational configurations of the Central Divisions were defined and put into effect, with hierarchical reallocation of functions previously allocated in the BU-SOT area. Further actions were directed at reinforcement of the optimal balance between process governance and orientation to the internal customer.

In Administration, Finance and Control, there were also the organisational revisions of the Credit Management and Management Control functions, the latter specifically directed at developing supervision of the activities mainly focused on the corporate business segments.

There was a continuation of the continuous improvement process within the Group through the application of Lean Organisation methodology in 2012 on new corporate areas (Authorisations and Logistics in Herambiente, invoicing and collections, and operating processes in the networks and environment areas).
In the General Development and Market Division area, the organisational evolution path, directed at ensuring greater efficiency and standardisation of the processes and to further improve service to the end customer, continued (specifically with organisational revision in the households Market area).

The Group's operational Macro-structure from 1 January 2013, is accordingly the following:



Company management has two committees:
Operating committee: this has the task of examining and approving the Group's policies, strategies and operational planning and assist with integration between the various structures;
Management committee: this examines the management performance and progress on projects included the scorecard scales every three months;

Each territory has, from the end of 2009, a Committee for promotion and development of the territorial radication that envisages members as an expression of the reference territory (amongst whom is the Chairman himself), to whom is added the Manager who has authority for the local Territorial Area. The Committee periodically discusses some key themes, such as monitoring customer satisfaction, quality and sustainability of the services offered. It also has the task of supporting the Group's top management in interacting with the public entities and the other local stakeholders.

Industrial relations

After the presentation of the business plan, various meetings were held in January directed at investigating some investments, initiatives on safety matters, water saving, water resources protection, waste cycle and differentiated collection.

An agreement was signed in March with the National Trade Union Organisations and Group Trade Union Coordination, in which their stake was increased from 5% to 15%, pursuant to art. 8 *bis* of the Federambiente National Collective Labour Agreement. This article provides that the personnel of the type B cooperatives that are the awardees of a tender dedicated to the contract subject and referring to collection, sweeping and management of ecological island services, can be excluded from the obligation of application of the National Collective Labour Agreement, within the limits of the quota indicated above. This with reference to the amount of the economic volumes of the overall activities provided in article 3.1 a) of the Federambiente National Collective Labour Agreement, (sweeping, collection and transport of waste (excluding transference) emptying septic tanks and washing waste bins). Exclusion from the application of the CCNL referred to above is, however, conditional on the presentation of a specific worker hire and relative methodologies, including through the paths of working alongside and training, of disadvantaged personnel by the social cooperatives. The institute's purpose is to intervene in support of the work integration of disabled and/or socially disadvantaged persons exposed to the risk of social exclusion.

Once again, in April, an agreement was signed with the Trade Union Organisations on the reorganisation project for the Ravenna laboratory unit, which envisages rationalisation of the activities management through focalisation of the analytical work on special and industrial waste in the Ravenna laboratory and the distribution of the analytical work on diverse matrices in other Group laboratories. Furthermore, a logistical rationalisation proceeded by situating the laboratories at already existing structures in Herambiente and restituting the previous premises to the Romagna Acque company.

The trade union negotiation regarding the identification criteria of the personnel dedicated to the gas service was then concluded. This discussion was activated after the promulgation of the Ministerial decree that regulates the effects on the staff of awards by tender of the gas services.

The objectives of the performance bonus on the Group's 2011 results were finalised in June by agreement between the parties and those for the 2012 performance bonus identified. Subsequently the negotiation commenced for the definition of the new agreement on the 2013/2015 performance bonuses.

Again, in June, by agreement between the parties, the emergency system for the safety and continuity of the service was defined in the networks area, valid for all the territories served by the Hera Group, to be implemented should an event capable of producing serious effects and/or with vast proportions occur. The staff involved shall be appointed by voluntary application by those who have the requisites required for the intervention.

With regard to training, as provided by the Additional Collective Contract the Group training plan for 2012 was presented and an agreement reached on the financed training regarding Hera spa, Herambiente spa and Hera Comm srl.

Furthermore, the discussion commenced on the standardisation of the working hours for the clerical staff in all offices, excluding the organisational structures (Invoicing, Remote Control, Chemical Laboratory, Networks and Environment Centres) that they necessitate dedicated hours.

Meetings aimed at the involvement of the unions in the AcegasAps integration process were started in August. An Understanding Protocol was signed between the Trade Union Organisations, and the Hera S.p.A. Shareholders Bodies, represented by the Chairman of the Trade Union Committee.
Based on what was understood in the aforesaid agreement negotiations were started for the drafting of a new Contracts Protocol with the Group's Trade Union Coordination and the definition of a new Industrial Relations Protocol with the category Trade Unions.

The Group's Business Plan, as integrated with AcegasAps, was also illustrated to the National and Regional Confederations and Category trade union representatives.

Consequent to the corporate decision to implement the new Operations Directorate General organisation, the joint examination provided by the integrated Group with the Trade Union Coordination was commenced. During various meetings held in October, November and December, the discussion was held that was directed at highlighting some reasons, dictated by the evolution of the regulatory context of the sectors concerned, which have led to the company evolving itself towards an organisation for production chains.

The new organisational structures of the ODG were presented through observed sessions.

LaborHera was set-up, not only to commence the analysis of the trend of the indicators for the performance bonus, but also in local offices on the work safety themes.

The unions were also involved during the year in the SA8000 certification process for Hera S.p.A. Accordingly, seminary sessions were started with the SA8000 workers representatives, who were appointed by the trade union structures, regarding not only the Community regulations for the certification system, but also the role that they are required to cover both in the certification phase and in the subsequent verification and maintenance.

Hera continues the collaboration with the Employer Associations, participating in the commissions and delegations dealing with collation of the national collective contracts of the gas, water and environmental services sectors. Furthermore, collaboration with Federutility continued for the purpose of defining the new classification and organisation system of the Electricity sector and on the regulation, for all sectors, of exercising of the right to strike.

Development

The commitment to distribute the Leadership Model of the Group continued. This was defined in 2010 with the objective of identifying forward-looking and distinctive modes of conduct for the management of the Hera Group A series of initiatives directed at all executives and managers were achieved between 2011 and 2012. The main ones amongst these were: training workshops, sessions on management of associates and a team, thematic seminaries on the four key elements of the Model (terminated in October 2012 with the holding of the event on Example Leadership).

Moreover, consistent with the objective of dedicating specific annual focus on individual key elements, the work plan was imposed during 2012, with the object of management of the Complexities that regarded the first training sessions between November and December 2012. Completion of this will continue in the first few months of 2013 until all the executives and managers have been fully involved. The design of the activities for the second key element will start from June 2013.

In support of the managerial development programmes, individual coaching continued, consistent with the development of the expertise stated in the Leadership Model.

Following the study completed during 2011, the progress reports with respect to improvement actions identified consistent with the evidence from the study, were made quarterly. The completion of the V study on internal climate is expected during the course of 2013.

The second edition of the Programme, which commenced in the first half of 2011 involved 94 employees (of the 2007 and 2008 Graduate Programmes, as well as other young employees with similar qualities and qualifications) had, amongst its objectives the enhancement and increase of the potential of the Group's young employees.

Starting in July 2011, the employees first underwent a motivational and orientation interview before taking part in an Assessment Development Centre, during which an evaluation was made of the professional growth potential of each of them.

All participants in the project received feedback from their managers on the results of the assessment, sharing strengths and areas of individual improvement, during the first half of 2012.

Consist with what emerged, specific development initiatives were defined.

Amongst these, a training initiative that involved 94 employees was completed in November 2012, directed at presenting the contents of the Leadership Model and to provide cues and suggestions for self-development. The opportunity was also given to participants to use, on an individual request, a telephone coaching session to further investigate what had been treated during the hall meeting and share tools and methods in support of self-development.

Within the scope of the initiatives directed at the evaluation of the differences, two important projects started during the course of June, which saw the various age and disability groups as subjects for further investigation.

The "GenerAzioni" project, created in collaboration with Bologna University, had the objective of investigating opinions with respect to the various age ranges and promote intergenerational dialogue. The project saw the achievement of management interviews, some focus groups and the involvement of a sample of about 400 colleagues who were requested to complete a questionnaire.

The evidence that emerged was cued by the definition of development actions directed at favouring the enhancement of dialogue between different generations.

The Group commenced a project called DOAR (From Obligation To Employee) in 2008, created to enhance expertise and potentiality of the company's disabled persons; this project started from the principle of the

collaboration between Hera and the Fondazione Asphi (an association that works on promoting the integration of the disabled persons in school, at work and in society). In connection with this collaboration, in the first half of 2012 an initiative was designed for sensitisation that led to the completion of a training course available in e-learning methods directed at making the world aware of the disabled and available to all employees subject to an individual access request.
By December 92 access requests were registered out of the 100 available and approval level of the initiative was 4.37 (scale of 1-5).

The positive acknowledgement from the Ministry with respect to the loan requested was received on 30 November 2012: "The good return policies" - the Group project that the Household Policies Department of The Presidency of the Council of Ministers had admitted for the loan because of the innovative and socially significant character of the proposed measures.
Interventions aimed at best supporting the moment of return to the company following the period of absence and favouring the life/work reconciliation will be implemented from the first few months of 2013.

Training

First and foremost noted in the training area, is the achievement of the activities and initiatives anticipated in relation to the HerAcademy, the Hera Group Corporate University created at the end of 2011, specifically the creation of the “What government and governance for the public utility services?” workshop (July 2012) and the design of the “Utilities government and citizen levels workshop collaboration which has possibilities for infrastructures development?” (achieved in January 2013). Again in relation to HerAcademy, other training development initiatives of territorial value are noted.

Full continuity was given to training during 2012 in compliance with the legal obligations (fire prevention, first aid, safety supervisors, etc.), including those consistent with the provisions of the new State-Regions Agreement with about 62,000 training hours given overall on Quality, Safety and Environment matters.
In this area the creation of the training initiative “Safety is not a game” is included, which is directed at making all workers aware of the health and safety culture, through use of animated software and the contribution of 120 internal facilitators. This training route reached almost total coverage of the corporate population (about 90%) with very significant results in terms of effectiveness and impact.
The creation of the training initiative “Safety is not a game” is included in this area, which is directed at making all workers aware of the health and safety culture, through use of animated software and the contribution of 120 internal facilitators. This training route reached almost total coverage of the corporate population (about 90%) with very significant results in terms of effectiveness and impact.

As always, the intense training and professional refresher courses continued for both technical and operating staff, as did those specifically aimed at maintaining and enhancing the operating skills required for activities that are deemed critical from the point of view of service quality, safety and potential environmental impacts.

In connection with the Work Force Management project, all the training anticipated was completed in the first half of 2012, with particular reference to the cascade related to utilisation of the movable and management knowledge tools in support of the path of change.

Relative to the training initiatives realised in collaboration with Alma Mater – Bologna University and Alma Graduate School, noted are the completion of the higher training course “Regulations and market in the public utility services” (February and March 2012), and the “Development of Managerial Expertise” course (between June and October 2012).

Furthermore, in connection with the institutional and managerial training programmes, transversal training interventions were realised, for example those on the Lean Organization methodology and effective communication.

With regard to knowledge management activities, full continuity was given in 2012 to the Professions School, through the publication of the fourteenth notebook entitled "Manage the process of acquiring knowledge in the centralised control room". The Professions School, now in its eighth year, is a consolidated corporate project directed at the enhancement of the technical and operating expertise characteristic of the Hera Group, with the objective of increasing awareness of professional conduct and the transferability of expertise from operator to operator.

There were around 37,202 registered for training, and 97% of Group employees were involved in at least one training activity.
The financial investment incurred in 2012, net of the costs of personnel in training and internal tutors, was €789,570 in 2012, an amount slightly exceeding the figure last year.

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

Type of training	Man hours
Professional and specialist training	53,077
Quality, safety and environment	62,175
Institutional and managerial training	42,047
IT	12,227
Total	**169,526**

1.09 Information systems

During 2011, the Hera Group's information systems followed the path mapped out by the business plan and then the budget, both in terms of operating and maintaining of the systems in production and design work.
An improvement was recorded in the productivity and efficiency of the activities, overall timings for handling maintenance requests reduced and the quality of the services provided improved.
The contribution made by the information systems to the Hera Group's business in 2012 is shown by the following indicators:

- about 18 million bills issued
- more than 4,500 online tenders managed
- approximately 150,000 emergency calls
- more than 4.8 million active contracts for 5 services (EE, GAS, TLR, H_2O, TIA)
- about 69,000 KM of distribution networks managed on the system
- 4.4 million service requests, managed through four channels
    - ✓ call centres
    - ✓ physical branches
    - ✓ mail
    - ✓ Internet

The main results achieved during the year are shown below.
Workforce Management (WFM) – the functionalities relative to the introduction of movable devices were completed and Operational Reporting for the Electricity and Gas Authority achieved.
This permitted management of more than 620,000 Work Orders (Front End, Quick Intervention, Running and Maintenance) in 2012.
MDM – Revision of the reading process for distribution and sales. The functionalities relating to the management of the readings, within a homogeneous solution for all the readings and related processes in compliance with the sector regulations were completed.
The first phase of the project for construction of a single integrated system for the management of logistics, disposal and sales was completed and the specific project for the revision and automation of the management and planning of the environmental services (shifts, men and vehicles) was commenced. Furthermore, the project for the construction of industrial accounting and specific reporting tools was commenced.
Revision and consolidation of the systems in the Administration Finance and Control areas continues, including with the creation of the new Credit Management system.
The operational and substitute tax filing service of the invoices commenced, and the draft of extension of the new protocol system for 16 Hera Group companies completed; in 2012 about 440,000 documents were filed.
In the Commercial area, other than constructing the new Commercial Campaigns, the marketing offering directed at the large customers (PUN Oraria) was successfully activated. Furthermore, the activity on the optimisation systems for commercial processes continued and the systems for communications with the Distributors completed. The updating projects for the Services On Line (SOL) Portal and creation of the Energy Data Management (EDM) system for sales were commenced.

The first phase of the EHS Project commenced for the creation of a single integrated system for the management of Health Supervision, Programming, Prevention, Protection, and Accidents Management for all Group operations.
The strong commitment continues for constant regulatory compliance and compliance with the regulatory requisites of the Information Systems sector (about 30% of the projects). Shown below are the main 2012 initiatives:

- Unbundling (Resolution 11/07 and subsequent) – the important path continues of updating information systems to the legislation on the matter of obligations to separate distribution and sales (Unbundling logic), administrative and accounting (Accounting unbundling) for companies operating in the electricity and the gas sectors. Specifically the following objectives were achieved:
  - ✓ Completion of logic/functional phase 2 unbundling that regards the functionalities relating to the transmission of readings and separation of invoicing
  - ✓ Completion of accounting unbundling (financial and asset) the issued functionalities of which were utilised for the 2012 statements relating to the 2011 financial year
- Integrated IT System (SII): updating of the information systems to adopt the provisions of the regulations in terms of population of the SRC (Single Central Register) and subsequent register alignments (resolutions 131-12 and 132-12)
- Tariff updating on all the services
- Updating to the sector regulations

Keeping the main platforms and technologies updated through the specific Upgrade and Technological Renewal of the Enterprise Infrastructures continues. In parallel the specific initiatives are proceeding for improvement of the overall safety and reliability levels of the Hera Group systems.
Integration of the subsidiary and investee companies continues with the start-up of Feronia in the Group systems.
The information systems have again ensured the continuity of the systems service in 2012, minimising the impact deriving from the launch of new projects and responding to the ongoing maintenance requirements and systems evolution in accordance with the agreed priorities, in compliance with the SLAs relating to the management of the Infrastructural and Applications tickets.
The ISO 9001 Quality Certification, which was attained in December 2011, was confirmed with a positive result (no non-conformity or observations).

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 waste management, water, gas and electricity businesses, with more than 6,000 employees.

The Company, the majority of whose share capital is owned by the State, has been listed on the Mercato Telematico of Borsa Italiana S.p.A. since 26 June 2003 and operates mainly in the territories of Bologna, Ravenna, Rimini, Forlì, Cesena, Ferrara, Modena, Imola and Pesaro-Urbino, and since 1 January 2013, following the integration with the Acegas-Aps Group, in the territories 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 local environment.

As early as 2003, Hera included Corporate Social Responsibility in its strategy, regarding this as an effective tool for increasing competitiveness and a key factor for achieving sustainable development. Mission and Values set out the corporate behaviour guidelines expressed in the Code of Ethics and provide information about all the Group's actions and relations. Mission, values and 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. 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 €.1,327,081,442.00, fully subscribed and paid-up, and consists of 1,327,081,442 ordinary shares with a par value of €1 each.

Share Capital Structure

Type of share	Number of shares	% of share capital	Listed	Rights and obligations
Ordinary shares	1,327,081,442	100%	MTA of Borsa Italiana S.p.A.	Ordinary shares give holders dividend and voting rights provided for by law.

Other financial instruments (conferring the right to subscribe newly emitted shares)
The following bond was issued on 10 November 2010:

Type	Listed	Duration (years)	Maturity	Nominal value	Coupon	Annual rate
Convertible Bond	Luxembourg Stock Exchange	3	1/10/13	140	Fixed, half-yearly	1,75%

b) Restrictions on the transfer of securities (pursuant to Article 123-bis, paragraph 1, letter b) of the TUF)

Article 7 of Hera's Articles of Association stipulates that at least 51% of the Company's share capital must be held by Municipalities, Provinces or Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000, or by 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 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	11.487%
Municipality of Modena	HSST-Mo Spa	10.520%
Municipality of Imola	CON.AMI	7.456%
Municipality of Ravenna	Ravenna Holding Spa	6.546%
Municipality of Trieste	Municipality of Trieste	5.413%
Municipality of Padua	Municipality of Padua	5.391%
Lazard Asset Management L.L.C.	Lazard Asset Management L.L.C.	2.894%
Municipality of Ferrara	Holding Ferrara Servizi Srl	2.303%
Carimonte Holding Spa	Carimonte Holding Spa	2.010%

d) Restrictions on voting rights (pursuant to Article 123-bis, paragraph 1, letter f) of the TUF)

Article 8.6 of the Articles of Association stipulates that the voting rights of parties other than public authorities who hold more than 5% of the share capital will be limited to an overall maximum of 5%.

e) Shareholder agreements (pursuant to Article 123-bis, paragraph 1, letter g) of the TUF)

In accordance with Article 122 of the TUF, there is a Voting Trust and Share Transfer Rules Agreement in existence between 126 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 procedures for the exercise of voting rights and the transfer of Hera shares held by the signatories. This agreement was signed on 21 December 2011 and is effective from 1 January 2012.

There is also a Consultation Agreement in existence, 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 27 April 2012 gave authorisation, within the limits of Article 2357 of the Italian Civil Code, to purchase, within 18 months of the date of the resolution, on one or more occasions, up to a revolving maximum of 25,000,000 ordinary Hera shares with a par value of €1 each, in accordance with the following conditions:

i) purchase price not lower than the par value and not more than 10% higher than the reference price recorded on the stock-market trading day preceding each individual purchase, with a total purchase price not exceeding €40,000,000;
ii) 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;
iii) sale, on one or more occasions, at a price that does not entail a negative financial impact for the Company.

It is also stated that the number of treasury shares in the portfolio at the close of the 2012 financial year was 13,812,528.

The shareholders' meeting of 15 October 2012 granted the Board of Directors, within the limits of Article 2443 of the Civil Code, the power, exercisable for a maximum of three years from the shareholders' decision, to increase, on one or more occasions, by payment, in tranches, the share capital by a maximum amount of €80,000,000 par value, corresponding to a maximum number of 80,000,000 ordinary shares with regular dividends and the same features as those outstanding at the date of issue, with an option to purchase offered in accordance with Article 2441, paragraphs 1, 2 and 3 of the Civil Code.

The Fondo Strategico Italiano Spa (FSI), a holding company whose controlling shareholder is Cassa Depositi e Prestiti SpA, evaluated an investment in Hera's share capital, against the aggregation with the Acegas-Aps Group, and committed itself to subscribing all of the shares corresponding to those stock options that may subsequently be purchased by Hera's main shareholders, as well as those stock options that may subsequently not be opted, upon occurrence of certain conditions and provided that the subscription involves a sufficient number of shares to allow the FSI to hold no less than 3% of Hera's post-increase share capital, or that the FSI is able to subscribe a quota of at least 2,6% by purchasing subscription rights from several HERA shareholders.

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 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.

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 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 modifications were designed with a view to containing the costs of the administrative body and complying with the governance agreements derived from the operation of integration with the Acegas-Aps Group.

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 offices, the stock exchange operator and 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. If, for any reason, no candidates are available, the Board, again pursuant to Article 2386 of the Italian Civil Code, will carry out the co-opting. The directors thus appointed will remain in office until the next Shareholders' Meeting, which will deliberate in accordance with the procedures established for the appointment.

There is a Voting Trust and Share Transfer Rules Agreement in existence between the local authority shareholders which governs the procedures for drawing up the majority list.
There is also a Consultation Agreement in existence, signed on 21 February 2013 by five minority shareholders of Hera S.p.A., which provides for the appointment of members of the Board of Directors.

As a clarification, note that the amendments of the Articles of Association aimed at introducing a system apt to ensure gender balance, as by Article 147-ter, paragraph 1-ter of the TUF, are currently being approved.

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.

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 €500,000 (five hundred thousand);
X. purchase and/or sale of properties with a value exceeding €500,000 (five hundred thousand);
XI. provision of sureties, liens and/or other real guarantees with a value exceeding €500,000 (five hundred thousand);
XII. purchase and/or sale of companies and/or business units;
XIII. appointment of directors of subsidiaries and affiliates;
XIV. participation in tenders and/or public procedures involving the assumption of contractual obligations exceeding €25,000,000.

The Board of Directors has assessed the appropriateness of the organisational, administrative and general accounting arrangements of the Company, with particular reference to the internal control system and to risk management.

The Board of Directors, in conformity with the provisions of Article 23 of the Articles of Association and Article 150 of Legislative Decree no. 58/98, reports regularly to the Board of Statutory Auditors, at least every three months, normally during the meetings of the Board of Directors or even directly through a written memorandum sent to the Chairman of the Board of Statutory Auditors, on the activities carried out and on the most important economic and financial operations implemented by the Company or its subsidiaries, as well as on the operations in which the directors have an interest, on their own behalf or that of third parties, or which are influenced by the party that exercises the activity of direction and coordination. Each director, pursuant to Article 2391 of the Italian Civil Code, informs the other directors and the Board of Statutory Auditors of any interest which, on his own account or that of third parties, he has in a given operation of the Company, indicating the nature, terms, origin and extent of that interest; if the director concerned is the Group CEO, he must refrain from carrying out the operation and entrust it to the Board.
The Board of Directors met on 13 occasions in 2012. All the directors took part in 4 of these meetings, while almost all of them took part in the other 9; all the statutory auditors took part in 9 of the meetings, while almost all of them took part in 3 and in one meeting only one statutory auditor participated. The average length of the meetings of the Board of Directors was approximately two 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, respectively attended 12 and 13 meetings in 2012.
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 22 March 2013; 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 22 March 2013, 10 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 Articles 1 and 9 of the Corporate Governance Code, the guidelines for significant transactions, transactions with related parties and transactions in which a director has an interest ("Guidelines"), in order to ensure that these transactions are conducted transparently and in conformity with the criteria of substantive and procedural correctness.
Subsequently, the Board of Directors of Hera S.p.A. approved the new procedure for transactions with Related Parties ("Procedure") in compliance with the provisions of the Consob Regulation adopted by virtue of Resolution no. 17221 of 12 March 2010 and subsequent amendments and integrations thereto ("Consob Regulation").
The Procedure cancels and completely replaces the rules on transactions with Related Parties contained in the Guidelines, but there is no change to the existing rules set out in the Guidelines concerning significant transactions and transactions in which a director has an interest.

In the Procedure, the Board of Directors fully adopted the definitions of "Related Parties" and "Transactions with Related Parties", as well as all the directly associated definitions, contained in the Consob Regulation and its annexes.

In particular, the following were identified:

1. the types of transactions with Related Parties to which the Procedure applies:
- "Transactions of Major Importance", or transactions in which at least one of the indices of importance determined by the Consob Regulation exceeds the threshold of 5%;
- "Transactions of Minor Importance", or transactions with Related Parties that are neither of Major Importance nor of Negligible Amount;
- "Ordinary Transactions", or transactions which (a) fall within the ordinary conduct of the company's operating activities or associated financial activities; and (b) are carried out under conditions: (i) similar to those normally applied to unrelated parties for transactions of a comparable nature, scale and risk, (ii) based on regularly applied tariffs or established prices, or (iii) comparable with those applied to parties with whom the company is legally obliged to deal for a determined consideration;
- "Transactions of Negligible Amount", or transactions for which the maximum foreseeable amount of the consideration or of the value of the service does not exceed, for each transaction, the sum of €1,000,000.00;
- "Transactions with Related Parties carried out by Subsidiaries".

2. the approval process for Transactions of Major and Minor Importance, depending on whether they involve:
   - Transactions of Minor Importance falling within the competence of the Board of Directors, which are approved by the Board of Directors after hearing the reasoned but non-binding opinion of the Internal Control Committee (hereinafter referred to as the "Committee") regarding the interest, appropriateness and substantive correctness of the transaction;
   - Transactions of Major Importance falling with the competence of the Board of Directors, in which the Committee must be involved in the negotiation and investigation phases and in which the transaction may be approved following the receipt of a reasoned favourable opinion from the Committee regarding the interest, appropriateness and substantive correctness of the transaction and following a vote in favour by a majority of the independent directors;
   - Transactions of Minor and Major Importance falling with the competence of the Shareholders' Meeting, for which the proposals must follow the same procedure as that for transactions falling with the competence of the Board of Directors, as described in the previous two points, and which must in any event receive a favourable opinion from the Committee.

The Procedure provides that the Committee charged with guaranteeing, by issuing specific opinions, the substantive correctness of dealings with Related Parties, must be in agreement with the 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 stipulate that the Board of Directors comprises 20 members.
The Board of Directors, in conformity with the provisions of Article 1.C.1. letter g) of the Code, has 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.

The table below shows the current composition of the Board of Directors. The personal and professional details of each director are available on the website www.gruppohera.it.

Name and surname	Office	Position
Tomaso Tommasi di Vignano	Chairman	Executive director
Maurizio Chiarini	C.E.O.	Executive director
Giorgio Razzoli	Vice chairman	Non-executive independent director
Mara Bernardini	Director	Non-executive independent director
Filippo Brandolini	Director	Non-executive independent director
Marco Cammelli	Director	Non-executive independent director
Luigi Castagna	Director	Non-executive independent director
Pier Giuseppe Dolcini	Director	Non-executive independent director
Valeriano Fantini ***	Director	Non-executive independent director
Enrico Giovannetti	Director	Non-executive independent director
Fabio Giuliani	Director	Non-executive independent director
Luca Mandrioli	Director	Non-executive independent director
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

***** in office since 1 January 2013 ****** outgoing as of 14 March 2013 ******* died on 18 March 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 take any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
6. in association with the Group CEO, to propose to the Board of Directors the appointment of Company representatives on the administrative and control bodies of affiliate companies;
7. to represent the company in relations with the shareholding Public Authorities;
8. to propose to the Board the candidates for membership of the Committees that the Board may decide to establish in compliance with the Stock Exchange regulations which the Company is obliged to observe, or that it intends to establish;
9. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
10. to supervise the Company's performance for the purposes of achieving the corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
11. to be responsible for the organisation of the services and offices under his authority, as well as for the employees working under him;
12. to supervise the operations of the Company and its subsidiaries, reporting each month to the Board of Directors;
13. to draw up the Long-term Plans and Business Plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of the directives established by the Board, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
14. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
15. to represent the Company in the shareholders' meetings of companies, associations, entities and bodies that do not constitute joint-stock companies, of which the Company is a member, with the power to issue special proxies;
16. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;

17. to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, Stock Exchanges, the National Commission for Listed Companies and the Stock Exchange (Consob), the Ministry for Foreign Trade, and the Italian Exchange Office, and any other Public Administration or Authority; by way of example:
    a. to sign notices, including notices to the General Register of Shares and to Consob, and to fulfil the corporate obligations provided by law and regulations;
    b. to submit reports, motions and appeals, to apply for licences and authorisations;
18. to represent the Company in all active and passive lawsuits, in all degrees of civil and administrative proceedings, before arbitration boards, with the widest powers to:
    a. bring conservative, restraining and executive actions, request summary 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 €500,000.00 (five hundred thousand) for each transaction;
20. to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of €100,000.00 (one hundred thousand) for each transaction;
21. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
22. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate purpose – including those relating to know-how, trademarks and patents – also in association with other companies, up to a limit of €2,000,000.00 (two million) for each transaction;
23. to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
24. to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European 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 €25,000,000.00 (twenty-five million) for each individual transaction – in cases of urgency, the decision concerning amounts exceeding €25,000,000.00 (twenty-five million) will be taken in association with the 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 €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 €5,000,000.00 (five million) for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
31. to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
32. to decide the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than €100,000.00 (one hundred thousand);
33. the Chairman, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is responsible for supervising the functioning of the Internal Control System. To this end, as far as his authority permits, he:
    a. ensures that the Risk Committee identifies the main business risks, taking account of the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors,
    b. implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control System, constantly checking its overall appropriateness, effectiveness and efficiency, and also ensuring that the System is suited to the dynamics of the operating conditions and of the legislative and regulatory context,
    c. c. proposes to the Board of Directors, in association with the CEO, the appointment, removal and remuneration of the Internal Control Officer.

In relation to the powers listed above, and in conformity with Article 2 of the Code, it is noted that the Board of Directors has granted management authority to the Chairman due to the organisational complexity of the Hera Group and for the purposes of a more efficient achievement of the company's *business* and strategies.

Chief Executive Officer

During the same meeting, the Board of Directors passed a resolution to vest the Group CEO with the following powers:

1. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
2. in cases of urgency, in association with the Chairman, to take any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
3. to implement corporate and Group strategies, within the context of the directives established by the Board, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
4. to propose to the Board of Directors any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
5. to draw up the annual budget to be submitted to the Board of Directors;
6. to be responsible for the organisation of the services and offices under his authority, as well as for the employees working under him;
7. to define the functional structures of the Company and its subsidiaries, within the framework of the general organisation guidelines established by the Board, specify the criteria for personnel recruitment and management in compliance with the annual budget; propose the engagement of directors to the Board of Directors; engage, appoint and dismiss personnel up to and excluding the rank of General Manager, in accordance with the provisions contained in the annual budgets; adopt and implement disciplinary sanctions, dismissals and any other measure in respect of manual workers, clerical workers, assistants and auxiliary staff;
8. to stipulate, amend and terminate agreements concerning lines of credit or loans of any type and duration involving a cost commitment of up to €1,000,000.00 (one million) for each individual transaction; request the use of tranches of financing, up to the amount of €3,000,000.00 (three million) for each agreement;
9. to open and close current accounts with banks and credit institutions, withdraw sums from the accounts held in the Company's name, issuing for this purpose the relative cheques or equivalent credit documents, and order transfers utilising available funds or lines of current account credit;
10. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
11. to draw bills on customers, endorse also for discount promissory notes, bills and drafts, as well as cheques of any kind, and effect any consequential transaction;
12. to grant credit on behalf of the Company, with and/or without recourse, up to a maximum amount of €250,000,000.00 (two hundred and fifty million) for each individual transaction, and to work with factoring companies and institutions, signing all related deeds;
13. to actively and passively represent the Company before the Tax Authorities and Commissions of any nature and rank, as well as before the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, Post and Telegraphic Offices; by way of example:
    a. to sign tax and VAT returns and to fulfil any tax-related obligation;
    b. to submit reports, motions and appeals, to apply for licences and authorisations;
    c. to issue receipts, in particular for payment orders in relation to credits subject to factoring operations;
    d. to perform any transaction at the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, Post and Telegraphic Offices for the shipment, deposit, clearance and collection of goods, credit instruments, parcels and packages, registered and insured letters, issuing receipts for the same;

14. to represent the Company in all lawsuits pertaining to labour law, including the power to:
    a. settle individual labour disputes concerning the categories of officers, clerical workers, assistants and auxiliaries;
    b. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;
15. to represent the Company before Social Security and Welfare offices and entities for the settlement of issues relating to employees of the Company, and also before Trade Unions in negotiations for contracts, agreements and labour disputes, with the power to sign the related documents;
16. to issue guarantees and grant loans, and sign bank surety agreements up to the value of €500,000.00 (five hundred thousand) for each transaction; this limit shall not apply to transactions relating to participation in tenders; issue, accept and endorse credit instruments;
17. to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the 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 €25,000,000.00 (twenty-five million) for each individual transaction – in cases of urgency, the decision concerning amounts exceeding €25,000,000.00 (twenty-five million) will be taken in association with the Group Chairman, informing the Board of Directors accordingly at its next meeting; in the case of awarding, sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
19. to take part, as far as his authority permits, in any type of public or private auction or invitation to bid in Italy and abroad;
20. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
21. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate purpose – including those relating to know-how, trademarks and patents – also in association with other companies, up to a limit of €2,000,000.00 (two million) for each transaction;
22. to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of €100,000.00 (one hundred thousand) for each transaction;
23. to conclude transactions up to an amount of €5,000,000.00 (five million) for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;

24. to provide for the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:
    a. works and supplies necessary for the transformation and maintenance of properties and plant up to an amount of €15,000,000.00 (fifteen million) for each individual investment;
    b. purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, up to an amount of €8,000,000.00 (eight million) for each individual investment, as well as finance leases and rentals of such assets, with the cost limit referring to the annual rental;
    c. purchases, including 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 workers' health and safety at work, all with the power of delegation;
27. the CEO is assigned the role of "Employer" pursuant to and for the purposes of Article 2 of Legislative Decree no. 81 of 9 April 2008 and subsequent amendments and integrations, with the duties provided for therein and with the power to delegate, as far as is permitted by said decree, the performance of any activity useful and/or necessary for ensuring compliance with the provisions of the law, with the exception of the following Sectors/Structures, for which the role of Employer is attributed as indicated below:
    - Services 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 managing activities relating to the Register of Freight Carriers, with the power of delegation;
29. the CEO is assigned the powers and responsibilities set forth in Legislative Decree no. 196 of 30 June 2003 concerning the protection of individuals and other parties with regard to the processing of personal data, with the power of delegation;
30. the CEO, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is responsible for supervising the functioning of the Internal Control System. To this end, as far as his authority permits, he:
    a. ensures that the Risk Committee identifies the main business risks, taking account of the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors,
    b. implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control System, constantly checking its overall appropriateness, effectiveness and efficiency, and also ensuring that the System is suited to the dynamics of the operating conditions and of the legislative and regulatory context,
    c. proposes to the Board of Directors, in association with the 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 €2 million for each individual contract;
2. in the interests of the Company, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, with a value exceeding €100,000 and up to €500,000, and more generally on the overall criteria for use;

3. as to the Company's subscription to bodies, associations and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the said entity and where participation in the same involves an outlay of more than €100,000 and up to €500,000;
4. to settle disputes and/or waive credits of an amount exceeding €5 million;
5. as to the activation, amendment and termination of contracts for the opening of lines of credit or loans of any type and duration involving a cost commitment of more than €1,000,000 and up to €5,000,000; request the drawdown of tranches of loans, for an amount of more than €3,000,000 and up to € 5,000,000 per individual contract;
6. as to the stipulation, amendment and termination of contracts for investments relating to:
    - works and supplies necessary for the transformation and maintenance of properties and plants for an amount exceeding €15,000,000;
    - purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, with a value exceeding €8,000,000.

The Executive Committee also has the task of examining the audit reports each quarter and of supervising, in conformity with the system of delegations defined within the Company, the implementation of the action plans arising from the audit reports.
The Board of Directors met on 7 occasions in 2012, and all of the meetings were attended by all 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 Company directly or indirectly, including via subsidiary or trust companies or third parties; they do not exercise significant influence over the Company; they are not party to any shareholders' agreement whereby one or more parties may exercise control or significant influence over the Company;

b) they are not currently, nor have they been in the last three financial years, important representatives of the Company, one of its subsidiaries with strategic importance or one of the companies subject to joint control together with the Company, or of a company or body which, also together with others as a result of shareholders' agreements, controls the Company or is able to exercise significant influence over it;

c) they do not currently have, nor have they had in the previous year, either directly or indirectly, any significant commercial, financial or professional relationship:

- with the Company, one of its subsidiaries or any of the related important representatives;
- with a party who, alone or with others as a result of shareholders' agreements, controls the Company, or – in the case of companies or bodies – with the related important representatives, and who have not been employees of one of the aforementioned parties in the last three financial years;

d) they have not received in the last three financial years, from the company or from a subsidiary or parent company, significant remuneration in addition to the "fixed" emolument of the Company's non-executive directors 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 Company holds the office of director;

f) they are not shareholders or directors of a company or entity belonging to the network of the firm appointed to audit the Company's accounts;

g) they are not close relatives of a party in one of the positions described in the previous points;
h) they satisfy the requirements of independence set forth under Article 148, paragraph 3 of the TUF.

The following circumstances do not invalidate the requirements of independence of a director: the appointment of the director by the shareholders or group of shareholders controlling the Company; the holding of the office of director of a subsidiary of the Company and receiving the related remuneration; the holding of the office of member of one of the advisory Committees cited below.

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.

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.

Consequently, in application of the new procedure adopted by Hera S.p.A. on 27 March 2006 with regard to internal dealing, and in accordance with Article 152-sexies of the Consob Issuers' Regulation, the following individuals have been identified as significant parties obliged to inform Consob of the transactions they have carried out on Hera S.p.A.'s financial instruments: the members of the Board of Directors, the Statutory Auditors and the shareholders who hold an equity investment equal to or greater than 10% of the share capital, as well as individuals closely linked to 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 by 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 responsible 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 established Committees constitute an internal structure of the Board of Directors and fulfil an advisory and consultative role. The Board of Directors, renewed on 29 April 2011, redefined the composition of the 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.

b) Remuneration Committee

In 2011, the Remuneration Committee handled matters relating to remuneration policies, subject to approval by the Board of Directors at the time of the 2011 financial statements. For information relating to this Section, please refer to the Remuneration Report pursuant to Article 123-ter of the Tuf.

c) 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 11 times in 2012; 7 of these meetings were attended by all the members, and 4 by a majority of members. The average length of the meetings of the Internal Control Committee was approximately one hour.

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) on at least 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 Director, 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:

- review of the Regulations of the Internal Control Committee and the Operating Mandate and Manual of the Internal Auditing Department;
- evaluation of the effectiveness of the Internal Control System;
- preparation of the periodic Reports of the Internal Auditing Department Management;
- analysis of the area governed by Law 262/2005.

The Committee also examined the audit reports as well as the 2013 Business Plan and budget of the Internal Auditing Department Management, carried out the Risk Assessment and prepared the 2013-2015 Audit Plan.

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.

The Ethics Committee met 5 times in 2012; 4 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 thirty minutes.

Functions of the Ethics Committee

The Ethics Committee is responsible for monitoring the dissemination and implementation of the principles of the code of ethics.

During the course of the meetings held in 2012, the following measures were taken: analysis of the reports received by the Committee, assessment of the operations carried out to disseminate the Code of Ethics as well as the analysis of 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.
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;
- Hera S.p.A Vice President;
- 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 S.r.l. CEO;

- Hera Trading S.r.l CEO;
- 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 Appointed Manager in charge of drafting corporate financial documents, the Internal Auditing Management, the Board of Statutory Auditors and the Independent Auditor.

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 2012 and following the quarterly reports released by the Controls and Risks Committee, the Board of Directors has approved the adequacy, efficacy and effective functioning of the internal control and risk management system.

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

Introduction

The internal control and risk management system in relation to the financial information process, 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.
The internal control and risk management system in relation to Hera's financial information process 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 authorities 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/CE concerning the harmonization of transparency requirements in relation to information about the issuers whose movable value are permitted to enter negotiations in a regulated market, modifying directive 2001/34/EC”;
- the Civil Code, which extends responsibility for the company management to the Appointed Managers in charge of drafting of corporate financial documents (Article 2434 c.c.), 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 (hereafter also "The Model") pending approval, that outlines the adopted method and associated roles and responsibilities in 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 the "declarations" of the financial statement (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's 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's 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's 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 S.p.A 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 S.p.A., the 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 statement 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 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 the respective mandates and 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 consideration the features of the activities carried out by the Company and its subsidiaries, and periodically subjects these to examination by the Board of Directors,
- implement the guidelines defined by the Board of Directors, ensuring that the responsible business structures provide for planning, implementing and managing the Internal control and risk management system, constantly checking its overall adequacy, effectiveness and efficiency, and also ensuring that this 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.
Over the course of 2013, the Hera S.p.A. Board of Directors has scheduled an update of the internal control and risk management system guidelines that will allow the forecasting of specific coordination modes among the various subjects involved in the internal control and risk management system.

c) Internal auditing department manager

In order to ensure an adequate functioning of the internal control and risk management system, 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, prioritizes 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 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 7 occasions in 2012 and all these meetings were attended by all the members.
The average length of the meetings of the Supervisory Board was approximately one hour.

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 checking 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. 17633 of 26 January 2011), at least 2% of the shares with voting rights. The lists must be filed at the registered offices at least 25 days prior to the date of the Shareholders' Meeting, together with the candidates' CVs, the declaration of the individual candidates stating that they accept the office and certifying the non-existence of any ineligibility, 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 Statutory Auditor, he or she is succeeded by the alternate Auditor belonging to the same list as the Auditor to be replaced.

For the purposes of the provisions of legislation in force concerning the requirements of professionalism for members of the Board of Statutory Auditors of listed companies, "business matters and sectors strictly pertaining to the activities performed by the Company" means the business matters and sectors associated with or pertaining to the activity performed by the Company and cited in Article 4 of the Articles of Association.

The office of Statutory Auditor is incompatible with the offices of councillor or alderman in regional public authorities, as well as with that of Statutory Auditor in more than three listed companies other than subsidiaries of the Company pursuant to Article 2359 of the Italian Civil Code and Article 93 of Legislative

Decree no. 58/98. In the latter case, a Statutory Auditor who subsequently exceeds this limit will automatically forfeit the office of Statutory Auditor of the Company.
It is furthermore specified that modifications to the Articles of Association are currently pending approval aimed at introducing the necessary mechanisms to ensure equal representation of men and women among the Board of Statutory Auditors as provided for by Article 148, paragraph 1-*bis* of the Tuf.

Composition and functioning of the Board of Statutory Auditors (pursuant to Article 123-*bis*, paragraph 2, letter d) of the Tuf)
The Board of Statutory Auditors comprises three statutory members and two alternate members. The Board of Statutory Auditors, whose mandate expired upon approval of the financial statements for the year ended 31 December 2010, was renewed during the course of the Shareholders' Meeting of 29 April 2011 and will remain in office until the approval of the financial statements for the 2013 financial year.
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 indicated the current composition of the Board of Statutory Auditors, while the personal and professional details of each statutory auditor are available on the website 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 19 times in 2012; 12 of these meetings were attended by all statutory auditors, while 7 attended by almost all of them. The average duration of the meetings of the Board of Statutory Auditors was approximately one hour and forty-five minutes.

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, signed on 23 February 2010 by five minority shareholders of Hera S.p.A., concerning the appointment of members of the Board of Statutory Auditors.

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).

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.

During the 2012 financial year, 2 shareholders' meetings were held on 27 April and 15 October, which were attended by 13 and 16 directors, respectively.

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	100%		
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	92%	1	X	100%	X	100%			X	100%	X	100%
Amm.re	Mara Bernardini	01/01/2012	Appr. Bil. 2013	M		X	X	X	100%	-										
Amm.re	Filippo Brandolini	01/01/2012	Appr. Bil. 2013	M		X	X	X	100%	-										
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	85%	-										
Amm.re	Valeriano Fantini	01/01/2012	Appr. Bil. 2013	M		X	X	X	100%	-					Non presente					
Amm.re	Enrico Giovannetti	01/01/2012	Appr. Bil. 2013	m		X	X	X	100%	-										
Amm.re	Fabio Giuliani	01/01/2012	Appr. Bil. 2013	M		X	X	X	77%	-	X	82%								
Amm.re	Luca Mandrioli	01/01/2012	Appr. Bil. 2013	M		X	X	X	92%	-	X	91%								
Amm.re	Daniele Montroni	27/06/2012	Appr. Bil. 2013	M		X	X	X	100%	-			X	100%						
Amm.re	Mauro Roda	01/01/2012	Appr. Bil. 2013	M		X	X	X	100%	-										
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	91%								
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	69%	-										
--------------- AMMINISTRATORI CESSATI DURANTE L'ESERCIZIO DI RIFERIMENTO ---------------																				
Amm.re	Nicodemo Montanari	01/01/2012	26/06/2012	M		X	X	X	100%	-			X	100%	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: 11		CR: 3		CN: /				CE: 7				CEtico: 5	

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

Office	Member	In office since	In office until	List (M/m)*	Independence pursuant to Code	** (%)	Number of other positions***
Chairman	Sergio Santi	01-gen-11	oval of 2013 fin. staten	m	X	100%	1
Statutory Auditor	Dall'Olio Elis	29-apr-11	oval of 2013 fin. staten	M	X	100%	-
Statutory Auditor	Antonio Venturini	01-gen-11	oval of 2013 fin. staten	M	X	89%	-
Alternate Auditor	Ceccacci Stefano	01-gen-11	oval of 2013 fin. staten	m	X	-	-
Alternate Auditor	Picone Roberto	01-gen-11	oval of 2013 fin. staten	M	X	-	-
--------------- AUDITORS LEAVING OFFICE DURING THE FINANCIAL YEAR CONCERNED ---------------							
Statutory Auditor	Lolli Fernando	01-gen-11	28-apr-11	M	X	100%	-

Indicate the quorum required for the presentation of lists at the time of the last appointment:
Article 26 of the Articles of Association specifies that (i) Municipalities, Provinces and Consortiums established in accordance with Article 31of Legislative Decree no. 267/2000 and the associates or the joint-stock companies controlled by the same may present a single list and (ii) the shareholders other than those indicated in point (i) may present lists provided that they represent at least 3% of the shares with voting rights. Under the current legislation, this percentage is reduced to 2% (Consob Resolution no. 17633 dated

Number of meetings held during the financial year concerned: 18

Notes:

** This column indicates M/m according to whether the member was elected from the list voted by the Majority (M) or by a minority (m).*

*** This column indicates the 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 2012

Pursuant to the national legislation implementing Regulation (EC) No 1606 of 19 July 2002, the financial statements of the Parent Company Hera S.p.A. have been prepared in compliance with IAS/IFRS standards. The main results attained during the year are presented hereunder:

(€/millions)	2011	2012	Abs. Change	% Change
Revenues	1,527.2	1,546.5	19.3	1.3%
EBITDA	319.9	341.1	21.2	6.6%
Operating profit (EBIT)	153.5	169.4	15.9	10.4%
Net profit	87.8	116.2	28.4	32.3%

The interpretation of the results must also take into consideration the current set-up of the Group, which sees the distribution of the total result between the Parent Company and the various sales, operational and maintenance companies and specific business units. The increase in the net profit compared to last year ii to be mainly attributed to the repayment of IRES (Corporate Income Tax) due following the recognised deducibility of this tax relating to IRAP (Regional Business Tax) paid on the personnel costs, as mentioned in Legislative Decree.201/2011 and the positive financial management of the subsidiaries.
A summary is presented below of the reclassified statement of assets and liabilities and financial position as at 31 December 2012, shown on to comparative basis with the balances as at 31 December 2011:

Analysis of invested capital and sources of financing	31-dic-11	%	31-dic-12	%	Var. Ass.	Var. %
Net non-current assets	3,361.2	104.6%	3,415.7	107.6%	54.5	1.6%
Net working capital	81.9	2.6%	2.7	0.1%	(79.2)	-96.6%
Gross invested capital	**3,443.1**	**107.2%**	**3,418.4**	**107.7%**	**(24.7)**	**-0.7%**
Miscellaneous provisions	(231.2)	-7.2%	(241.5)	-7.7%	(10.3)	4.5%
Net capital invested	**3,211.9**	**100.0%**	**3,176.9**	**100.0%**	**(35.0)**	**-1.1%**
Shareholders' equity	1,677.2	52.2%	1,692.1	53.3%	14.9	0.9%
Net debt	1,534.7	47.8%	1,484.8	46.7%	(49.9)	-3.3%
Sources of financing	**3,211.9**	**100.0%**	**3,176.9**	**100.0%**	**(35.0)**	**-1.1%**

The net capital invested reduced as at 31 December 2012 by €35 million from €3,211.9 to €3,176.9 million. **The net non-current assets** as at 31 December 2012 amounted to € 3,415.7 million, up by €54.5 million compared to 31 December 2011 in relation to the investments made, more specifically described in connection with the report on the Group. **The net working capital** were around €2.7 million. **Miscellaneous provisions** increased from €231.2 to €241.5 million, an increase of €10.3 million. **The shareholders' equity** increased from €1,677.2 to €1,692.1 million. In relation to the aforementioned changes, the **net debt** fell from €1,534.7 million as at 31 December 2011 to €1,484.8 million as at 31 December 2012.

1.13 Resolutions concerning the Parent Company's results for the financial year

The Board of Directors proposes to attribute a gross unitary dividend of €0.09 per each Hera ordinary share issued.

The overall amount to be distributed would be - based on a nominal share capital at 22 March 2013 of €1,327,081,442.00 divided into 1,327,081,442 shares with a nominal value of €1.00 each - equal to €119,437,329.78 and the distribution would take place by utilising the profit of the 2012 financial year, net of the amount of €5,808,545.28 and the difference of €9,074,969.46 by using part of the Extraordinary Reserve. The company holds 12,634,507 treasury shares as at the date of this report; as the dividend related to any treasury shares in the portfolio at the date of distribution is not distributable pursuant to art. 2357 *ter* of the Italian Civil Code, it is proposed that it be allocated to the Extraordinary Reserve.

However, it is noted that the total amount to be distributed and the amount to be allocated to the Extraordinary Reserve, considering the 12,634,507 treasury shares, are subject to change' This is a consequence of the possible further issuance of new Hera ordinary shares from the share capital increase approved on 15 October 2012 for the company's obligatory total public offer to acquire and exchange pursuant to arts. 102 and 106, paragraphs 1 and 2-*bis* of the Consolidated Finance Act on the maximum of 20,393,006 Acegas-APS S.p.A. ordinary shares (the "Offer"), with a consequent increase of the share capital and the number of Hera shares representative thereof.[1] This change may also take place subsequent to the date of the Shareholders' Meeting for the following reasons.

In fact, it is noted that as at the date of this report the Offer has not yet been concluded as Hera is complying, pursuant to art. 108.2 of the Consolidated Finance Act, with the obligation to acquire the Acegas-APS S.p.A. shares. (the "Acquisition Obligation"). The Acquisition Obligation will terminate on 27 March 2013 and payment of the consideration mentioned in the Acquisition Obligation, or rather the delivery of the new issue Hera shares and payment of the cash component or the total payment of the consideration in cash to the Acegas-APS S.p.A. shareholders, shall take place on 5 April 2013. In this connection it is also noted that, where on termination of the Acquisition Obligation, Hera should hold a percentage of Acegas-APS S.p.A.'s share capital of at least 95%, the company shall effect the joint procedure for compliance with the acquisition obligation pursuant to article 108.1 of the Consolidated Finance Act and exercise the right of acquisition of the remaining Acegas-APS S.p.A. shares pursuant to article 111.1 of the Consolidated Finance Act. The timing for implementing the joint procedure shall be agreed by Hera with Consob and Borsa Italiana S.p.A., (Italian Stock Exchange) pursuant to article 50-*quinquies*, paragraph 1, of the Issuers' Regulations.

[1] Hera can still issue a maximum of 16,146,789 ordinary shares to complete the Offer. Accordingly, in that case the amount of the share capital at the time of detachment of coupon would be €1,343,228,231; consequently the maximum amount to be distributed to the Hera shareholders would be €120,890,540.79, of which €10,528,180.47 by use of the Extraordinary Reserve.

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

- noted the Directors Report;
- noted the Board of Statutory Auditors Report;
- noted the Independent Auditors Report;
- examined the financial statements at 31 December 2012 which end with a profit of €116,170,905.60;
- took into account that the share capital presently amounts to €1,327,081,442.00 and that the legal reserve amounts to €36,142,023.04

resolved

- to approve the financial statements of Hera S.p.A. for the year to 31 December 2012 and the Directors Report;

- to allocate the profit for the financial year 1 January 2012 – 31 December 2012 of €116.170.905,60 as follows:

    - €5,808,545.28 to the legal reserve,
    - € 0.09 to a gross unit dividend to the shareholders;

- to utilise the difference with respect to €110,362,360.32 from the Extraordinary Reserve in the financial statements to pay the dividend due on the shares that will have that right at the date of declaration of the dividend itself. The distributable dividend from any treasury shares held at the dividend warrant detachment date shall be allocated to the Extraordinary Reserve.

- to pay the dividend commencing from 6 June 2013 with detachment of coupon no. 10 dated 3 June 2013, a dividend that shall be paid to the shares in account as at 5 June 2013 pursuant to art. 83-*terdecies* of the Consolidated Finance Act.

CHAPTER 2

CHAPTER 2

Hera Group Consolidated Financial Statements

2.01 Consolidated accountus

2.01.01 Income Statement

thousands of euro	*Notes*	*2012*	*2011*
Revenues	4	4,492,748	4,105,680
Other operating revenues	5	203,577	210,189
Use of raw materials and consumables	6	(2,726,044)	(2,440,086)
Service costs	7	(912,712)	(870,486)
Personnel costs	8	(382,082)	(369,996)
Amortisation, depreciation and allowances	9	(326,589)	(310,325)
Other operating costs	10	(46,827)	(39,830)
Capitalised costs	11	33,372	49,324
Operating profit		**335,443**	**334,470**
Portion of profits (losses) pertaining to associated companies	12	5,405	6,260
Financial income	13	114,608	92,483
Financial expense	13	(248,714)	(211,987)
Financial income (expense), net		**(128,701)**	**(113,244)**
Other operating revenues *(non-recurring)*	14	6,667	0
Pre-tax profit		**213,409**	**221,226**
Income taxes for the period	15	(79,051)	(94,471)
of which non-recurring		*18,217*	*7,567*
Net profit for the period		**134,358**	**126,755**
Attributable to:			
Shareholders of Parent Company		118,658	104,590
Non-controlling shareholders		15,700	22,165
Earnings per share	**15.1**		
basic		**0.108**	**0.094**
diluted		**0.102**	**0.090**

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

2.01.02 Aggregate income statement

thousands of euro	2012	2011
Net profit/(loss) for the period	**134,358**	**126,755**
Changes in the fair value of derivatives for the year	3,288	4,642
Tax effect relating to other components of the Statement of Comprehensive Income	(846)	(1,216)
Change in the fair value of derivatives for the year for companies measured with the equity method	190	307
Total comprehensive income/(loss) for the period	**136,990**	**130,488**
Attributable to:		
Shareholders of the Parent Company	121,461	108,698
Non-controlling shareholders	15,529	21,790

2.01.03 Statement of financial position

thousands of euro	Notes	31-Dec-2012	31-Dec-2011
ASSETS			
Non-current assets			
Property,plant and equipment	16	1,947,597	1,884,476
Intangible assets	17	1,855,966	1,802,521
Goodwill	18	378,391	377,760
Investments	19	139,730	135,865
Financial assets	20	17,557	11,039
Deferred tax assets	21	111,451	105,503
Financial instruments - derivatives	22	88,568	80,548
Total non-current assets		**4,539,260**	**4,397,712**
Current assets			
Inventories	23	71,822	72,761
Trade receivables	24	1,307,961	1,250,360
Contract work in progress	25	20,635	22,390
Financial assets	26	47,286	42,945
Financial instruments - derivatives	22	34,199	40,642
Current tax assets	27	30,882	6,164
Other current assets	28	209,108	211,833
Cash and cash equivalents	29	424,162	415,189
Total current assets		**2,146,055**	**2,062,284**
Non-current assets held for sale	**30**	**14,154**	**10,606**
TOTAL ASSETS		**6,699,469**	**6,470,602**

segue

thousands of euro	Notes	31-Dec-2012	31-Dec-2011
EQUITY AND LIABILITIES			
Share capital and reserves	31		
Share capital		1,115,014	1,115,014
Less: Treasury shares - nominal value		(13,813)	(9,674)
Reserves		540,138	537,538
Less: Treasury shares -amount exceeding nominal value		(4,181)	(4,008)
Reserves for derivative instruments recognised at fair value		(5,993)	(8,606)
Retained earnings (accumulated deficit)		2,061	2,061
Profit (loss) for the period		118,658	104,590
Equity pertaining to Parent Company's shareholders		**1,751,884**	**1,736,915**
Non-controlling interests		142,978	142,431
Total equity		**1,894,862**	**1,879,346**
Non-current liabilities			
Borrowings – maturing beyond 12 months	32	2,440,994	2,405,262
Post-employment benefits	33	91,366	91,595
Provisions for risks and charges	34	251,897	227,055
Deferrred tax liabilities	35	78,114	76,057
Finance lease payments - maturing beyond 12 months	36	13,356	5,277
Financial instruments - derivatives	22	32,963	17,657
Total non-current liabilities		**2,908,690**	**2,822,903**
Current liabilities			
Banks and other borrowings – maturing within 12 months	32	317,560	118,467
Finance lease payments - maturing within 12 months	36	3,767	3,683
Trade payables	37	1,165,838	1,229,242
Current tax liabilities	38	20,463	36,998
Other current liabilities	39	350,060	332,253
Financial instruments - derivatives	22	38,229	47,710
Total current liabilities		**1,895,917**	**1,768,353**
TOTAL LIABILITIES		**4,804,607**	**4,591,256**
TOTAL EQUITY AND LIABILITIES		**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 2.02.02 of these consolidated financial statements.

2.01.04 Cash flow statement

thousands of euro	31 dec 12	31 dec 11
Pre-tax profit	**213,409**	**221,226**
Adjustments to reconcile net profit to the cashflow from operating activities:		
Amortisation and impairment of property, plant and equipment	136,866	126,914
Amortisation and impairment of intangible assets	102,861	106,852
Effect of valuation using the equity method	(5,405)	(6,260)
Allocations to provisions	88,292	77,539
Financial expense / (Income)	134,106	119,312
Bargain purchases	(6,667)	0
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)	(9,158)	(5,648)
Change in provisions for risks and charges	(25,349)	(25,008)
Change in provisions for employee benefits	(7,514)	(6,857)
Total cash flow before changes in net working capital	**621,441**	**608,070**
(Increase) / Decrease in inventories	(616)	(24,043)
(Increase) / Decrease in trade receivables	(93,854)	(151,803)
Increase / (Decrease) in trade payables	(83,188)	161,691
(Increase) / Decrease in other current assets/ liabilities	33,493	(15,172)
Change in working capitals	**(144,165)**	**(29,327)**
Dividends collected	4,030	2,418
Interests income and other financial income collected	36,543	30,815
Interests expense and other financial charges paid	(145,400)	(121,246)
Taxes paid	(129,334)	(125,596)
Cash flow from (for) operating activities (a)	**243,115**	**365,134**
Investments in property, plant and development	(126,089)	(155,400)
Investments in intangible fixed assets	(152,145)	(174,041)
Investments in companies and business units net of cash and cash equivalents	(21,372)	(6,604)
Sale price of property,plant and equipment and intangible assets (including lease-back transations)	22,960	5,987
Divestments of non-consolidated investments	(1,916)	5
(Increase) / Decrease in other investment activities	(9,089)	2,848
Cash flow from (for) investing activities (b)	**(287,651)**	**(327,205)**

New issees of long-term bonds	250,310	50,000
Repayments and other net changes in borrowings	(65,423)	(82,229)
Lease finance payments	(6,309)	(5,674)
Investments in consolidated companies	(3,972)	0
Dividends paid out to Hera shareholders and non-controlling interests	(116,785)	(117,242)
Change in treasury shares	(4,312)	(5,253)
Other minor changes	0	(568)
Cash flow from (for) financing activities (c)	**53,509**	**(160,966)**
Effect of change in exchange rates on cash and cash equivalents (d)	**0**	**0**
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)	**8,973**	**(123,037)**
Cash and cash equivalents at the beginning of the year	415,189	538,226
Cash and cash equivalents at the end of the year	424,162	415,189

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 shareholders'equity

thousands of euro	Share capital	Reserves	Reserves for derivative instruments recognised at fair value	Profit for the year	Equity	Nopn-controlling interests	Total
As at 31 December 2010	**1,109,074**	**513,618**	**(12,407)**	**117,218**	**1,727,503**	**142,720**	**1,870,223**
Net profit for the period				104,590	**104,590**	22,165	**126,755**
Other elements of comprehensive income as at 31 December 2011 :							
fair value of derivatives, change in the year			3,801		**3,801**	(375)	**3,426**
change in the fair value of derivatives for the year for companies measured at equity		307			**307**		**307**
Total comprehensive income for the year		**307**	**3,801**	**104,590**	**108,698**	**21,790**	**130,488**
change in treasury shares	(3,734)	(903)			**(4,637)**		**(4,637)**
equity component of convertible bond		4,894			**4,894**		**4,894**
change in scope of consolidation		199			**199**	(199)	**0**
other change in scope of consolidation		26			**26**	332	**358**
reimbursement of share capital of investees					**0**	(676)	**(676)**
other movements		111			**111**	(8)	**103**
Allocation of the profits for 2010 :							
- dividends paid out				(99,879)	**(99,879)**	(21,528)	**(121,407)**
distribution of reserves		(6,839)		6,839	**0**		**0**
allocation to reserves		24,178		(24,178)	**0**		**0**
As at 31 December 2011	**1,105,340**	**535,591**	**(8,606)**	**104,590**	**1,736,915**	**142,431**	**1,879,346**
As at 31 December 2011	**1,105,340**	**535,591**	**(8,606)**	**104,590**	**1,736,915**	**142,431**	**1,879,346**
Net profit for the period				118,658	**118,658**	15,700	**134,358**
Other elements of comprehensive income as at 31 December 2012 :							
fair value of derivatives, change in the year			2,613		**2,613**	(171)	**2,442**
change in the Fair value of derivatives for the year for companies measured at equity		190			**190**		**190**
Total comprehensive profit for the year		**190**	**2,613**	**118,658**	**121,461**	**15,529**	**136,990**
change in treasury shares in portfolio	(4,139)	(173)			**(4,312)**		**(4,312)**
variazione perimetro		(2,930)			**(2,930)**	(1,042)	**(3,972)**
change in scope of consolidation		80			**80**	703	**783**
other movements		(8)			**(8)**	(1)	**(9)**
Allocation of the profits for 2011 :							
- dividends paid out		(16,925)		(82,397)	**(99,322)**	(14,642)	**(113,964)**
distribution of reserves		16,773		(16,773)	**0**		**0**
allocation to reserves		5,420		(5,420)	**0**		**0**
As at 31 December 2012	**1,101,201**	**538,018**	**(5,993)**	**118,658**	**1,751,884**	**142,978**	**1,894,862**

2.02 Financial statements - Resolution 15519 of 2006 - Related parties

2.02.01 Income Statement

thousands of euro	Notes	31-Dec-2012	A	B	C	D	Total	%	31-Dec-2011	A	B	C	D	Total	%
Income statement															
Revenues	4	4,492,748		33,163	115,462	13,566	162,191	3.6	4,105,680		27,616	111,483	5,969	145,068	3.5
Other operating revenues	5	203,577		213	682	193	1,088	0.5	210,189		92	1,862	227	2,181	1.0
Use of raw materials and consumables (net of changes in investories of raw materials and consumables)	6	(2,726,044)		(55,613)	(234)	(38,373)	(94,220)	3.5	(2,440,086)		(43,943)	(46)	(38,479)	(82,468)	3.4
Service costs	7	(912,712)	(6)	(10,868)	(14,924)	(44,065)	(69,863)	7.7	(870,486)	(3)	(7,748)	(13,181)	(37,882)	(58,814)	7.0
Personnel costs	8	(382,082)				(898)	(898)	0.2	(369,996)				(2,369)	(2,369)	0.0
Amortisation, depreciation and allowances	9	(326,589)							(310,325)						
Other operating costs	10	(46,827)		(57)	(968)	(1,258)	(2,283)	4.9	(39,830)		(4)	(1,062)	(783)	(1,849)	4.6
Capitalised costs	11	33,372.00							49,324						
Operating profit		**335,443**	**(6)**	**(33,162)**	**100,018**	**(70,835)**	**(3,985)**		**334,470**	**(3)**	**(23,987)**	**99,056**	**(73,317)**	**1,749**	
Portion of profits (losses) pertaining to associated companies	12	5,405		5,405			5,405	100.0	6,260		6,260			6,260	100.0
Financial income	13	114,608		1,248		179	1,427	1.2	92,483		1,367		179	1,546	1.7
Financial expense	13	(248,714)		0	(2)	(61)	(63)	0.0	(211,987)				(7)	(7)	0.0
Financial income (expense), net		**-128,701**		**6,653**	**(2)**	**118**	**6,769**		**(113,244)**		**7,627**		**172**	**7,799**	
Other operating revenues (non-recurring)	14	6,667													
Pre-tax profit		**213,409**	**(6)**	**(26,509)**	**100,016**	**(70,717)**	**2,784**		**221,226**	**(3)**	**(16,360)**	**99,056**	**(73,145)**	**9,548**	
Income taxes for the period	15	(79,051)							(94,471)						
of which non-recurring		18,217							7,567						
Netprofit for the period		**134,358**	**(6)**	**(26,509)**	**100,016**	**(70,717)**	**2,784**		**126,755**	**(3)**	**(16,360)**	**99,056**	**(73,145)**	**9,548**	
Attributable to:															
Shareholders of Parent Company		118,658							104,590						
Non-controlling shareholders		15,700							22,165						
Earnings per share															
basic		**0.108**							**0.094**						
diluted		**0.102**							**0.090**						

Key of headings of related parties columns:

A Non-consolidated subsidiaries

B Jointly controlled associated companies

C Related companies with significant influence (Municipality shareholders)

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

2.02.02 Statement of financial position

thousands of euro	Notes	31-dec-2012	of which related A	B	C	D	Total	%	31-dec-2011	of which related A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property,plant and equipment	16	1,947,597							1,884,476						
Intangible assets	17	1,855,966							1,802,521						
Goodwill	18	378,391							377,760						
Investments	19	139,730	41	106,460		32,930	139,431	*99.8*	135,865	72	102,389		33,080	135,541	*99.8*
Financial assets	20	17,557	36	17,139			17,175	*97.8*	11,039		10,619			10,619	*96.2*
Deferred tax assets	21	111,451							105,503						
Financial instruments - derivatives	22	88,568							80,548						
		4,539,260	**77**	**123,599**		**32,930**	**156,606**		**4,397,712**	**72**	**113,008**	**0**	**33,080**	**146,160**	
Current assets															
Inventories	23	71,822							72,761						
Trade receivables	24	1,307,961	33	12,471	17,815	14,782	45,101	*3.4*	1,250,360	37	13,729	19,425	14,045	47,236	*3.8*
Contract work in progress	25	20,635							22,390						
Financial assets	26	47,286		35,386		204	35,590	*75.3*	42,945		28,147		404	28,551	*66.5*
Financial instruments - derivatives	22	34,199							40,642						
Current tax assets	27	30,882							6,164						
Other current assets	28	209,108		2,198	967	16,260	19,425	*9.3*	211,833		2,284	979	16,040	19,303	*9.1*
Cash and cash equivalents	29	424,162							415,189						
		2,146,055	**33**	**50,055**	**18,782**	**31,246**	**100,116**		**2,062,284**	**37**	**44,160**	**20,404**	**30,489**	**95,090**	
Non-current assets held for sale	30	**14,154**							**10,606**						
TOTAL ASSETS		**6,699,469**	**110**	**173,654**	**18,782**	**64,176**	**256,722**		**6,470,602**	**109**	**157,168**	**20,404**	**63,569**	**241,250**	

thousands of euro	Notes	31-dec-2012	of which related A	B	C	D	Total	%	31-die-2011	of which related A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	31														
Share capital		1,115,014							1,115,014						
Less: Treasury shares - nominal value		(13,813)							(9,674)						
Reserves		540,138							537,538						
Less: Treasury shares -amount exceeding nominal value		(4,181)							(4,008)						
Reserves for derivative instruments recognised at fair value		(5,993)							(8,606)						
Retained earnings (accumulated deficit)		2,061							2,061						
Profit (loss) for the period		118,658							104,590						
Equity pertaining to Parent Company's shareholders		**1,751,884**							**1,736,915**						
Non-controlling interests		142,978							142,431						
Total equity		**1,894,862**							**1,879,346**						
Non-current liabilities															
Borrowings – maturing beyond 12 months	32	2,440,994							2,405,262						
Post-employment benefits	33	91,366							91,595						
Provisions for risks and charges	34	251,897							227,055						
Deferrred tax liabilities	35	78,114							76,057						
Finance lease payments - maturing beyond 12 months	36	13,356							5,277						
Financial instruments - derivatives	22	32,963							17,657						
		2,908,690							**2,822,903**						
Current liabilities															
Banks and other borrowings – maturing within 12 months	32	317,560							118,467						
Finance lease payments - maturing within 12 months	36	3,767							3,683						
Trade payables	37	1,165,838	(3)	14,766	10,787	27,517	53,067	*4.6*	1,229,242	(3)	12,601	10,755	36,473	59,826	*4.9*
Current tax liabilities	38	20,463							36,998						
Other current liabilities	39	350,060		105	3,459	2,209	5,773	*1.6*	332,253		(7)	2,381	3,415	5,789	*1.7*
Financial instruments - derivatives	22	38,229							47,710						
		1,895,917	**(3)**	**14,871**	**14,246**	**29,726**	**58,840**		**1,768,353**	**(3)**	**12,594**	**13,136**	**39,888**	**65,615**	
Total liabilities		**4,804,607**	**(3)**	**14,871**	**14,246**	**29,726**	**58,840**		**4,591,256**	**(3)**	**12,594**	**13,136**	**39,888**	**65,615**	
TOTAL EQUITY AND LIABILITIES		**6,699,469**	**(3)**	**14,871**	**14,246**	**29,726**	**58,840**		**6,470,602**	**(3)**	**12,594**	**13,136**	**39,888**	**65,615**	

Key of headings of related parties columns:

A Non-consolidated subsidiaries

B Jointly controlled associated companies

C Related companies with significant influence (Municipality shareholders)

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

.

2.02.03 Cash flow statement

thousands of euro	31-dec-12	of which related parties
Pre-tax profit	**213,409**	
Adjustments to reconcile net profit to the cashflow from operating activities:		
Amortisation and impairment of property, plant and equipment	136,866	
Amortisation and impairment of intangible assets	102,861	
Effect of valuation using the equity method	(5,405)	
Allocations to provisions	88,292	
Financial expense / (Income)	134,106	
Bargain purchases	(6,667)	
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)	(9,158)	
Change in provisions for risks and charges	(25,349)	
Change in provisions for employee benefits	(7,514)	
Total cash flow before changes in net working capital	**621,441**	
(Increase) / Decrease in inventories	(616)	
(Increase) / Decrease in trade receivables	(93,854)	2,135
Increase / (Decrease) in trade payables	(83,188)	(6,759)
(Increase) / Decrease in other current assets/ liabilities	33,493	(597)
Change in working capitals	**(144,165)**	
Dividends collected	4,030	4,029
Interests income and other financial income collected	36,543	1,321
Interests expense and other financial charges paid	(145,400)	(63)
Taxes paid	(129,334)	
Cash flow from (for) operating activities (a)	**243,115**	
Investments in property, plant and development	(126,089)	
Investments in intangible fixed assets	(152,145)	
Investments in companies and business units net of cash and cash equivalents	(21,372)	(21,036)
Sale price of property,plant and equipment and intangible assets (including lease-back transations)	22,960	
Divestments of non-consolidated investments	(1,916)	(1,916)
(Increase) / Decrease in other investment activities	(9,089)	(13,795)

Cash flow from (for) investing activities (b)	**(287,651)**	
New issees of long-term bonds	250,310	
Repayments and other net changes in borrowings	(65,423)	
Lease finance payments	(6,309)	
Investments in consolidated companies	(3,972)	
Dividends paid out to Hera shareholders and non-controlling interests	(116,785)	(52,204)
Change in treasury shares	(4,312)	
Other minor changes	0	
Cash flow from (for) financing activities (c)	**53,509**	
Effect of change in exchange rates on cash and cash equivalents (d)	**0**	
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)	**8,973**	
Cash and cash equivalents at the beginning of the year	415,189	
Cash and cash equivalents at the end of the year	424,162	

2.03 Explanatory notes

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 2012 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 Standards (hereinafter IFRSs) 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. The reclassifications shown below in these explanatory notes are not deemed to be significant for the purposes of balance sheet interpretation.
Non-recurring costs and revenues are indicated separately in the financial statements.

Financial Statements

The formats used are the same as those used for the consolidated financial statements as of and for the year ended 31 December 2011.
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. It is worthy of note that, for comparative purposes and for a more accurate disclosure, anew item has been added –"Other non-operating revenues" – to reflect the effects of bargain purchases made during the year. To this end, reference is made to note 14 in the income statement.
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.

The statement of comprehensive income is presented in a separate document from the income statement, as permitted by *IAS 1*revised.
The statement of changes in equity has been prepared as required by IAS 1 *revised*.

Moreover, with reference to Consob resolution no. 15519 of 27 July 2006 on financial statements, specific supplementary formats of income statement, statement of financial position and cash flow statement have been included, 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 2012 were drawn up by the Board of Directors and approved by the same at the meeting held on 22 March 2013.

Scope of consolidation

The consolidated financial statements as at 31 December 2012 include the financial statements of the Parent Company Hera S.p.A. and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, in such a way as to obtain benefits from the company's activity.

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

Significant investments in associated companies 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 19.

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

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

The table below shows changes in the scope of consolidation from the previous financial year.

Changes in the scope of consolidation

Subsidiaries

Consolidated companies	Non-consolidated subsidiaries	Notes
	Acque Srl	Merged with and into Marche Multiservizi Spa
Energonut Spa		Line-by-line consolidation
Feronia Srl		Line-by-line consolidation
Hera Servizi Cimiteriali Srl		Line-by-line consolidation
Sviluppo Ambiente Toscana Srl		Line-by-line consolidation

On 31 December 2012, Acque S.R.L. was merged with and into Marche Multiservizi S.p.A..The merger took effect on 1 January 2012and did not result in acapital increase by the acquiror.

On 3 October 2012 Herambiente S.p.A. acquired Energonut S.p.A. from Veolia Servizi Ambientali S.p.A.. The company owns a waste-to-energy plant located in Pozzilli (Isernia) whose output is sold in the market. The effects of the purchase price allocation are described in the summary table.

On 31 January 2012 Herambiente S.p.A. acquired from Sorgea S.r.l. an additional 30% of the share capital of Feronia S.r.l., taking its stake to 70%.The investment in this company, which was previously measured with the equity method, is now consolidated on a line-by-line basis. This acquisition had a modest impact on the consolidated financial statements in terms of acquired net assets (Euro 2,728 thousand) and cash outlays (Euro 1,500 thousand). On first-time line-by-line consolidation, non-controlling interests were attributed Euro 523 thousand.

Hera Servizi Cimiteriali S.R.L., a company established on 22 December 2010, commenced operations following Hera S.p.A.'s spin-off of its cemetery and funeral home assets. Following this action, the company, which was previously recognised at cost, is now consolidated on a line-by-line basis.

On 7 February 2012, Hera S.p.A.and Herambiente S.p.A. established Sviluppo Ambiente Toscana S.R.L., of which they own 95% and 5%, respectively. As it became operational this company is now consolidated on a line-by-line basis.

Jointly controlled entities

Consolidated companies	Non-consolidated subsidiaries	Notes
	FlameEnergy Trading Gmbh	Consolidated with the equity method

FlameEnergy Trading Gmbh. Starting October 2011, following a substantial reduction of its business, this company was deconsolidated and the investment in it was recognised with the equity method.

Associated companies

New companies valued with the equity method	Companies no longer value with the equity method	Notes
	Feronia Srl	Line-by-line consolidation
	Oikothen Scarl	Value at cost
FlameEnergy Trading Gmbh		Consolidated with the equity method
Q.Thermo Srl		Consolidated with the equity method

Oikothen Scral. In the general meeting held on 29 June 2012, the shareholders approved the reduction of the share capital to cover the accumulated losses and to wind up the company. The company is now recognised at cost.

On 16 May 2012, Sviluppo Ambiente Toscana S.R.L. and Quadrifoglio S.p.A.established Q.Thermo S.R.L.,with investments equal to 40% and 60%, respectively. The company is designed to perform all the activities necessary to build the WTE plant in Sesto Fiorentino (Florence), Case Passerini.

Changes in the consolidated companies

Hera Energie Rinnovabili S.p.A.acquired the following companies:

- Amon S.R.L., on 8 February 2012;
- Esole S.R.L., on 8 February 2012;
- Ctg Ra S.R.L., on 8 February 2012;
- Juwi Sviluppo Italia 02 S.R.L.on 1 March 2012.

These companies engage in the production of solar energy in own photovoltaic plants, located in Copparo (Ferrara), Alfianello (Brescia), Faenza (Ravenna) and Petriolo (Massa Carrara). These companies were merged with and into Hera Energie Rinnovabili S.p.A.. These actions had a modest impact on the consolidated financial statements in terms of acquired net assets (Euro 696 thousand) and cash outlays (Euro 306 thousand). The purchase price allocation resulted in a gain on bargain purchases of Euro 390 thousand which was recognised under "Other non-operating revenues (non-recurring)".

On 28 June 2012 Marche Multiservizi S.p.A. adopted a resolution to increase its share capital from Euro 13,450,012.20 to Euro 13,484,242.00, as a result of shares issued as consideration forMarche Multiservizi Falconara S.R.L., a company owned by the Municipality of Falconara Marittima. This company – which engages in sanitation services, public lighting, heating management services, cemetery services and street maintenance in the municipality of Falconara Marittima – was merged with and into Marche Multiservizi S.p.A. which, following this corporate action, saw the Group's investment in it diluted from 40.64% to 40.54%.

On 18 June 2012, Hera S.p.A. bought 550,157 shares of Marche Multiservizi S.p.A. from the Province of Pesaro Urbino, thereby increasing its equity interest in this company from 40.54% to 44.62%. This transaction had also an impact on the investment in Hera Comm Marche S.R.L., which rose from 69.34% to 70.54%.

Effective 1 January 2012, Acantho S.p.A. acquired over 600 residential customers from Bologna-based Geosat S.R.L., which operates in Romagna and part of Marche as wireless internetand service provider. In particular, the assets acquired involve the provision of wireless broadband internet connections in the provinces of Forlì, Cesena, Ravenna, Rimini and Pesaro-Urbino.

Recapitulatory table of the effects of the Purchase Price Allocation

The assets and liabilities of Energonut Spa, acquired as of 3 October 2012 and measured at fair value on the same date, are as follows:

	Acquisizione Energonut SpA
Property, plant and equipment	50,469
Intangible assets	4,068
Other non-current assets	59
Other current assets	11,636
Cash	1,708
Deferred tax assets	(1,584)
Other non-current liabilities	(359)
Short.term borrowings	(32,523)
Other current liabilities	(7,293)
Total fair value, net	**26,181**
Disbursement for purchase of investment	19,904
Gain on bargain purchase	**6,277**

The fair value of the assets and liabilities described above is equivalent to the corresponding accounting value of the company acquired (suitably adapted to the accounting principles of the Hera Group), with the exception of the tangible assets that include a trade up of €5 million, based on a prudent appraisal of the Energonut plant carried out by Hera Group's technical directors following a technical due diligence, that preceded the purchase (the corresponding €1.5 million in deferred tax liabilities have been included among the Deferred tax liabilities).
Concurrently with the purchase of the shareholding, the Hera Group extinguished the financial liability of €32,5 million (reimbursed to the Veolia Group); the purchase of Energonut SpA therefore entailed a financial commitment of approximately €53 million.

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

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.. This business combination will be accounted for in accordance with IFRS3, effective 1 January 2013, the date of acquisition of control by the Hera Group.

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 goingconcern. For the purposes of the accounting entries, priority is given to the economic substance of the transactions rather than their legal form.

The same standards and policies applied in the previous accounting period were followed in preparing these consolidated financial statements, taking into account the new accounting standards illustrated in the specific section "accounting standards, amendments and interpretations applied from 1 January 2012". 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 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

Waste management services	min %	max %
Land	-	-
Buildings	1.5	3
Secondary building units (warehouse)	1.5	3
General plant	7.5	15
Specific IR plant	5	10
- land	-	-
- buildings	1 - 1,25	2 - 2,5
- fixed plant with real estate pertinency	1,66 - 2	3,33 - 4
- external building works	1,66	3,33
- electricity production plants	2	4
- general plant	2.5	5
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.5	5
- waste-to-energy heater with fluid bed boiler line	3,57	7.14
- steam turbine and electricity production	2.5	5
- waste-to-energy line control systems	5	10
Specific BIOGAS plant. storage + IRE	5	10
- land	-	-
- buildings	1 - 1,25	2 - 2,5
- fixed plant with real estate pertinency	1,66 - 2	3,33 - 4
- external building works	1,66	3,33
- electricity production plants	2.5	5
- CDR packing	2.5	5
- selection, chopping, feeding and sorting plant	2,5 - 3,33	5 - 6,67
- ventilation plant	3,33	6,67
- general plant - stabilisation plant - storage tanks	2.5	5
- control systems	5	10
- containers and bins	5 - 10	10 - 20
- internal handling equipment	4,16	8,33
Specific waste composting plant	5	10
- land	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 or dismissal of assets result from the difference between the selling price and the net carrying amount of the assets in question, with recognition through profit or loss with the passing to the buyer of the risks and rewards incidental to the ownership of the assets.

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 and losses on disposal or dismissal of intangible assets result from the difference between the selling price and the net carrying amount of the assets in question, flowing to the income statement with the passing to the buyer of the risks and rewards incidental to the ownership of the assets.

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

Provisions for risks and charges –The provisions for risks and charges comprise the amounts set aside as recorded in the financial statements on the basis of current obligations (as emerging from past events) which the Group believes it probably will have to meet. The provisions are set aside on the basis of the best estimate of the costs required to meet the 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 for risks

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

Recognition of revenues

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

Deferred tax assets

Accounting for 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 2012

Starting 1 January 2012 the following amendments to IFRSs, as issued by the IASB and endorsed by the European Union, apply:

Amendments IFRS 7 – Financial Instruments: Disclosures – Transfers of Financial Assets (Regulation 1205/2011). The amendments, applicable to the financial statements for the periods after 1 July 2011, enhance transparency in the derecognition of financial assets by improving the disclosure of risks associated with the entity's continuing involvement in the derecognised asset and the effects on the entity's financial positions, especially if such transfers are made at the end of a reporting period.
This amendment did not entailany significant effects on the disclosures provided in this annual report and on the valuation of the relevant financial statement items.

Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets (Regulation 1255/2012). The amendments simplify the determination of the recovery of underlying assets, introducing the presumption that a deferred tax asset twill be recovered through a sale. These amendments supersede SIC Interpretation 21 – Income taxes: Recovery of revalued non-depreciable assets. This amendment will be applied retrospectively.

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 2013 the standards, interpretations and amendments listed below will apply mandatorily, as they have completed the EU endorsement process:

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.
The application of this amendment is not expected to have effects on the Group's financial statements.

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 and will have no effect on the Group's financial statements.

Amendments to IAS 19– Employee Benefits (Regulation 475/2012). The amendments issued by the IASSB 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. The Group, which currently applies the “corridor method”, elected not to adopt early such amendment and is currently considering the impacts deriving from its application.

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, is applicable prospectively and does not apply to the sector in which the Group operates; consequently, it will have no impact on the Group's accounts.

Starting 1 January 2014, the IFRSs indicated below will be mandatory, 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.

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

The IFRS improvements, interpretations and amendments listed below (already approved by the IASB) are being reviewed by the competent bodies of the European Union:

IFRS 9 – Financial Instruments. 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 multi-phase project designed to replace IAS 39. It introduce new criteria to classify financial assets and liabilities, to derecognize financial assets and for the accounting treatment of hedging transactions.

Amendments to IFRS 1– First-time Adoption of International Financial Reporting Standards: Government Loans. 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. The amendments apply as of 1 January 2013.

Amendments to IFRS 10, IFRS 11 and IFRS 12– Transition Guidance. 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. The amendments, and related standards, apply as of 1 January 2013.

Amendments to IFRS 10, IFRS 12 and IAS 27– *Investment Entities*. 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.

On 17 May 2012 the International Accounting Standards Board (IASB) published "Improvements to International Financial Reporting Standard (2009-2011 Cycle)". These improvements include amendments to the following existing 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*. This document clarifies that *servicing equipment* is classified under property, plant and equipment, if it is used for more than one year, and inventories, if it is used for one year.
- **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.

These amendments will take effect as of 1 January 2013.

Income Statement

4 Revenues

	2012	2011	Change
Revenues from sales and services	4,490,046	4,100,408	389,638
Change in contract work in progress	2,606	5,216	(2,610)
Changes in inventories of work in process, semifinished and finished products and work in progress	96	56	40
Total	**4,492,748**	**4,105,680**	**387,068**

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

	2012	2011	Change
Long-term contracts	129,315	143,558	(14,243)
Operating grants and grants for separated waste collection.	20,397	16,276	4,121
White certificates	0	17,691	-17,691
Uses of and releases from provisions	5,432	5,459	(27)
Apportionments of perating grants	4,356	3,890	466
Cost refunds	3,689	3,095	594
Gains on disposals	2,128	301	1,827
Insurance reimbursements	1,896	2,252	(356)
Grey certificates	0	2,829	(2,829)
Leases	1,513	1,477	36
Sales of materials and inventories to third parties	670	1,886	(1,216)
Other revenues	34,181	11,475	22,706
Total	**203,577**	**210,189**	**(6,612)**

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 decrease compared to the previous year is mainly due to the reduction in investments, as explained in detail in the Directors' Report.

"Operating grants and grants for separated waste collection". Operating grants, amounting to Euro 5,556 thousand (Euro 3,905 thousand in 2011), reflect mainly feed-in tariffs provided by the GSE for the production of energy from renewable sources. This item rose on 2011 mainly due to the entry into service of 4 new photovoltaic plants following the acquisition of Amon S.R.L., Esole S.R.L., Ctg Ra S.R.L.and Juwi Sviluppo Italia 02 S.R.L..
The contributions from separate waste collection, amounting to Euro 14.841 thousand in 2011, (Euro 12,371 in 2011), are made up mainly of the value from packaging (cardboard, iron, plastic and glass) transferred to the consortia of the Conai chain and electrical and electronic equipment sold to Raee (electrical and electronic waste collection centre).

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

- lower quantities of cardboard packaging, Euro 226 thousand;
- greater quantities of plastic and glass packaging, Euro 1,451 thousand;
- lower grants for EEEW and other minor packaging, Euro thousand 163 Euro thousand;
  higher revenues from "platform cardboard processing", Euro 1,004 thousand;
- increase in operating grants for Euro 478 thousand, mainly due to the grant provided by the European Union for the Life project related to the development, testing and implementation of an integrated management system for the collection, traceability, identification, quantitative determination and monitoring of the EEEW flow.

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

"Use and re-assessment of provisions" include mainly:

- use for labour costs, percolate disposal and vehicle hours related to the Group's landfills (Euro 2,612 thousand versus Euro 3,317 thousand in 2011;
- "re-assessment sundry provisions", mainly in relation to the MIS allocation for Euro 664 thousand;
- charges for the continuity of the electricity service in 2008, 2009, 2010, Euro 458 thousand;
- costs for environmental losses related to 2011, following new contractual, Euro 492 thousand;
- re-assessment of provisions for legal costs, Euro 1,100 thousand;
- re-assessment of provisions for staff disputes, Euro 106 thousand.

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

"Gains on disposals of assets" include mainly:

- disposal of vehicles, dumpsters, equipment and the sale of a civilian-use property located near the power plant in viale Aldini in Bologna, Euro 1,114 thousand;
- disposal of telecommunication equipment, Euro 365 thousand.

"Insurance reimbursements" fell by Euro 356 thousand due to the combined effect of:

- a decrease of Euro 742 thousand due mainly to greater reimbursements received in 2011 in connection with the co-generation plant in the Fossolo area, Bologna, the turboexpander in Aranova, Ferrara and the purification plant in Cesenatico ;
- a Euro 386 thousand increase due mainly to reimbursements of legal costs.

"Other revenues" reflect mainly the reimbursement of costs for the provision of environmental services, gas and electricity services and the sale of optical fibre rights.

6 Use of raw materials and consumables

	2012	2011	Change
Electricity ready for sale	1,315,090	1,246,179	68,911
Methane ready for sale and LPG net of change in stocks	1,203,715	998,051	205,664
Maintenance materials net of changes in stocks	49,839	55,737	(5,898)
Water	39,672	39,224	448
Green, grey and white certificates	33,916	39,419	(5,503)
Electricity for industrial use	33,705	24,751	8,954
Fuels and lubricants	16,634	14,259	2,375
Chemical products	14,074	13,954	120
Charges and revenues from derivatives	7,043	(11,534)	18,577
Methane for industrial use	6,193	5,639	554
Heat management combustible materials	5,146	4,863	283
Charges and revenues from certificate valuation	(10,660)	(2,713)	(7,947)
Consumables and sundry	11,677	12,257	(580)
Total	**2,726,044**	**2,440,086**	**285,958**

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 22 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 2012. Specifically:

- white certificates, Euro 9,533 thousand (Euro 18,904 thousand as at 31 December 2011);
- grey certificates, Euro 5,925 thousand (Euro 11,295 thousand as at 31 December 2011);
- green certificates, 18,458 Euro thousand (Euro 9,220 thousand as at 31 December 2011).

The change from the previous year was due to the different purchasing requirements in view of the Group's certificate needs.

"Electricity for industrial use" rose mainly to higher oil costs.

"Charges and revenues from certificate valuation" reflect the valuation of certificates in stock, particularly:

- white, revenues of Euro 2,308 thousand.(Euro 658 thousand as at 31 December 2011)
- green, revenues of Euro 9.398 thousand (Euro 4,814 thousand as at 31 December 2011);
- grey, expenses 1.046 of Euro thousand (Euro 2,759 thousand as at 31 December 2011);

7 Service costs

	2012	2011	Change
Charges for works and maintenance	235,775	248,240	(12,465)
Energy transport and storage	216,491	181,995	34,496
Waste transportation, disposal and collection services	176,675	172,372	4,303
Fees paid to local authorities	73,245	69,712	3,533
Insurance	14,644	13,565	1,079
Professional, legal, tax and organisational services	29,895	25,712	4,183
IT and data processing services	24,749	22,533	2,216
Rents and leases payable	22,476	20,464	2,012
Postal and telephone costs	14,938	15,356	(418)
Technical services	13,507	14,639	(1,132)
Recruitment, training and other staff costs	13,067	12,736	331
Bank fees and charges	10,759	8,167	2,592
Transportation	5,917	3,465	2,452
Cleaning and security costs	5,458	5,493	-35
Remuneration to Statutory Auditors, Directors, Area Committees	5,306	5,319	(13)
Announcements and advertising	4,599	5,892	(1,293)
Meter readings	4,356	4,558	(202)
Fees payable	3,641	4,010	(369)
Laboratory analysis	3,558	4,628	(1,070)
Utilities	3,307	1,980	1,327
Expenses for long-term contracts	-	334	(334)
Other service costs	30,349	29,316	1,033
Total	**912,712**	**870,486**	**42,226**

The most substantial changes by comparison with the previous year are described below.

"Charges for works and maintenance". This item includes the costs for the construction or improvement of licensed infrastructures pursuant to *IFRIC 12* interpretation. The decrease compared to the previous year is mainly due to the reduction in investments, as explained in detail in the Directors' Report.

"Energy transportation and storage" rose due to greater gas volumes sold on third-party grids (Euro 12,263 thousand) and, as far as electricity is concerned, to higher transportation prices (Euro 22,233thousand).

"Waste transportation, disposal and collection services" increased as a result of the inclusion in the scope of consolidation of Feronia S.R.L.and Enorgonut S.p.A.and to the rise of major environmental services provided to a number of municipalities. This increase in costs was followed by an increase in revenues which were included in the tariff (Tia/Tarsu).

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 2011, the change was due mainly to the higher fees paid to some of the companies that own the assets in relation to the adjustments provided for by Atersir.

"Professional, legal, tax and organisational services" rose due mainly to the costs incurred for the Acegas-Aps Holding S.R.L. merger and the inclusion in the scope of consolidation of Energonut S.p.A., as indicated in paragraph 2.03.01 of these notes.

"Bank fees and charges" rose due mainly to the costs attributable to the committed lines of credit and the bank sureties required in favour of third parties.

"Fees to Statutory Auditors, Directors, Area Committees", includes costs incurred for the different company bodies and for Area Committees.

"Other service costs" consist mainly of costs for the marketing and sale of energy services.

8 Personnel costs

	2012	2011	Change
Wages and salaries	271,444	260,560	10,884
Social security contributions	87,032	86,548	484
Post-employment and other benefits	1,429	980	449
Other costs	22,177	21,908	269
Total	**382,082**	**369,996**	**12,086**

The increase in labour costs compared to previous year is mainly due to changes in contractual trends.

As shown below, there were no significant changes in the number of employees, both at overall level and in terms of the individual category.

The average number of employees in the period in question, analysed by category, is as follows:

	2012	2011	Change
Managers	132	128	4
Middle Management	357	343	14
Clerks	3,400	3,353	47
Blue-collar workers	2,650	2,689	(39)
Average number	**6,539**	**6,513**	**26**

On the whole, the average pro-capita labour cost for 2012 was equal to Euro 58,4 thousand, up 2.8% compared to the figures registered in the corresponding period of the previous year.

As at 31 December 2012, the effective number of employees was 6.539 units (6,484 units as at 31 December 2011).

9 Amortisation, depreciation and provisions

	2012	2011	Change
Depreciation	136,286	126,914	9,372
Amortisation	102,841	106,852	(4,011)
Allowance for bad debts	49,080	49,686	(606)
33 Provisions for risks and charges	37,782	26,873	10,909
Write-down of non-current assets	600	-	600
Total	**326,589**	**310,325**	**16,264**

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.“Write-down of assets” refers to the impairment charges taken on a cremation facilities and an experimental mud treatment plant no longer used in production and currently in the process of decommissioning.

10 Other operating costs

	2012	2011	Change
Taxation other than income taxes	10,916	9,416	1,500
Special landfill levy	10,370	11,276	(906)
State rentals	4,322	2,916	1,406
Write-down of receivables	0	11	-11
Membership and other fees	2,953	2,877	76
Loss on disposal of assets	1,493	1,832	(339)
Other minor charges	0	11,502	-11,502
Total	**30,054**	**39,830**	**-9,776**

The most substantial changes by comparison with the previous year are described below.

"Taxation other than income taxes", the increase compared to 2011 is mainly linked to:

- fees for the use of public spaces and areas, related to previous periods, paid to the Municipalities of the Province of Bologna and Ravenna, following tests conducted on gas and water grids in the respective territories;
- an increase in property taxes.

"Special landfill levy", corresponds to the payment of ecotax on landfills managed by the Group. The change from the previous year was due to the following:

- an increase ofEuro 1,071 thousand determined by the changes in the scope of consolidation;
- a decrease ofEuro 237 thousand following the application for a refund of excess taxes paid in the past;
- a decrease of Euro 1,740 thousand due mainly to the lower quantity of waste processed in 2012.

"State rentals" rose on 2011 mainly due to the higher payments made to the Emilia Romagna Region for previous years, as well as to the Province of Pesaro for tax collections.

"Receivable write-offs" refers to the disposal of non-performing receivables.

"Capital loss on sale of goods" generated mainly by the following disposals:

- electricity meters, Euro 215 thousand (Euro 696 thousand as at 31 December 2011);
- resources, waste disposal bins, containers and other equipment, Euro 155 thousand (Euro 502 thousand as at 31 December 2011);
- the property in Via Dozza no. 8 at Bologna, Euro 179 thousand;
- district heating plant located in Ferrara, Euro 270 thousand;
- charges deriving from the replacement of parts of plants, refractory materials in the WTE plants in Ferrara, F3, CDR and IRE in Ravenna, Euro 513 thousand (Euro 365 thousand in 2011).

"Other minor charges" included charitable donations by the parent company in connection with the fundraising by the Emilia Romagna Region in favour of the areas that were struck by an earthquake in May 2012.

11 Capitalized costs

	2012	2011	Change
Increases in self-constructed assets	33,372	49,324	(15,952)
Total	**33,372**	**49,324**	**(15,952)**

Increases in self-constructed assets include mainly labour costs, borrowing 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 2011; 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

	2012	2011	Change
Share of profits	6,022	8,806	(2,784)
Share of losses	(617)	(2,546)	1,929
Total	**5,405**	**6,260**	**(855)**

The "Share of profits/losses pertaining to associated companies" include the effects generated from measurement using the equity method.

Specifically, the "Share of profits" showed the following changes compared with 2011:

- Aimag S.p.A.,Euro 1,925 thousand (Euro 5,243thousandin 2011);
- Sgr S.p.A., Euro 3,554thousand (Euro 2,782thousandin2011);
- FlamEnergy Trading Gmbh, Euro 324 thousand;
- Set S.p.A., Euro 148thousand (Euro 580thousandin2011).

Concerning Aimag S.p.A., the decrease from the comparable amount in the previous year was due to the fact that the share of profits in 2011 included the results for 2011 and 2010.

As to FlameEnergy Trading Gmbh, it is noted that at 31 December 2011 the investment in the company was measured with the proportionate method, as indicated in the specific paragraph on the "Changes in the scope of consolidation" of these notes.

The "Share of losses" refers to the following companies:

- Modena Network S.p.A., Euro 96 thousand;
- Q.Thermo S.R.L., Euro 7 thousand;
- Refri S.R.L., Euro 99 thousand;
- Tamarete Energie S.R.L., Euro 415 thousand.

13 Financial income and expense

Financial income	2012	2011	Change
Interest rate and foreign exchange derivatives	57,286	80,605	(23,319)
Income from valuation at fair value of financial liabilities	41,787	-	41,787
Banks	7,354	5,539	1,815
Customers	5,974	3,698	2,276
Capital gains on equity investments and dividends from other companies	107	139	(32)
Other financial income	2,100	2,502	(402)
Total	**114,608**	**92,483**	**22,125**

Financial expense	2012	2011	Change
Bonds	101,368	87,671	13,697
Interest rate and foreign exchange derivatives	64,488	29,342	35,146
Charges from valuation at fair value of financial liabilities	35,065	56,744	(21,679)
Discounting of provisions and finance leases	15,917	13,575	2,342
Loans	13,635	11,160	2,475
Overdrafts	1,622	4,027	(2,405)
Write-downs of financial assets	375	-	375
Losses on disposals of investments	66	265	(199)
Other financial expense	16,178	9,203	6,975
Total	**248,714**	**211,987**	**36,727**

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 22 of the statement of financial position.

Changes in the most significant items compared with the previous year are discussed below.

"Capital gains on equity investments and dividends from other companies", amounting to Euro 107 thousand, relating to dividends received in 2012 from the companies Service Imola S.R.L. and Banca di Credito Cooperativo.

The financial expense regarding "Bond loans" comprises:

- Euro 91,792 thousand in financial charges actually paid (Euro 76,541 thousand in 2011);
- Euro 9.576 thousand in financial charges generated by the valuation of said financial liabilities at amortised cost (Euro 11,130 thousand in 2011). With regard to the method used, please note that in the recalculation, the maximum duration of the loans was assumed, and it was also assumed that the *put options* would not be exercised for the duration of the same loans, within the terms set out in the contract.

For details on bonds subscribed, please refer to note 32 “Banks and medium/long- and short-term loans”.

The item “Discounting of provisions and finance leases” is broken down as follows:

	2012	2011	Change
Landfill post-closure provision	6,501	5,206	1,295
Restoration of third party assets	4,858	6,238	(1,380)
Post-employed and other employee benefits	4,328	1,685	2,643
Finance leases	230	446	(216)
Total	**15,917**	**13,575**	**2,342**

The decrease in financial expense in relation to “Restoration of third-party assets” is attributable to the expiration of the concession arrangements related to environmental services in the provinces of Bologna and Florence, water services in the provinces of Pesaro-Urbino and gas services in the province of Forlì Cesena.

The increase in financial expense related to “Post-employment and other employee benefits”, compared with 2011, was due to the change in the discount rate used in actuarial calculations following adoption of the clarification that the Order of Actuaries issued in May 2012.

Compared to 2011, the increase in “Loans” was due to new loans obtained in 2012. Also in this case, reference is made to Note 32 of the statement of financial position

“Write-down of financial assets” referred to:

- the write-down of Euro 25 thousand for the financial receivable outstanding with Dyna Green S.R.L., following the sale of this investment;
- the write-down of the investment in Wimaxer S.p.A., Euro 350 thousand, following a reduction of share capital to cover this company’s accumulated deficit.

“Losses on investments” referred to:

- the disposal of the investment in Dyna Green S.R.L., Euro 21thousand;
- the completion of the liquidation of Solhar Bentivoglio S.R.L., Solhar Ferrara S.R.L., Solhar Modena S.R.L.and Solhar Faenza S.R.L.for a total of Euro 16 thousand;
- the exercise of the right to withdraw from Democenter Scral, following this company’s transformation from a limited liability cooperative to a foundation, for Euro 29 thousand.

“Other financial expenses” includes mainly expenses incurred in connection with the non-recourse sale of receivables (Euro 12,402thousandcompared with Euro 7,463 thousand in 2011).

14 Other non-operating revenues

	2012	2011	Change
Other non-operating revenues	6,667	-	6,667
Total	**6,667**	**-**	**6,667**

For a comment, reference is made to “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:

	2012	2011	Change
Current taxes (Ires, Irap e Imposta Sostitutiva)	104,338	114,205	(9,867)
Deferred tax liabilities	298	(3,935)	4,233
Deferred tax assets	(7,368)	(8,073)	705
Substitutive tax L.244/07 - recapture EC Box	-	(159)	159
Extraordinary effects	(18,217)	(7,567)	(10,650)
Total	**79,051**	**94,471**	**(15,420)**

Income taxes for the year amounted to Euro 79.051 thousand, including non-recurring positive effects related to the refund of corporate income taxes (IRES) for Euro 18,217 thousand, following acknowledgment of the deductibility of IRAP in relation to labour costs for employees and the likes, pursuant to Law Decree 201/2011 and Law Decree 16/2012. Income taxes in 2011 amounted to Euro 94,471 thousand, including non-recurring positive effects for Euro 7,567 thousand, of which Euro 1,215 thousand related to the final settlement, via a flat “substitute” tax, of the revaluation of assets following corporate actions taken in 2009, pursuant to and due to the effects of article 176, paragraph 2-ter, of the Consolidated Tax Act (TUIR), and Euro 6,352 thousand in relation to the realignment of controlling interests under article 23, paragraphs 12-14 of Law Decree no. 98/2011 and article 20 of Law Decree no. 201/2011.
The decrease of the tax rate to 37%, compared to 42.70% in 2011, was due mainly to the positive effect of the IRES of previous years, for 8.50%, and the positive effect of the deduction of the IRAP tax paid in 2012, related to labour costs for employees and the likes, for 2.10%, concerning the revaluation of assets in 2010.

Current taxes are broken down as follows:

	2012	2011	Change
Ires	71,646	83,202	(11,556)
Irap	32,149	30,680	1,469
Substitute tax for for split-up	543	323	220
	104,338	**114,205**	**(9,867)**

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	Valore di conto economico	Valore percentuale effetto fiscale
Pre-tax profit	213,409	
IRES Calculation		
Ordinary rate	(58,688)	-27.50%
Robin Tax surcharge	(9,428)	-4.40%
Irap on labour costs	4,436	2.10%
Pex	(8)	0.00%
Dividends	(1,196)	-0.60%
Goodwill amortisation	934	0.40%
Ires previous years	18,063	8.50%
Gainson bargain purchases	1,833	0.90%
Other increases (decreases)	(2,210)	-1.00%
IRAP and other current taxes		
Irap	(32,244)	-15.10%
Substitutive tax	(543)	-0.30%
Effective tax rate	**(79,051)**	-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) a reconciliation between the statutory tax rate and the effective tax rate is not meaningful.

The prepaid and deferred taxes relating to the year 2012 refer to the following variations between taxable income and profit recorded in the financial statements.

Details temporary differences (receivables)	31-Dec-2012			31-Dec-2011		
	temporary differences	tax effect (IRES + IRAP)	acquisitions/ disposals	temporary differences	tax effect (IRES + IRAP)	acquisitions /disposals
Deferred tax assets with effects on the income statement:						
Allowance for bad debts	98,413	31,659		87,901	28,344	
Provisions for risks and charges	79,197	17,070		72,072	14,043	
Provisions for employee benefits	3,953	1,097		3,313	911	
Depreciation and amortisation	110,832	31,190		96,893	28,657	
Equity investments	36,660	12,217		36,660	12,217	
Tax loss carryforwards	19,988	5,497		21,337	5,868	
Other	24,347	4,923		28,890	6,256	
Total	**373,390**	**103,653**	**(11)**	**347,067**	**96,296**	**694**
Amount credited (charged) to the income statement		**7,368**				
Deferred tax assets wth effects on the statement of comprehensive income:						
Cash flow hedges	12,995	3,845		16,281	4,691	
Total	**12,995**	**3,845**		**16,281**	**4,691**	
Amount credited (charged) to the statement of comprehensive income		**(846)**				
Total tax effect		**107,498**			**100,987**	

Details temporary differences (provisions)	31-Dec-2012			31-Dec-2011		
	temporary differences	tax effect (IRES + IRAP)	acquisitions/ disposals	temporarydifferences	tax effect (IRES + IRAP)	acquisitions /disposals
Deferred taxliabilities with effects on the income statement:						
Provisions for risks and charges	65,611	20,437		64,461	20,082	
Provisions for employee benefits	19,651	5,468		16,882	5,184	
Amortiztion and depreciation (FTA - fair value as deemed cost)	129,077	42,260		118,766	39,126	
Leases	11,226	3,502		8,349	2,625	
Capital gains recognized in installments	2,101	578		3,323	914	
Other	20,715	5,869		30,767	8,126	
Total	**248,381**	**78,114**	**1,759**	**242,548**	**76,057**	**3,855**
Amount credited (charged) to the income statement		**(298)**				
Deferred tax liabilities wth effect on the statement of comprehensive income:						
Cash flow hedges						
Total						
Amount credited (charged) to the statement of comprehensive income						
Total tax effect		**78,114**			**76,057**	

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 cost was accounted for, and as at 31 December 2012, outstanding receivables for collection, related to all payments made by Hera S.p.A. for the position related to the former Seabo S.p.A., amount to Euro 44 thousand.

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. The hearing for this case should be held by the end of 2013.

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 a reconciliation between the parties. Discussion of the disputes could be set by the end of 2013.

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 2006 this error was corrected through the recognition of a contingent asset 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 reference to the same matter, on 27 December 2011, the company received an assessment notice related to the cited accounting error for Euro 40 thousand; on 29 February 2012, the Company filed an appeal for this tax, while taking advantage of the benefit of reduced penalties. The hearing has been set for 15 May 2013.

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, with measures dated 19 November 2012, the Directorate of Emilia Romagna notified the reversal of the entries occurred while the proceedings were pending and, in December 2012, the Company received a refund of the sum paid on a temporary basis for Euro 653 thousand.

Report on the tax audits carried out in 2011: payments to the waste and water authority of Emilia Romagna (Atesir) and VAT on loan instalments and expenses

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% VAT rate. The Company submitted a defence brief on 31 May 2012 and the Tax Authority so far has not sent any notice of assessment.

On 28 September 2012, the Company was served 2 notices of assessment, one for IRES and the other for IRAP purposes, for Euro 17,539 and Euro 2,258, respectively, in relation to a non-deductible cost described in the above tax audit report. The Company settled with a payment dated 31 October 2012, with penalties reduced to one-third.

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 1,164,240. 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.

Tax audits conducted in financial year 2012

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 2009 with a focus on, and subsequent challenge of, the IRAP relief under articles 2), 3) and 4) of paragraph 1, sub-paragraph a) of article 11 of Legislative Decree 446/97, so-called “tax wedge”, as well as the application of article 36, paragraph 7, of Law Decree 223/2006 related to the depreciation of land for IRAP purposes.
In addition, the Agency challenged the incorrect VAT credit taken by the Company resulting from VAT charges of 20%, instead of 10%, by certain providers of waste disposal services.
On 22 May 2012 the tax audit report was given to the Company, which submitted a defence brief rebutting all the conclusions contained therein.

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 tax audit report was given to the Company, which submitted a defence brief rebutting all the conclusions contained therein. To date, the Directorate General of Emilia Romagna did not issue any assessment notice.

With reference to the application of the greater IRAP rate for the production and distribution of electric energy, gas and heat under article 1 of the Regional Law Emilia Romagna no. 19/2006, the Company received, on 3 February 2012, a payment notice related to financial year 2008, for a total amount of Euro 126,625, following an automated review of its tax returns under article 36-bis of Presidential Decree 600/73. The Company filed an appeal. The hearing for the stay was held on 16 January 2013 (the petition will almost assuredly be rejected because the company in the meantime has paid) while the hearing on the merits was set for 15 May 2013.

Moreover, still in relation to the greater IRAP rate, for financial year 2009, on 10 October 2012 the Company received a notice of irregularity for a total amount of Euro 282,385, following an automated review of its tax returns under article 36-bis of Presidential Decree 600/73. The Company filed an appeal on 7 December 2012.
Lastly, still in relation to the greater IRAP rate, for financial year 2007, on 28 December 2012 the Company received an assessment notice, following the remark in the abovementioned tax audit report, for a total amount of Euro 110,246. The Company filed an appeal on 26 February 2013.

Hera Comm S.R.L.

With reference to the application of the greater IRAP rate for the production and distribution of electric energy, gas and heat under article 1 of the Regional Law Emilia Romagna no. 19/2006, the Company received, on 3 February 2012, a payment notice related to financial year 2008, for a total amount of Euro 126,940, following an automated review of its tax returns under article 36-bis of Presidential Decree 600/73. The Company filed an appeal. The hearing for the stay was held on 16 January 2013 (the petition will almost assuredly be rejected because the company in the meantime has paid) while the hearing on the merits was set for 15 May 2013.

Moreover, still in relation to the greater IRAP rate, for financial year 2009, on 11 October 2012 the Company received a notice of irregularity for a total amount of Euro 282,385, following an automated review of its tax returns under article 36-bis of Presidential Decree 600/73. The Company filed an appeal on 7 December 2012

Disclosure of notices of assessment for property taxes (ICI) in financial year 2012

On 24 April 2012 the Municipality of Ferrara served a notice of assessment on Herambiente S.p.A. for the company's failure to report and pay property taxes on the WTE plant in Ferrara for financial year 2009, for a total of Euro 718 thousand, inclusive of penalties and interest.
On 24 April 2012 the Municipality of Ferrara served a notice of assessment on Hera S.p.A. for the company's failure to report and pay property taxes on the WTE plant in Ferrara for financial years 2008 and 2009, for a total of Euro 1,461 thousand and Euro 723 thousand, respectively, inclusive of penalties and interest.
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 Company did not make any provisions for the disputes in question considering the cases as groundless.

15.1 Earnings per share

	2012	2011
Profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (A)	118,658	104,590
Interest expenses relating to the liability component of convertible bonds	2,450	2,464
Adjusted profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (B)	121,108	107,054
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss)		
per share	1,101,201,226	1,107,545,844
diluted (D)	1,182,407,723	1,183,881,722
Earnings (loss) per share		
basic (A/C)	**0.108**	**0.094**
diluted (B/D)	**0.102**	**0.090**

The basic earnings per share is calculated on the economic result attributable to holders of ordinary shares of the parent company. Diluted earnings per share takes account of the issuing of the convertible bond referred to under note 32.

Following the merger of Acegas-Aps Holding S.R.L. with and into Hera S.p.A., and the consequent conclusion of the first phase of the mandatory tender offer - pursuant to article 106, paragraphs 1 and 2-*bis*, of legislative decree 24 February 1998 No. 58 - launched by Hera S.p.A. on all the ordinary shares of Acegas-Aps S.p.A., as described in greater detail in the Report on operations, as of this writing Hera S.p.A.'s share capital consisted of 1,327,081,442 ordinary shares compared with the 1,115,013,754 ordinary shares outstanding at 31 December 2012, which were used in calculating basic and diluted earnings per share.

16 Property, plant and equipment

	31-Dec-12	including assets held on the basis of lease finance arangements	31-Dec-11	including assets held on the basis of lease finance arangements	Change
Land and buildings	426,742	*9,765*	398,860	*10,138*	27,882
Plants and machinery	1,266,578	*16,646*	1,227,184	*3,490*	39,394
Other moveable assets	105,648	*2,025*	109,971	*3,150*	(4,323)
Assets under construction and advance payments	148,629	-	148,461	-	168
Total	**1,947,597**	***28,436***	**1,884,476**	***16,778***	**63,121**

Property, plant and equipment are disclosed net of accumulated depreciation. Their composition and changes in the period are as follows:

	Opening balance, net	Investments	Disposals	Depreciation	Changes in the scope of consolidation	Impairments	Other changes	Closing balance, net	of which Gross final amount	of which accumulated depreciation
31-Dec-11										
Land and buildings	368,693	23,132	(240)	(11,099)	6,582	-	11,793	398,860	*477,713*	*78,852*
Plants and machinery	1,145,329	51,573	(1,331)	(89,883)	20,675	-	100,820	1,227,184	*1,918,708*	*691,525*
Other moveable assets	114,632	18,190	(2,391)	(25,932)	858	-	4,615	109,971	*357,546*	*247,574*
Assets under construction and advance payments	211,578	62,788	(268)	-	-	-	(125,637)	148,461	*148,461*	-
	1,840,232	**155,683**	**(4,230)**	**(126,914)**	**28,115**	**-**	**(8,409)**	**1,884,476**	***2,902,428***	***1,017,952***
31-Dec-12										
Land and buildings	398,860	13,431	(569)	(12,045)	11,843	-	15,221	426,742	*520,086*	*93,343*
Plants and machinery	1,227,184	48,495	(14,419)	(98,815)	59,372	(285)	45,637	1,266,578	*2,067,285*	*800,706*
Other moveable assets	109,971	19,843	(1,762)	(25,426)	2,445	-	576	105,648	*375,260*	*269,612*
Assets under construction and advance payments	148,461	58,536	(1,863)	-	5,275	-	(61,780)	148,629	*148,629*	-
	1,884,476	**140,306**	**(18,613)**	**(136,286)**	**78,935**	**(285)**	**(345)**	**1,947,597**	***3,111,258***	***1,163,661***

The breakdown and main changes within each category are commented on below.

"Land and buildings", totalling Euro 426,742 thousand, consist of Euro 346,305 thousand in buildings and Euro 80,437 thousand in land. In relation to land, these are mainly company-owned properties on which the majority of the sites and production plants stand. The increases related to the completion of the walls of the cogeneration plant in Imola, Forlì's district heating plant and the restoration of the warehouse in the Berti area in Bologna as well as other restructuring works in the various Company offices.

"Plant and machinery", amounting to Euro 1,226,578 thousand, is made up mainly of distribution networks and plants relating to *business* not falling within the scope of the concession system and, therefore, principally: district heating, electricity in the Modena area, waste disposal, waste treatment, purification and composting, material recovery and chemical-physical treatment, anaerobic digesters, and special waste treatment plants. The increase for the year reflects mainly the extension of district heating networks and cogeneration in some areas of Bologna and Imola, work to expand active landfills and upgrading work on the Group's plants.

The decreases also include the disposal of electricity meters.

"Other moveable assets", equal to Euro 105,648 thousand, include the equipment, waste disposal bins, furniture, electronic machines, motor vehicles and motor cars, including the public works vehicles at the plants for handling and compacting the waste. The disposals mainly referred to bins in the waste management sector and motor vehicles.

"Assets under construction and advance payments", amounting to Euro 148,629 thousand, include mainly the following types of investment:

- development of district heating and electricity distribution,

- extraordinary maintenance on Group property,
- “disidrat new” mud treatment plant in Ravenna,
- *“digest dry ”*plants at the composting sites in Rimini and Lugo (Ravenna),
- CIC plant for the recovery of bottom ashes in Modena,
- revamping work at 3rd line in Modena’s WTE plant.

“Other changes” included adjustments for Euro 2,722 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.

“Changes in the scope of consolidation”, amounting to Euro 78,935 thousand, referred to the following actions:

- Euro 13,309 thousand, purchase of photovoltaic plants located in Copparo (Fe), Alfianello (Bs), Petriolo (Mc) e Faenza (Ra), following the merger Amon S.R.L., Esole S.R.L., Juwi Sviluppo Italia – 02 S.R.L. and CTG Ra S.R.L. with and into Hera Energie Rinnovabili S.p.A.;
- Euro 50,469 thousand, WTE plant in Pozzilli (Isernia), following the acquisition of Energonut S.p.A.;
- Euro 8,846 thousand, landfill in Finale Emilia (Mo), following the acquisition of control of Feronia S.R.L.;
- Euro 5,963 thousand related to land and buildings acquired from Marche Multiservizi Falconara S.R.L., which was merged with and into Marche Multiservizi S.p.A.;
- Euro 348 thousand, equipment for internet wireless services and service provider acquired by our subsidiary Acantho S.p.A. from Geosat S.R.L..

The above transactions are described in detail in the section “Changes in the scope of consolidation” and “Changes in the consolidated companies” in these notes.

For a more accurate analysis of investments in the period, please see the Directors’ Report, paragraph 1.03.01.

17 Intangible assets

	31-Dec-12	31-Dec-11	Change
Industrial patents and intellectual property rights	29,569	30,761	(1,192)
Concessions, licences, trademarks and similar rights	46,926	53,976	(7,050)
Public services under concession	1,530,864	1,487,399	43,464
Intangible assets under construction and advance payments for public services under concession	170,501	156,164	14,337
Work in progress and advance payments	38,594	41,892	(3,298)
Other	39,512	32,329	7,183
Total	**1,855,966**	**1,802,521**	**53,445**

Intangible assets are stated net of their accumulated amortisation and are broken down below with details of the changes during the year:

	Opening balance, net	Investments	Disposals	Amortisation	Changes in the scope of consolidation	Other changes	Closing balance, net	of which Gross finalamount	of which accumulated amortisation
31-Dec-11									
Industrial patents and intellectual property rights	30,385	4,593	(17)	(17,883)	61	13,622	30,761	183,939	153,177
Concessions, licences, trademarks and similar rights	80,777	472	-	(11,419)	(0)	(15,853)	53,976	207,711	153,735
Public services under concession	1,416,810	75,927	(350)	(71,589)	898	65,703	1,487,399	2,006,908	519,509
Intangible assets under construction and advance payments	139,614	67,337	-	-	-	(50,787)	156,164	156,164	-
Work in progress and advance payments	33,829	21,861	(140)	-	-	(13,657)	41,892	41,892	-
Other	27,083	4,049	(2,781)	(5,960)	9,191	747	32,329	81,523	49,194
	1,728,498	**174,239**	**(3,288)**	**(106,852)**	**10,150**	**(226)**	**1,802,521**	**2,678,136**	**875,615**
31-Dec-12									
Industrial patents and intellectual property rights	30,761	2,858	(289)	(14,445)	-	10,685	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	2,125,334	594,471
Intangible assets under construction and advance payments	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	(515)	(6,400)	4,404	6,101	39,512	96,064	56,553
	1,802,521	**152,145**	**(813)**	**(102,841)**	**4,414**	**539**	**1,855,966**	**2,835,580**	**979,614**

The breakdown and main changes within each category are commented on below.

"Industrial patents rights and know-how", totalling Euro 29,569 relates mainly to costs incurred for the purchase and implementation of IT systems SAP R/3 ECC6 and related applications. These costs are amortised over five years.

"Concessions, licences, trademarks and similar rights", amounting to Euro 46,926 thousand, mainly includes the value of the rights in relation to the gas, water and purification plants. This item fell mainly due to the amortisation for the period and the reclassification of the purification services in the municipality of Monte San Pietro 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 1,530,864 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 170,501 thousand, relate to said assets detailed above which are still to be completed as at the end of the year.

"Work in progress and advance payments", equal to Euro 38,594 thousand, essentially comprise still incomplete IT projects.

The item "Other", equal to Euro 39,512 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.

This item reflects the costs incurred for the AIA (Autorizzazioni Integrate Ambientali – Integrated Environmental Authorizations) requests for the WTE plants and the landfills and the cost incurred by Ergonut S.p.A,. for the acquisition of the CIP6 convention.

"Other changes" include the reclassifications of the assets under construction to the specific categories once these have entered service.

"Changes in the scope of consolidation", amounting to Euro 4,414 thousand, reflects:

- Euro 125 thousand, following the merger of MMS Falconara S.R.L.with and into Marche Multiservizi S.p.A.;
- Euro 222 thousand to the share of "Other intangible assets" pertaining to the shareholders of the Parent Company following the merger of Amon S.R.L., Esole S.R.L., Juwi Sviluppo Italia – 02 S.R.L. e CTG Ra S.R.L. with and into Hera Energie Rinnovabili, effective 1 January 2012;
- Euro 4,067 thousand, for the cost incurred to acquire the CIP 6 convention for the benefit of Energonut S.p.A.'s WTE plant .

The above actions are commented under "Changes in the consolidated companies".

18 Goodwill

	31-dic-12	31-dic-11	Change
Goodwill	321,656	320,972	684
Goodwill arising on consolidation	56,735	56,788	(53)
Total	**378,391**	**377,760**	**631**

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.

The increase on the previous year was due to the acquisition of the business "to provide wireless broadband internet connections" in a number of cities in Emilia Romagna (owned by Geosat S.r.l.) as well as the merger of MMS Falconara S.R.L. with and into Marche Multiservizi S.p.A..

"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;
- Nuova Geovis S.p.A., Euro 1,775 thousand.
-

The decrease from the comparable amount of the previous year was due to the deconsolidation of FlameEnergy Trading Gmbh as indicated in the paragraph on the "Changes in the scope of consolidation" of these notes.

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 euro*	
Gas	107.3
Electric energy	43.1
Integrated water cycle	41.2
Environmental services	175.0
Other services	10.2
Structure	1.5
Total	**378.4**

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 2012-2016 business plan approved by the Parent Company's Board of Directors in the meeting held on 22 October 2012.

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 2012-2016 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 AEEG, 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 2016 on the basis of AEEG resolutions no. 64/09 and 301/12, respectively. For the integrated water cycle, revenues were projected on the basis of unchanged volumes distributed and tariffs based on agreements signed, or in the process of being signed as of the date of preparation of the Plan, with the individual local water boards (AATO). 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 6.71% 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.

19 Equity investments

	31-dec-12	31-dec-11	change
Non-consolidated subsidiaries			
Calor Più Italia Scrl	6	6	-
Consorzio Frullo	4	4	-
Hera Servizi Cimiteriali Srl	-	20	(20)
Solhar Alfonsine Srl	10	5	5
Solhar Bentivoglio Srl in liquidation	-	5	(5)
Solhar Faenza Srl in liquidation	-	5	(5)
Solhar Ferrara Srl in liquidation	-	5	(5)
Solhar Modena Srl in in liquidation	-	5	(5)
Solhar Piangipane Srl	5	5	-
Solhar Ravenna Srl	5	5	-
Solhar Rimini Srl	10	5	5
Total	**40**	**70**	**(30)**
Associated companies			
Aimag Spa	40,331	39,910	421
Dyna Green Srl	-	37	(37)
Feronia Srl	-	705	(705)
FlamEnergy Trading Gmbh	1,893	-	1,893
Ghirlandina Solare Srl	57	65	(8)
Modena Network Spa	1,105	1,201	(96)
Q.Thermo	1,317	-	1,317
Refri Srl	2,313	2,413	(100)
Sei Spa	702	702	-
Set Spa	36,197	35,860	337
Sgr Servizi Spa	18,780	17,111	1,669
Sosel Spa	646	600	46
Tamarete Energia Srl	3,084	3,498	(414)
Other	35	288	(253)
Total	**106,460**	**102,390**	**4,070**
Other companies			
Calenia Energia Spa	9,073	9,073	-
Energia Italiana Spa	13,233	13,233	

			-
Galsi Spa	10,524	10,524	-
Other	400	575	(175)
Total	**33,230**	**33,405**	**(175)**
Total equity investments	**139,730**	**135,865**	**3,865**

Equity investments in non-consolidated subsidiaries

Below the main changes from 31 December 2011 are shown.

- Hera Servizi Cimiteriali S.R.L., a company that became operational following the contribution of the cemetery and funeral operation. The company is now consolidated on a line-by-line basis.
- Solhar Bentivoglio S.R.L. in liquidation, Solhar Faenza S.R.L. in liquidation, Solhar Ferrara S.R.L. in liquidation and Solhar Modena S.R.L. in liquidation. On 7 February 2012 Herambiente S.p.A. acquired from Energetica S.p.A. the remaining 49% of the companies, thus becoming sole shareholder. The companies were wound up and cancelled form the companies register on 27 June 2012.
- The amounts of the investments in Solhar Rimini S.R.L.and Solhar Alfonsine S.R.L. rose as a result of the equity injections made during the year.

Equity investments in associated companies

Compared with 31 December 2011, the changes in the investments in Aimag S.p.A., Set S.p.A., Sgr Servizi S.p.A.and Tamarete Energia S.R.L. reflect the share of profit/loss of the respective companies.

Concerning FlameEnergy Trading Gmbh, it is worthy of note that starting 1 January 2012 the investment in this company is accounted for with the equity method, considering that shrinking company activities reduced to a significant extent the amounts to be reported in the consolidated accounts. At 31 December 2011 the company was consolidated with the proportionate method.

On 31 January 2012 the Group acquired from Sorgea S.R.L. an additional 30% equity interest in Feronia S.R.L., a company operating in the environmental sector, thus raising its investment to 70%. The company is now consolidated on a line-by-line basis while at 31 December 2011 the investment in it was measured with the equity method.

Q.Thermo S.R.L., a company established on 16 May 2012 and held by Sviluppo Ambiente Toscana S.R.L. and Quadrifoglio S.p.A. with 40% and 60%, respectively, is designed to carry out all the activities necessary to build a WTE plant in Sesto Fiorentino (Florence). The investment in the company is measured with the equity method.

On 13 March 2012, the Group sold the investment in Dyna Green S.R.L., a company engaged in the research and development of hydrocarbon procurement sources, thus determining the exit of this company from the Group.

The change in "Other minor companies" was due to the write-down of the investment in Oikothen Scarl. Specifically, in the general meeting held on 29 June 2012, the shareholders approved the reduction of the company's share capital to cover its accumulated deficit as well as the liquidation of the company. Consequently, the investment was written off with a partial charge to the provisions made at 31 December 2011.

20 Financial assets

	31-dec-12	31-dec-11	Change
Loans to associated and other companies	17,176	10,621	6,555
Fixed-income securities	309	309	-
Loans receivable and upfront commissions	72	109	(37)
Total	**17,557**	**11,039**	**6,518**

“Loan receivables from associated and other companies”, comprises non-interest bearing loans or loans extended at arm’s length to the following companies:

	31-dec-12	31-dec-11	Change
Set Spa	10,059	5,964	4,095
Sei Spa	3,548	3,348	200
Oikothen Scarl	2,572	322	2,250
Modena Network Spa	960	960	-
Other	37	27	10
Total	**17,176**	**10,621**	**6,555**

The following is a comment to the main changes:

- Set S.p.A., for two additional disbursements in June and December 2012 for Euro 975 thousand and Euro 3,120 thousand, respectively;
- Sei S.p.A., for two additional disbursements in June and December 2012 for Euro 40 thousand and Euro 160 thousand, respectively;
- Oikothen Scarl in liquidation, for a further disbursement in January 2012 for Euro 2,250 thousand. Reference is made to note 34 “Provisions for risks and charges” in relation to the allowance made to adjust in part the amount of this loan.

21 Deferred tax assets

	31-dec-12	31-dec-11	Change
Deferred tax assets	107,498	100,987	6,511
Substitute tax credit	3,953	4,516	(563)
Total	**111,451**	**105,503**	**5,948**

“Deferred tax assets” result from timing differences between reported profit and taxable profit, mainly in relation to “Taxed allowance for bad debts”, “Taxed provisions for risks and charges” and “Reported depreciation greater than tax-deductible depreciation”. Furthermore, deferred tax assets resulted also from the application of IFRSs. For more details reference is made to note 15 “Income taxes for the period”.

“Substitute tax credit” refers mainly to the flat tax paid for the realignment of goodwill in 2002, which is treated as a deferred tax asset, given its recoverability.

22 Financial instruments – derivatives

Non-current assets/liabilities	Fair value hierarchy	Underlying	31-dic-12			31-dic-11		
			Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
Interest rate derivatives								
Interest rate Swaps	2	Loans	501,8 mm.	54,360		502,3 mm.	18,864	
Interest rate Swaps	2	Loans	310,7 mm.		32,383	331,5 mm.		16,991
Interest rate Options	2	Loans	7,5 mm.		580	9,1 mm.		666
Total interest rate derivatives				***54,360***	***32,963***		***18,864***	***17,657***
Exchange rate derivatives (financial transactions)								
Cross currency swaps	2	Loans	20 bn JPY	34,208		20 bn JPY	61,684	
Total exchange rate derivatives (financial transactions)				***34,208***	***0***		***61,684***	***0***
Total				**88,568**	**32,963**		**80,548**	**17,657**

Current assets/liabilities	Fair value hierarchy	Underlying	31-dic-12			31-dic-11		
			Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
Interest rate derivatives								
Interest rate Swaps	2	Loans				3,9 mln	22	
Interest rate Swaps	2	Loans	1,0 mln		18	203,9 mln		4,712
Interest rate Options	2	Loans				3,6 mln		105
Total interest rate derivatives				***0***	***18***		***22***	***4,817***
Commodity derivatives								
Swaps	3	Gas Hub Foreign	529.603 MWh	887				
Swaps	2	Crude oil	442.700 Bbl	1,179		1.232.300 Bbl	4,866	
Swaps	2	Refined oil/coal	75.750 Ton	2,580		21.550 Tons	562	
Swaps	2	Electric energy formulas	3.818.240 MWh	29,480		3.833.855 MWh	32,782	
Swaps	2	Fuel formula	10.795 MWh	3		153.590 MWh	610	
Swaps	2	Crude oil	262.400 Bbl		764	508.300 Bbl		1,694
Swaps	2	Refined oil/coal	37.600 Ton		1,845	163.250 Ton		3,274
Swaps	2	Electric energy formulas	4.485.815 MWh		34,215	2.992.735 MWh		35,548
Swaps	2	Fuel formula	21.590 MWh		25			
Total commodity derivatives				***34,129***	***36,849***		***38,820***	***40,516***
Exchange rate derivatives (commercial transactions)								
Swaps	2	EUR/USD exchange rate	4,0 mm Usd	70		68,5 mm Usd	1,800	
Swaps	2	EUR/USD exchange rate	90,0 mm Usd		1,362	55,5 mm Usd		2,377
Total exchange rate derivatives (commercial transactions)				***70***	***1,362***		***1,800***	***2,377***
Total				**34,199**	**38,229**		**40,642**	**47,710**

Derivative financial instruments classified under non-current assets amount to Euro 88,568 thousand, (Euro 80,548 thousand as at 31 December 2011); Euro 54,360 thousand refer to interest rate derivatives, and Euro 34,208 thousand refer to exchange rate derivatives. Derivative financial instruments classified under non-current liabilities amount to Euro 32,963 thousand, (Euro 17,657 thousand as at 31 December 2011), and all refer to interest rate derivatives.

Financial instruments recorded under current assets and liabilities represent derivative contracts expected to be realised within the next year.Derivative financial instruments recognised as current assets amounted to Euro 34,199 thousand (Euro 40,642 thousand at 31 December 2011), including commodity derivatives for Euro 34,129 thousand and currency derivatives for Euro 70 thousand. Derivative financial instruments classified under current liabilities amount to Euro 38,229 thousand, (Euro 47,710 thousand as at 31 December 2011); Euro 18 thousand refers to interest rate derivatives, Euro 36,849 thousand to *commodity* derivatives and Euro 1,362 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 2012, the Group's net exposure is positive by Euro 21,379 thousand, compared with a negative exposure of Euro 3,588 thousand as at 31 December 2011. The significant positive change in fair value, compared with the previous year, was due mainly to the downward shift of the yield curve in connection with the hedges of fixed-rate financial liabilities and, to a limited extent, to the realization of cash flows, in relation to the relevant contractual due dates, associated with derivatives with a negative fair value at 31 December 2011 and which had expired by the end of 2012.

The *fair value* of the derivatives subscribed to hedge the exchange rate and the *fair value* of the loans denominated in foreign currency as at 31 December 2012 was positive by Euro 34,208 thousand, compared to an also positive valuation of Euro 61,684 thousand as at 31 December 2011. 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 2012 the net fair value of commodity and currency derivatives was negative for Euro 4,012 thousand, compared to a negative net fair value of Euro 2,273 thousandat December 31, 2011. There is nothing to report, in particular, given that the situation at 31 December 2012 was largely similar to that prevailing on 31 December 2011, especially in relation to the contracts linked to special price arrangements ("Formule Energia Elettrica"), which constitute the majority of the company's contracts.

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 2012, subscribed in order to hedge loans, can be classed into the following categories (figures in thousands of €):

Interest/exchange rate hedges (financial transactions)	Underlying	31-dic-12					31-dic-11				
		Notional	Fair value assets	Fair value liabilities	Income	Expense	Notional	Fair value assets	Fair value liabilities	Income	Expense
Cash Flow Hedges	Loans	166,0 mm	0	14,457	0	8,860	386,2 mm	0	18,117	69	11,166
Fair Value Hedges	Loans	649,8 mm	88,566	18,506	57,113	55,555	649,8 mm	80,548	4,191	79,783	17,423
Non Hedge Accounting	Loans	5,2 mm	2	18	173	72	18,3 mm	22	166	753	753
Total			**88,568**	**32,981**	**57,286**	**64,487**		**80,570**	**22,474**	**80,605**	**29,342**

Interest rate derivatives identified as *cash flow hedges* show a residual notional amount of Euro 166,0 million (Euro 386,2 million as at 31 December 2011) 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 2012 the breakdown of net charges relating to derivatives classified as *cash flow hedges*, amounting to Euro 8,860 thousand, is as follows:

Cash Flow Hedges	31-dic-12 Income / (Expense)	31-dic-11 Income / (Expense)
Cash inflows	-9,233	-11,425
Accrued Interest	469	456
Ineffective portion	-96	-128
Total	**-8,860**	**-11,097**

The decrease in net financial expense from the comparable figure of the previous year (see note 13 “Financial income and expense”) was due mainly to the expiration at the end of August of a derivative contract with a notional amount of Euro 200 million to hedge a floating-rate bond. Another factor which contributed to the decrease in net cash flows paid was the gradual reduction in the notional value of some derivatives linked to loans in the repayment phase.
The ineffective portion relating to this class of interest rate derivative led to the recording of net charges totalling Euro 96 thousand in the income statement. All the hedging relationships between the aforementioned derivatives contracts and the related underlying liabilities are qualified as “*Cash Flow Hedge*” and involved the recording in the Group shareholders’ equity, of a specific negative reserve, amounting to Euro 5,993 thousand, net of the related tax effect.
Interest rate and foreign exchange derivatives identified as *fair value hedges* of liabilities recorded in the income statement show a residual notional amount of *Euro* 649,8 million (unchanged compared to 31 December 2011), against loans of the same amount. In the case of loans denominated in foreign currency, the notional amount of the derivative expressed in Euro is the translation to the original exchange rate hedged. Specifically, the financial liabilities hedged comprise a bond loan in Japanese *yen* with a residual notional amount of JPY 20 billion and a ten-year fixed rate *bond* of Euro 500 million. These derivatives generated financial income for Euro 57,113 thousandand financial expense for Euro 55.555 thousand; attention is called to the positive credit valuation adjustment to the underlying bonds which resulted in net financial income for Euro 6,722 thousand.

The table below provides a breakdown at 31 December 2012 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-12			31-dic-11		
	Income	Expense	Total	Income	Expense	Total
Derivative valuation	35,065	-41,787	-6,722	60,935	-4,191	56,744
Accrued Interest	426	0	426	19	0	19
Cash inflows	21,622	-13,768	7,854	18,829	-13,232	5,597
Ineffective portion	0	0	0	0	0	0
Total operating results for derivatives	**57,113**	**-55,555**	**1,558**	**79,783**	**-17,423**	**62,360**

Hedged underlyings	31-dic-12			31-dic-11		
	Income	Expense	Total	Income	Expense	Total
Valuation financial liabilities	41,787	-35,065	6,722	0	-56,744	-56,744
Total	**41,787**	**-35,065**	**6,722**	**0**	**-56,744**	**-56,744**

The reduction in net financial income and charges associated with this type of hedges, compared to the previous year, reflects the changes in the *fair value* of the financial instruments illustrated above, specifically with reference to the decrease in the interest rate curve and change in the *fair values* of foreign exchange derivatives. With reference only cash inflows, the increase in net income was due to lower Euribor, especially in the second half of 2012.

The remaining interest rate derivatives not in the hedge accounting have a residual notional value of Euro 5.2 million (Euro 18.3 million as at 31 December 2011); some of these contracts are the result of *mirroring* transactions carried out in previous years as part of a restructuring of the derivatives portfolio. The remaining contracts which, under the criteria envisaged by the international accounting standards, cannot be accounted for under *hedge accounting*, were however put in place for hedging purposes only.

Commodity derivative instruments held as at 31 December 2012 can be classed into the following categories (figures in thousands of €):

Commodity/exchange rate derivatives (commercial transactions)	Underlying	31-dic-12				31-dic-11			
		Fair value assets	Fair value liabilities	Income	Expense	Fair value assets	Fair value liabilities	Income	Expense
- Cash Flow Hedge	Electric energy formulas	0	0	0	0	0	0		
- Non Hedge Accounting	Commodity transactions	34,199	38,211	81,713	88,758	40,620	42,893	58,593	47,059
Total		**34,199**	**38,211**	**81,713**	**88,758**	**40,620**	**42,893**	**58,593**	**47,059**

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 2012, these derivatives generated income for Euro 81,713 thousandand expenses for Euro 88,758 thousand, with a net negative effect of Euro 7,045 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.

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 2012, 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 8,7 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 8,5 million.

These *fair value* changes would have no effect on the income statement if it were not for the potential ineffective portion of the hedge, as they refer to financial derivative instruments classified under *hedge accounting*. 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 Euro 0.5 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 2012 would amount to approximately Euro 20.8 million. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately Euro 25.4 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 budgetmargins. 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 2012 would amount to approximately Euro 0.4 million. On the contrary, an instant fall in the same amount would bring about a potential increase in the *fair value*of the instruments of around Euro 0.4 million.

In conjecturing an instant rise in the exchange rate of 0.05 dollars per Euro, with no change in the *Brent* price, and no change in the national standard price, the potential decrease in the *fair value* of derivative financial instruments held as at 31 December 2012 would amount to approximately Euro 2.6 million. Likewise, an instant fall in the same amount would bring about a potential increase in the *fair value* of the instruments of around Euro 2.6 million.

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 2012 would amount to approximately Euro 2.0 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 2.0 million.

23 Inventories

	31-dec-12	31-dec-11	Change
Raw materials and stocks	71,088	68,926	2,162
Finished products	734	701	33
Advances	-	3,134	(3,134)
Total	**71,822**	**72,761**	**(939)**

"Raw materials and stocks", stated net of an obsolescence provision of Euro 523 thousand (Euro 675 thousand as at 31 December 2011) are comprised mainly of gas stocks, Euro 47,785 thousand (Euro 45,157 thousand as at 31 December 2011) and raw materials and stocks (Spare parts and equipment used for maintenance and running of operating plants), equal to Euro 23,303 thousand (Euro 23,769 thousand as at 31 December 2011).
The increase on 2002 was due mostly to higher gas prices.

"Advances" at the end of the previous year reflected a sum due from a supplier, Italtrading, to a down-payment made for the purchase of gas. This position was closed during the year with an entry for the amount of gas paid following delivery.

Changes during 2011 and 2012 were as follows:

	31-dec-10	Provisions	Changes in scope of consolidation	Uses and other changes	31-dec-11
Allowance for obsolete inventory	564	115	-	(4)	**675**
Total	**564**	**115**	**0**	**(4)**	**675**

	31-dec-11	Provisions	Changes in scope of consolidation	Uses and other changes	31-dec-12
Allowance for obsolete inventory	675	31	-	(183)	**523**
Total	**675**	**31**	**0**	**(183)**	**523**

24 Trade receivables

	31-dec-12	31-dec-11	Change
Trade recievables	752,086	689,312	62,774
Due from customers for invoices to be issued	543,577	547,319	(3,742)
Due from associated companies	12,298	13,729	(1,431)
Total	**1,307,961**	**1,250,360**	**57,601**

Trade receivables as at 31 December 2012 amounted to Euro 1.307.961 thousand (Euro 1,250,360 thousand as at 31 December 2011) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2012. The balances are stated net of the provisions for doubtful receivables amounting to Euro 118,490 thousand (Euro 105.244 thousand as at 31 December 2011) 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, where the situation was described extensively in the notes for the year ended 31 December 2011, it is noted that at 31 December 2012 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 Euro 4,770 thousand, compared to Euro 1,076 thousand in extraordinary charges already collected out of a total of Euro 1,242 thousand at 31 December 2011.

Changes in the allowance for bad debts in 2011 and 2012 were as follows:

	31-dic-10	Provisions	Chganges in scope of consolidation	Uses and other changes	31-dic-11
Allowance for bad debts	77,294	49,686	381	(22,117)	105,244
Total	**77,294**	**49,686**	**381**	**(22,117)**	**105,244**

	31-dic-11	Provisions	Chganges in scope of consolidation	Uses and other changes	31-dic-12
Allowance for bad debts	105,244	49,080	115	(35,949)	118,490
Total	**105,244**	**49,080**	**115**	**(35,949)**	**118,490**

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on historic analyses of the receivables regarding the general body of the customers (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the following paragraph “credit risk”.

The changes in the scope of consolidation refers to the merger of MMS Falconara S.R.L. with and into Marche Multiservizi S.p.A. and the acquisition of Energonut S.p.A., as illustrated in these notes in the “Changes in the scope of consolidation”.

Credit risk

The book value of the trade receivables shown in the financial statements is the maximum theoretical exposure to credit risk for the Group as at 31 December 2012. 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).

Trade receivables, mainly achieved in Italy, can be broken down into the following classes:

31-dic-12	Entities	Businesses	Mass Market	Total
Amount	106,613	358,787	286,686	752,086
Percentage of total	14%	48%	38%	100%

31-dic-11	Entities	Businesses	Mass Market	Total
Amount	83,321	272,495	333,496	689,312
Percentage of total	12%	40%	48%	100%

25 Contract work in progress

	31-dec-12	31-dec-11	Change
Contract work in progress	20,635	22,390	(1,755)
Total	**20,635**	**22,390**	**(1,755)**

At 31 December 2012 "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.

Decreases include mainly the reclassification to property, plant and equipment of the residual charges incurred to build the integrated-water-cycle and gas networks in the municipalities in the province of Bologna located along the motorway between Florence and Bologna.

26 Financial assets

	31-dec-12	31-dec-11	Change
Financial receivables outstanding witjh associated companies	32,960	28,146	4,814
Short-term investments and investment insurance contracts	5,480	4,470	1,010
Loans receivable	747	2,937	(2,190)
Receivables for loans given to others.	8,099	7,392	707
Total	**47,286**	**42,945**	**4,341**

The table below shows details of the “Financial receivables outstanding with associated companies” resulting from interest-bearing loans:

	31-dec-12	31-dec-11	Change
Tamarete Energia Srl	31,036	26,816	4,220
Modena Network Spa	1,500	900	600
Ghirlandina Solare Srl	244	250	(6)
Altre minori	180	180	-
Total	**32,960**	**28,146**	**4,814**

During the year additional loans were disbursed to Tamarete Energia S.R.L.,for Euro 4.220 thousand, and to Modena Network S.p.A.,for Euro 600 thousand.

“Portfolio securities and financial policies” includes bonds issued by Banca di Credito Cooperativo, amounting to Euro 4,150 thousand, and investment policies with banks, amounting to Euro 1,330 thousand.

“Receivables for loans given to others”. Of note we report:

- the extension of an interest-bearing loan through a subsidiary, Asa Scpa, with a nominal value of Euro 4,000 thousand, to non-controlling shareholder Unirecuperi S.R.L. (Gruppo Unieco) and, for the remaining part, the recognition of financial income for the year. With reference to the claim submitted under article 161, paragraph six, of the bankruptcy law by Unieco Scrl, as announced by a press release by Unieco Scrl on 11 March 2013, based on the information and other elements the feeling is that this event should not undermine the ability of Unieco S.R.L. to repay the above loan.
- the interest-bearing loan granted to the jointly controlled company Enomondo S.R.L., amounting to Euro 2,425 thousand, which represents the residual portion of the assets recorded in the separate financial statements of Parent Company Herambiente S.p.A..

27 Current tax assets

	31-dec-12	31-dec-11	Change
Income tax credits	12,665	6,164	6,501
IRES refund receivable	18,217	-	18,217
Total	**30,882**	**6,164**	**24,718**

"Income tax credits" refer to the excess advance IRES and IRAP payments over the tax amount payable.The increase from the previous year was due mainly to the deduction for IRES purposes of the IRAP paid on labour costs under Law Decree 201/2011 not deducted from these advance payments.

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. Reference is made to note 15 "Income tax" for more details.

28 Other current assets

	31-dec-12	31-dec-11	Change
Energy efficiency and emissions trading certificates	92,102	76,080	16,022
Security deposits	22,437	18,507	3,930
VAT, excise and additional taxes	22,321	43,287	(20,966)
Equalisation fund for the electricity and gas sectors for standardisation and continuity income	16,346	6,656	9,690
Due from assets companies	6,884	4,029	2,855
Insurance costs	6,508	3,819	2,689
Costs advanced for leases and rentals	6,040	3,799	2,241
Advances to suppliers/employees	5,668	4,372	1,296
Sundry tax receivables	3,293	7,399	(4,106)
Grants	4,529	4,796	(267)
Prepaid costs for waste disposal	3,688	5,463	(1,775)
Receivables related to tariff components	1,712	12,382	(10,670)
Due from social security institutions	746	539	207
Payments and concession fees for network services	124	144	(20)
Receivables from municipal authorities for tax moratorium	44	1,061	(1,017)
Employee deferred costs	7	-	7
Other receivables	16,659	19,500	(2,841)
Total	**209,108**	**211,833**	**2,725**

The breakdown and changes in the main items are described compared with 31 December 2011.

"Energy efficiency bonds and *emissions trading*", include:

- green certificates, Euro 55,457 thousand (Euro 44,951 thousand as at 31 December 2011);
- white certificates, Euro 24,001 thousand (Euro 19,280 thousand as at 31 December 2011);
- grey certificates, Euro 12,644 thousand (Euro 11,849 thousand as at 31 December 2011).

As regards green certificates, it should be noted that, in December 2011, certificates relating to the years 2008, 2009 and 2010 for the waste-to-energy plant in Ferrara were sold to GSE (Energy Services Operator).

Hera Spa accounted for the green certificates regarding the WTE plant in Ferrara, for a total amount accrued for years 2008, 2009 and 2010, equal to Euro 18,117 thousand, based on provisions envisaged by art. 1, subsections 1117 and 1118 of Law no. 296/2006 (2007 Finance Act). On 10 March 2011, GSE gave official communication that the conditions were satisfied for obtaining 100% of said certificates. Under this model, the Government provides incentives in favour of electricity power plants from renewable sources and sources assimilated to renewable sources, without making any distinction between organic and inorganic portion of waste, safeguarding the purchase right of plants, as the one located in Ferrara which, at the date of entry into operation of the budget law (1 January 2007), met all the conditions required by the aforementioned law and in particular: a) signature of the appropriate agreement with GSE, b) almost completed plant and c) necessary authorizations.In the second half of 2012, the certificates related to 2011 were also sold to GSE.

As to the WTE plants in Modena and Forlì, 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. Hera S.p.A.'s right to special waste incentives is protected by 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). 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 receivable accounted for until 2012 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.

"Security deposits", composed of:

- the deposit made to Acosea Impianti S.R.L. for Euro 12,000 thousand;
- other minor deposits in favour of public institutions and companies, Euro 8,288 thousand (Euro 4,248 thousand as at 31 December 2011). The increase was due to greater amounts deposited with the energy market operator (GME) for Euro 2,145 thousandto secure the purchase of green certificates and for Euro 1,500 thousandto greater amounts deposited for participating in auctions to purchase gas and electric energy transportation capacity;
- deposits in favour of the Property Valuation Office, Euro 2,149 thousand (Euro 2,259 thousand as at 31 December 2011) to guarantee the payment of revenue tax collected from customers.

"VAT, excise and additional taxes", amounting to Euro 22,321 thousand, reflect VAT credits for Euro 5,644thousandand excise and additional taxes receivable for Euro 16,677thousand. Compared with 31 December 2011, the difference was due to the combined effect of a decrease of Euro 23,406thousandin excise and additional regional taxes receivable (Euro 40,083 thousandat 31 December 2011) and an increase of Euro 2,440thousandin VAT credits (Euro 3,204 thousandat 31 December 2011).These changes are to be interpreted together with the changes shown in the item in liabilities, "Other current liabilities" - note 39. To understand these changes, particularly with regards to excise duties and surtaxes, note must be taken of the procedures that regulate financial relations with the Tax Authorities. In particular, advance payments during the year were calculated according to quantities of gas and electricity billed in the previous year. Using these methods, credit/debit positions can be generated with differences that are also significant between one period and another.

The item "Equalisation fund for the electricity and gas sectors for standardisation and continuity income" shows a balance of Euro 16,346 thousand (Euro 6,656 thousand as at 31 December 2011).The increase on the previous year was due to the adjustment for the gas distribution segment.In this regard please refer to note 39 “Other current liabilities”, in the item “Equalisation Fund for the Electricity Sector”.

“Insurance costs”, amounting to Euro 6,508 thousand (Euro 3,819 thousandat 31 December 2011). This item reflects the costs of insurance policies and surety bonds, which were paid before the balance sheet date.

“Sundry tax receivables”, amounting to Euro 3,293 thousand (Euro 7,399 thousandat 31 December 2011). They refer mainly to tax credits on district heating. Compared to the previous year, this item decreased mainly due to the set-off occurred during the year.

“Grants”, amounting to Euro 4,529 thousand (Euro 4,796 thousand at 31 December 2011), refer mainly to forgivable loans provided by different Authorities, which were still uncollected at year-end.

“Prepaid costs for waste disposal” reflect the difference between contributions for inconveniences paid to Municipalities and other companies (based on agreements and arrangements) and the amount attributable for the year as calculated on the basis of the tons of actual waste disposed.

“Receivables related to tariff components” 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 sums “recovered” from final customers.

As to “Receivables from municipal authorities for tax moratorium”, reference is made to note 14 “Income taxes for the year”.

29 Cash and cash equivalents

As at 31 December 2012, cash and cash equivalents totalled Euro 424,162 thousand (Euro 415,189 thousand as at 31 December 2011) and include cash, cash equivalents, and bank cheques and drafts held in centralised and decentralised accounts for a total of Euro 136 thousand. They also include bank and financial institution deposits in general, available for current transactions and post office accounts totalling Euro 424,025 thousand. To get a better grasp of the financial trends in 2012, please refer to the cash flow statement and the comments shown in the Directors' report.

30 Non-current assets held for sale

	31-dec-12	31-dec-11	Change
Land and buildings	13,831	9,930	3,901
Generic andd specific plants	323	676	(353)
Total	**14,154**	**10,606**	**3,548**

Non-current assets held for sale, which were reclassified from Property, plant and equipment, in accordance with IFRS 5, amounted to Euro 14,154thousand (Euro 10,606 thousand at31 December 2011) and related to a portion of the real estate complex of the Berti Pichat area. The area in question was supposed to be revitalized, with the construction of a new small office building and the urbanization of the surrounding space.

The increase on 2011 was due to the combined effect of:

- the redefinition of the perimeter of the Berti Pichat area for Euro 6,151 thousand;
- the sale of the building in Via Dozza n. 8 in Bologna for Euro 2,603 thousand (notary public deed dated 29 May 2012).

Contrary to initial expectations, the sale of the Berti Pichat area did not take place in 2012 for reasons not directly attributable to the Company. As negotiations with the potential buyer are still under way, the property and all its appurtenances are still classified as assets held for sale. However, the sale should be completed in 2013.

Classification of financial assets and liabilities pursuant to IFRS 7

The following table illustrates the composition of Group assets by measurement class. The *fair value* of derivatives is instead itemised in Note 22.

31-Dec-12	*Fair value through profit or loss*	Receivables and loans	Held to maturity	Available for sale	Total
Non-current assets		**17,248**		**309**	**17,557**
Financial assets measured at fair value				309	309
Due from related parties -non-current		17,176			17,176
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 measured at fair value				5,480	5,480
Due from related parties -current		35,590			35,590
Financial receivables		6,216			6,216
Other assets	62,939	177,051			239,990
31-Dec-11	***Fair value through profit or loss***	**Receivables and loans**	**Held to maturity**	**Available for sale**	**Total**
Non-current assets		**10,730**		**309**	**11,039**
Financial assets measured at fair value				309	309
Due from related parties -non-current		10,621			10,621
Receivables		109			109
Current assets	**51,028**	**1,455,804**		**4,470**	**1,511,302**
Trade receivables		1,250,360			1,250,360
Financial assets measured at fair value				4,470	4,470
Due from related parties -current		30,601			30,601
Financial receivables		7,874			7,874
Other assets	51,028	166,969			217,997

With regard to "non-current assets", please see the details in Note 20.
With regard to "current assets", please see the itemization in Notes 24, 26, 27 and 28.

The following table illustrates the composition of Group liabilities by measurement class. The *fair value* of derivatives is instead itemised in Note 22.

31-Dec-12	*Fair value* through profit or loss	Hedged items (*fair value hedge*)	Amortised cost	Total
Non-current liabilities		**703,943**	**1,750,407**	**2,454,350**
Borrowings		703,943	1,737,051	2,440,994
Lease finance payables			13,356	13,356
Current liabilities	**4,045**		**1,853,643**	**1,857,688**
Borrowings			317,560	317,560
Lease finance payables			3,767	3,767
Trade payables			1,165,838	1,165,838
Other liabilities	4,045		366,478	370,523
31-Dec-11	***Fair value* through profit or loss**	**Hedged items (*fair value hedge*)**	**Amortised cost**	**Total**
Non-current liabilities		**719,114**	**1,691,425**	**2,410,539**
Borrowings		719,114	1,686,148	2,405,262
Lease finance payables			5,277	5,277
Current liabilities	**2,795**		**1,717,848**	**1,720,643**
Borrowings			118,467	118,467
Lease finance payables			3,683	3,683
Trade payables			1,229,242	1,229,242
Other liabilities	2,795		366,456	369,251

With regard to "non-current liabilities", please see the details in Notes 32 and 36.
With regard to "current liabilities", please see the itemization in Notes 32,36,37,38 and 39.

Statement of financial position – Liabilities and Equity

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

The share capital as at 31 December 2011 was Euro 1,115,013,754, fully paid-up, and represented by 1,115,013,754ordinary shares with a nominal value of Euro 1 each.

Treasury shares

"Treasury shares" amounted to Euro 13,813 thousand; they reflect the number of own shares held by the Company as at 31 December 2012 and their amount is deducted from share capital. The items "Reserve for gains/losses on sale of treasury shares" and "Reserve for treasury shares exceeding nominal value" are recorded among the shareholders' equity reserves for a negative value of Euro 877 thousand and a negative value of Euro 3,304 thousand, respectively. These reserves, established in compliance with the accounting standards of reference, reflect the treasury shares transactions carried out as at 31 December 2012. The change during the year generated capital losses amounting to Euro 90 thousand.

Reserves

The item "Reserves", equal to Euro 540,138 thousand, includes the following reserves:

- "legal" for Euro 36,142 thousand,
- "extraordinary" for Euro 14,170 thousand,
- "revaluation" for Euro 2,885 thousand,
- "share premium reserve" for Euro 15,269 thousand,
- "capital account payments" for Euro 5,400 thousand,
- "retained earnings" for Euro 49,886 thousand,
- "share swap surplus" for Euro 42,408 thousand,
- ["IFRS 3 reserve" for Euro 227,008 thousand, deriving from the integrations of Agea S.p.A., Meta S.p.A., Geat Distribuzione Gas S.p.A., Sat S.p.A., Agea Reti S.R.L., Con.Ami and Area Assets S.p.A.;
- "IAS/IFRS reserve" for Euro 144,944 thousand, generated after adoption of international accounting standards;
- "reserve for dividends received on treasury shares", for Euro 2,026 thousand,

Cash Flow-Hedge Reserve

As at 31 December 2012, this reserve had a negative balance of Euro 5,993 thousand following changes determined by the *fair value* valuation of reference derivatives

Retained earnings

The item totals Euro 2,061 thousand.

32 Payables to banks and medium/long- and short-term financing

At 31 December 2012 the Group's borrowings amounted to Euro 2,758,554 thousand; the medium- and long-term portion totalled Euro 2,440,994 thousand (Euro 2,405,262 thousandat 31 December 2011) and consisted of bonds for Euro 1,868,869 thousandand loans and other borrowings for Euro 572,125 thousand.
Short-term borrowings amounted to Euro 317,560 thousand (Euro 118,467 thousand at 31 December 2011), reflecting sums due to banks and other lenders.
Compared to the previous year, the change in medium- and long-term borrowings was due to new loans for Euro 327.5 million, which were used in part to restructure the RBS Put Loan for nominal Euro 70 million and in part to fund new investments. In particular, attention is called to a loan by the European Investment Bank (EIB) for Euro 125 million to finance the upgrading and expansion of the gas and electricity grids (15-year amortizing loan, with interest rate of 1.46% over 6-month Euribor). Attention is called also to the bond issue of Euro 102.5 million which took place on 14 May 2012, maturing in 15 and 20 years, at a fixed rate of 5.25%.
At 31 December 2012 the Hera Group provided the following security interests:

- Mortgages and special liens on property, plant and equipment to the syndicate of banks that extended a loan to the subsidiary Fea S.R.L., whose nominal amount outstanding is now Euro 51,900 thousand;
- Mortgages to secure the loan provided to the subsidiary Nuova Geovis S.p.A., whose balance outstanding is now Euro 2,375 thousand;
- Mortgages on the buildings of Pesaro and Urbino of Gruppo Marche Multiservizi in favour of a bank that extended a loan whose balance outstanding is now Euro 3,986 thousand.

The table below shows the bonds and loans as at 31 December 2012, with an indication of the portion expiring within and after 5 years.

million of euros	Balance 31-dec-12	Amount due within 12 months	Amount due within 5 years	Amount due beyond 5 years
Bonds	1,869	-	499	1,370
Convertible bonds	139	139	-	-
Loans and mortgages	601	79	318	203
Loans secured by collateral	58	8	37	14
Current bank borrowings	75	75	-	-
Other borrowings	17	17	-	-
Total	**2,759**	**318**	**854**	**1,587**

The main terms and conditions of the puttable bonds and loans are shown below :

Bonds and Puttable Loans		Tenor (years)	Maturity	Nominalvalue (€/mm)	Coupon	Annual interest rate
Convertible bond	Luxembourg Stock Exchange	3	1-ott-13	140	Fixed, six-monthly	1.75%
Eurobond	Luxembourg Stock Exchange	10	15-feb-16	500	ixed, annua	4.13%
Eurobond	Luxembourg Stock Exchange	10	3-dic-19	500	ixed, annua	4.50%
Bond	Listed on the EuroTLX Markets	13	17-nov-20	100	Fixed, six-monthly	6.32%
Bond		15/20	14-mag-2027/2032	103	ixed, annua	5.25%
Put Loan	As of 2010 the bondholder may request repayment of nominal value every two years	13	6-dic-20	70	Fixed. Quarterly	4,44%+CS
Bond	Cross Currency Swap 149,8 €mln	15	5-ago-24	20.000 JPY	Fixed, six-monthly	2.93%
Put Bond	As of 2012 the bondholder may request repayment of nominal value every two years	23	10-ott-31	250	Fixed. Quarterly	4,65% +CS
Put Bond	As of 2011 the bondholder may request repayment of nominal value every two years	27	8-ago-34	200	Fixed. Quarterly	Euribor 3m - 0,45%

At 31 December 2012, the total bonds outstanding, with a nominal value of Euro 1,942 million, had a fair value of Euro 2,232 million, inclusive of euro 669 million in puttable bonds, 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 itsrating below investment grade (BBB-). As of the balance sheet date this covenant was met.

Moreover, it is noted that the Group finalized a 15-year bond issue of Euro 700 million, carrying a fixed rate of interest of 5.20%, whose proceeds were used in part to refinance the puttable bonds.

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 2012 unused lines of credit amounted to approximately Euro 1,000 million.

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.

	31-dec-11	Provisions		Uses and other movements	Changes inthe scope of consolidation	31-dec-12
		provisions	Financial charges			
Employee leaving indemnity	83,964	487	3,959	(6,437)	1,527	83,500
Provision for tariff reduction	3,353	572	187	(396)	-	3,716
Premugas fund	2,209	253	102	(407)	-	2,157
Gas discount	2,069	117	80	(273)	-	1,993
Total	**91,595**	**1,429**	**4,328**	**(7,513)**	**1,527**	**91,366**

The item "Uses and other movements" mainly includes the amounts paid to employees.
The "Changes in the scope of consolidation" reflects the post-employment benefits of Ergonut S.p.A. (Euro 264 thousand) and Marche Multiservizi Falconara S.R.L. (Euro 1,263 thousand), as indicated in the section on the "Changes in the scope of consolidation" of these notes.

The main assumptions used in the actuarial estimate of the employee benefits are as follows:

	31-dec-12	31-dec-11
Annual discount rate	2.89%	4.78%
Annual rate of inflation	2.10%	1.70%
Annual salary increases	3.90%	3.50%
Annual rate of increase of employee leaving indemnity	3.08%	2.78%
Annual employee departure for reasons other than death	1.10%	1.71%
Annual usage rate of employee leaving indemnity	1.50%	1.42%

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.

34 Provisions for risks and charges

	31-dec-11	Provisions provisions	Financial charges	Uses and other movements	Changes inthe scope of consolidation	31-dec-12
Provisions for landfill post-closure and closure expenses	96,638	3,250	6,501	(5,374)	-	101,015
Provision for restoration of third-party assets	94,651	7,499	4,858	-	-	107,008
Provisions for labour disputes	19,934	12,274	-	(7,761)	-	24,447
Other provisions for risks and charges	15,832	14,944	-	(11,444)	95	19,427
Total	**227,055**	**37,967**	**11,359**	**(24,579)**	**95**	**251,897**

The provision for landfill closure and post-closure expenses, equal to Euro 101,015 thousand, represents the amount set aside to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently in use. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted back in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component inferred from the discounting back procedure, while the uses represent the effective outlays which came about during the year.

"Uses and other movements" decreased by Euro 5,374 thousand, as follows:

- "uses", amounting to Euro 8,149 thousand, reflect the actual monetary outlays for the management of landfills; of this, the sum of Euro 2,612 thousand was released to income as "other revenues" (see in particular note 5 of the income statement);
- "other movements", amounting to Euro 2,775 thousand, reflect provisions in line with estimated closure and post-closure costs of newlandfills, which entailed an adjustment for an equalamount to property, plant and equipment (Note 16).

The provision for restoration of third-party assets, totalling Euro 107,008 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. Pursuant to IAS 37, 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 Euro 24,447 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees.This provision includes Euro 13.8 million, a sum that was set aside on 25 January 2013 for the settlement of a dispute that the Hera Group had had with INPS, Regione Emilia Romagna and Equitalia for over a decade in connection with contributions to pay for unemployment benefits (CIG, CIGS, mobility), a reduction of contribution rates for family allowances (CUAF) and maternity leave contributions for staff governed by the national agreement on the electric sector in Modena. The agreement calls for the payment of the sum in two instalments (February and April 2013), with the filing of a petition to reduce the penalties, to be followed, once this amount is known, by extended payment terms for this sum.
For the cases in the first instance and at the second level of jurisdiction, a request will be made to acknowledge that the matters were terminated.

The **other provisions for risks and charges**, amounting to Euro 19,427 thousand, comprises provisions made against sundry risks. Below, there is a description of the main items:

- Euro 2,400 thousandfor any reimbursement of the return on invested capital based on the resolution of the Authority dated 31 January 2013 no. 38/2013/R/IDR "Start of procedure for the reimbursement to final users of the component of the tariff for the integrated water service related to the return on capital, which was repealed following the referendum held on 12 and 13 June 2011, for the period 21 July – 31 December 2011 not covered by the transitory tariff method";
- Euro 2,953 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 component of avoided fuel cost (CEC) for 2010, 2011 and 2012;
- Euro 2,184 thousand, related to costs for the disposal of waste stored in the Group's facilities;
- Euro 2,066thousand, 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;
- Euro 1,604 thousand, related to the provisions made to cover actual losses considering the prospects of Oikothen Scral;
- Euro 1,116 thousand related to the provisions made in relation to possible effects of AEEG resolution 89/08 (ec79/07) which calls for the gas selling company to return money to final customers under the basic tariff option for the first half of 2006. The remaining amount at 31 December 2012 reflects a more prudential scenario for the amount to be provided to final customers;
- 541Euro thousand, reflecting provisions for future charges related to the creation of a landfill by a subsidiary;
- Euro 522 thousand, related to continuity charges for the electric service;
- Euro 438thousand, related to the fund called "Valle Savio", which was set up to perform works in the community adjacent to the Busca landfill, in the city of Cesena, as provided for under the service concession arrangements;
- Euro 350 thousandfor potential litigation in relation to transportation expenses;
- Euro 313 thousand related to potential charges for property taxes (ICI) due to possible changes in the assessed value of certain items of environmental equipment;
- Euro 182 thousand, related to provisions to the "leak fund" for the water service for indemnities to customers.

35 Deferred tax liabilities

	31-dec-12	31-dec-11	Change
Deferred tax liabilities	78,114	76,057	2,057
Total	**78,114**	**76,057**	**2,057**

Deferred tax liabilities result from the timing differences between reported income and taxable income. In addition, this item includes deferred taxes arising following the application of IFRSs/IAS to the “Provision for the restoration of third-party assets”, “Provisions for landfill post-closure costs”, “Property,plant and equipment”, “Finance leases” and 2Post-employment benefits”.
Additional details are available in note 15 “Income taxes for the period”.

36 Finance lease payables

	31-dec-12	31-dec-11	Change
Finance leases payable within 12 months	3,767	3,683	84
Finance leases payable beyond 12 months	13,356	5,277	8,079
Total	**17,123**	**8,960**	**8,163**

This item represents the recording of payables arising from the accounting of lease transactions as finance leases. The change from the previous period related to a transaction involving four photovoltaic plants, which were previously owned (Euro 11,223 thousand), in addition to a decrease due to payments made during the period (Euro 3,060 thousand).

Details of finance lease payables, broken down by asset category, are shown below:

Finance leases payable	31-Dec-11			
	Due within 12 months	Medium/long-term payables 1-5 years	Medium/long-termpayables beyond 5 years Oltre 5 anni	Payments not yet due
Land and buildings	1,838	1,138	-	3,054
Plants and machinery	1,117	2,424	-	3,927
Other moveable assets	728	1,715	-	2,688
Total finance leases payable	**3,683**	**5,277**		**9,669**

Finance leases payable	31-Dec-12			
	Due within 12 months	Medium/long-term payables 1-5 years	Medium/long-termpayables beyond 5 years Oltre 5 anni	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 leases payable	**3,767**	**4,511**	**8,845**	**23,783**

The net value of assets recorded in the financial statements is shown below (please refer to the values indicated in note 16 “Property,plant and equipment”):

Carrying amount, net	31-dec-11	Assets held through finance lease arrangements		31-dec-12
		Increases	Decreases	
Land and buildings	10,138	-	(373)	9,765
Plants and machinery	3,490	14,242	(1,087)	16,646
Other moveable assets	3,150	-	(1,124)	2,025
Totalassets held through finance lease arrangements	**16,778**	**14,242**	**(2,584)**	**28,436**

The above data reflect solely assets utilized in connection with lease agreements still in place. At 31 December 2011 this item included also leased assets already purchased or purchased earlier.

37 Trade payables

	31-dic-12	31-dic-11	Change
Trade payables	626,340	608,496	17,844
Trade payables - invoices recevable	515,150	599,357	(84,207)
Payables for advances received	18,315	12,861	5,454
Due to associated companies	6,036	8,531	(2,495)
Due to non-consolidated subsidiaries	(3)	(3)	-
Total	**1,165,838**	**1,229,242**	**(63,404)**

"Trade payables", all of a commercial nature and inclusive of sums set aside to cover invoices due, total Euro 1,141,490 thousand as at 31 December 2012 compared to Euro 1,207,853 thousand as 31 December 2011.

"Payables for advances received" relate to advances received in relation to tender contracts for environmental reclamation and gas supply. The main changes compared with 2011 related to:

- further advances received in relation to contracts for the sale of green and grey certificates by associated company Set S.p.A., Euro 4,035thousand;
- Different classification by a Group company which, at 31 December 2011, had recorded an advance received under "Other current liabilities", Euro 1,706 thousand;
- completion of reclamation work. This payable was extinguished in 2012 with a reversal to revenue for Euro 989 thousand.

The majority of trade payables are the result of transactions carried out in Italy.

The key amounts owed to associated companies, again for commercial reasons, are itemised below:

	31-dec-12	31-dec-11	Change
So.Sel Spa	1,748	1,782	(34)
FlameEnergy Trading Gmbh	1,310	-	1,310
Estense Global Service Scral	775	2,145	(1,370)
Service Imola Srl	704	893	(189)
SGR Spa	606	-	606
Aimag Spa	600	69	531
Modena Network Spa	598	363	235
Set Spa	(413)	3,241	(3,654)
Other minor	108	38	70
	6,036	**8,531**	**(2,495)**

38 Current tax liabilities

	31-dic-12	31-dic-11	Change
Income tax payable	6,202	12,355	(6,153)
Substitute income tax payable	14,261	24,643	(10,382)
Total	**20,463**	**36,998**	**(16,535)**

The most significant changes that have occurred since last year are noted below:

“Income tax due” is attributable to the setting aside of taxes accrued on the income generated during the period.

“Substitute tax payable” reflects the remaining instalments to be paid for the value alignment of certain assets (see note 15 “income taxes for the period”).

39 Other current liabilities

	31-dec-12	31-dec-11	Change
Security deposits	65,107	64,632	475
Capital grants	21,725	22,232	(507)
Personnel	19,029	15,490	3,539
Due to social security institutions	15,811	15,316	495
Payables due to advances to the Equalisation Fund	15,472	11,663	3,809
Equalisation Fund for the Electricity and Gas Sectors	11,232	16,411	(5,179)
Payables for tariff components	7,725	7,177	548
VAT	6,942	-	6,942
Employee withholdings	3,809	3,047	762
Excise and adidtional taxes	3,376	3,395	(19)
Municipalities for environmental inconveniences and guarantees	3,338	2,417	921
Due to shareholders for dividends	2,310	-	2,310
Certificates of energy efficiency and emission trading	757	742	15
Insurance and deductibles	591	577	14
Other taxes payable	369	365	4
Customers	343	343	-
Sewerage fees	287	188	99
Directors, Statutory Auditors and Area Committees	47	87	(40)
Third-party project and study work Lavori c/terzi per studi/proget/cons.	-	319	(319)
Other payables	11,753	9,776	1,977
Total	**190,023**	**174,176**	**15,847**

Comments are provided below on the most significant items and the associated changes as at 31 December 2011.

"Guarantee deposits" reflect the sums paid by customers for gas, water and electricity administration agreements. The increase on 2011 was due mainly to the adjustments of the gas deposits required by AEEG resolution no. 99/11 of 29 July 2011, which raised the previous levels and, to a lesser extent, to the adjustment of deposits of electricity customer in the standard offer market, which was effected through an increase in electricity prices.

"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.

The item "Personnel" relates to holidays accrued but not yet taken as at 31 December 2012, productivity bonus and accrued salaries recorded. The increase was due mainly to unused holidays and the performance bonus.

"Payables to social security institutions" relate to contributions due to these institutions for the month of December.

As of 31 December 2012 "Payables due to advances to the Equalisation Fund" amounted to Euro 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 while the remaining 30% will be collected on 30 June 2013.

"Equalisation Fund for the Electricity and Gas Sectors", reflects the debt positions for equalisation on the gas distribution/measurement, some components of the gas service system and equalisation of the electricity service. The increase on the previous year was duemainly to the equalisation of the electric service and certain components of the gas service.

"Value-added tax" decreased from the comparable amount in 2011 due to sales trends in 2011, which reduced the Group's debt exposure.

Excise and surcharges" fell compared to 31 December 2011. For an explanation please see note 28 "other current assets", and particularly the mechanism that governs the financial relations with the tax authority.

"Municipalities for environmental inconvenience and guarantees" relate 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 32012. The decrease from the comparable amount in 2011 was due to payments made in 2012.

"Payables to shareholders for dividends" reflect the debt towards non-controlling shareholders of the following subsidiaries:

- Fea S.R.L., Euro 5,586 thousand (Euro 8,771 thousand in 2011);
- Romagna Compost S.R.L., 364 Euro thousand.

"Certificates of energy efficiency and emission trading" refer to:

- grey certificates for Euro 1,768 thousand (Euro 1,625 thousandin 2011);
- green certificates for Euro 2,277 thousand (Euro 1,170 thousandin 2011.

This item reflects the obligation to return the certificates to the competent authorities on the basis of the applicable rules.

"Other tax payables" include mainly the amount of the ecotax payable for the last quarter of 2012, which was paid in 2013.

IFRS 8
IFRS 8

2012 Income statement

millions of euro	Gas	Electricity	Water cycle	Waste management	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
Infra-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**	**662.0**	**662.0**
Direct Deprec., Amort. And Prov.	50.8	42.0	72.8	108.1	17.6	35.3	326.6	326.6
Indirect Deprec., Amort. And Prov.	8.2	4.6	11.1	10.3	1.0	-35.3		
Total Deprec., Amort. And Prov.	**59.0**	**46.6**	**83.9**	**118.5**	**18.6**	**0.0**	**326.6**	**326.6**
EBIT	**181.7**	**15.7**	**74.4**	**65.0**	**-1.4**	**0.0**	**335.4**	**335.4**

2011 Income statement

millions of euro	Gas	Electricity	Water cycle	Waste management	Other services	Structure	Total	Consolidated financial statements
Direct revenues	1,457.0	1,524.4	588.4	636.0	75.3	34.8	4,315.9	4,315.9
Infra-cycle revenues	30.0	59.4	6.4	58.9	23.2	17.2	195.1	
Total direct revenues	**1,487.0**	**1,583.8**	**594.8**	**694.9**	**98.5**	**52.0**	**4,510.9**	**4,315.9**
Indirect revenues	3.2	1.5	1.9	45.2	0.2	-52.0	0.0	
Total revenues	**1,490.2**	**1,585.2**	**596.7**	**740.1**	**98.7**	**0.0**	**4,510.9**	**4,315.9**
EBITDA	**208.7**	**73.2**	**150.2**	**194.2**	**18.5**	**0.0**	**644.8**	**644.8**
Direct Deprec., Amort. And Prov.	51.1	40.8	66.2	99.0	17.4	35.8	310.3	310.3
Indirect Deprec., Amort. And Prov.	8.4	4.7	11.0	10.6	1.1	-35.8		
Total Deprec., Amort. And Prov.	**59.5**	**45.5**	**77.2**	**109.6**	**18.5**	**0.0**	**310.3**	**310.3**
EBIT	**149.2**	**27.7**	**73.0**	**84.6**	**0.0**	**0.0**	**334.5**	**334.5**

Balance sheet December 2012

millions of euro	Net working capital	Net fixed assets	Provisions	Shareholders ' 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
Waste managements	286.4	1,188.7				1,475.1
Other services	50.1	124.5				174.6
Total liabilities	**1,574.6**	**14.5**	**421.4**	**1,894.9**	**2,794.2**	**6,699.5**
Financial liabilities and loans					2,794.2	2,794.2
Tax liabilities	61.1	0.0	78.1			139.2
Unallocated Group liabilities	0.0	14.5	4.0	1,894.9		1,913.3
Sector liabilities	**1,513.5**	**0.0**	**339.3**	**0.0**	**0.0**	**1,852.7**
- of which:						
GAS	474.8		83.8			558.6
Electricity	436.6		14.9			451.5
Water cycle	231.1		79.8			310.9
Waste management	321.8		154.0			475.8
Other services	49.2		6.8			56.0
Comprehensive total	**114.2**	**4,418.7**	**-421.4**	**-1,894.9**	**-2,216.6**	**0.0**

Balance sheet December 2011

millions of euro	Net working capital	Net fixed assets	Provisions	Shareholders ' equity	NFP	Consolidated financial statements
Total assets	**1,614.7**	**4,306.1**	**0.0**	**0.0**	**549.8**	**6,470.7**
Financial assets and cash and cash equivalents					549.8	549.8
Tax assets	57.0	105.5				162.5
Unallocated Group assets	10.2	327.1				337.3
Sector activities	**1,547.6**	**3,873.5**	**0.0**	**0.0**	**0.0**	**5,421.1**
- of which:						
GAS	521.9	921.2				1,443.1
Electricity	479.5	541.8				1,021.3
Water cycle	217.9	1,126.6				1,344.5
Waste managements	282.1	1,153.3				1,435.4
Other services	46.2	130.7				176.8
Total liabilities	**1,646.2**	**13.5**	**394.7**	**1,879.4**	**2,536.9**	**6,470.7**
Financial liabilities and loans					2,536.9	2,536.9
Tax liabilities	91.5		76.1			167.5
Unallocated Group liabilities	4.8	13.5	4.1	1,879.4		1,901.9
Sector liabilities	**1,549.9**	**0.0**	**314.5**	**0.0**	**0.0**	**1,864.4**
- of which:						
GAS	478.1		78.3			556.4
Electricity	472.0		16.0			488.0
Water cycle	219.4		68.0			287.5
Waste management	335.5		145.6			481.1
Other services	44.8		6.6			51.4
Comprehensive total	**-31.5**	**4,292.7**	**-394.7**	**-1,879.4**	**-1,987.1**	**0.0**

Revenues, credit and debt positions, are realised primarily in respect of entities that operate in Italy.

Guarantees provided

	31-dec-2012	31-dec-2011
Bank sureties and guarantees:	1,023,845	890,986
Insurance sureties and guarantees:	227,353	184,863
Total	**1,251,198**	**1,075,849**

At 31 December 2012, bank sureties and guarantees included:

- Euro 314,674 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 663,758 thousand for sureties and comfort letters issued to guarantee the prompt payment of raw material supplies;
- Euro 33,150 thousand for the surety issued by the Parent Company on behalf of associated company Set S.p.A. to guarantee the loan extended to it by Banca Infrastrutture Innovazione e Sviluppo S.p.A.;
- Euro 10,800 thousand for sureties issued by the Parent Company on behalf of associated companies Set S.p.A.and Flame Energy Trading in favour of third parties to guarantee the fulfilment of contract obligations with third parties;
- Euro 596 thousand for sureties issued in favour of the Revenue Agency for the refund of VAT credits on behalf of Hera S.p.A. and the subsidiary Romagna Compost S.R.L.;
- Euro 580 thousandfor the surety issued on behalf of the associated company Oikothen Scarl to secure a loan provided by BNP Paribas:
- Euro 287 thousand for the surety issued on behalf of the associated company Modena Network S.p.A.to secure a loan provided by Unicredit.

At 31 December 2012, insurance sureties and guarantees included:

- Euro 227.353 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-dec-2012	31-dec-11
Commitments		
Third party assets in use by the Hera Group	1,257,186	1,257,873
Collateral security in favour of third parties	174,856	170,650
Other commitments	5,381	5,402
Total	**1,437,423**	**1,433,925**

1. "Third party assets in use by the Hera Group" may be broken down as follows:
   - Euro 1,144,530 thousand for assets used by the Parent Company by way of concession or lease of business unit;
   - Euro 88,319 thousand for assets used by the Marche Multiservizi Group by way of lease of a business unit for the gas service;
   - Euro 15,690 thousand for assets used by subsidiary Medea by way of concession for the gas networks of the Municipality of Sassari;
   - Euro 4,127 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 4,520 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 the subsidiary Nuova Geovis S.R.L. for Euro 2,375 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 5,381 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 HeraS.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 (formerly AATO now 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 the former AATOs (now Atersirr), 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 the former AATOs (now 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. The unit tariffs are established annually by the former AATOs (now Atesir) on the basis of long-term arrangements. However, starting in 2012, tariffs fall within the purview of the Authority for Electric Energy and Gas (AEEG) which, in connection with this new function, set a provisional tariff setting method for 2012-2013. The new 2012 tariffs will be approved by AEEG by 30 June 2013.
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 the former AATOs (now Atesir).

Waste management sector

Hera manages municipal waste management services; the agreements drawn up between Hera and the former AATOs (now Atesir) covers the exclusive management of waste management services, street sweeping and washing, initial recycling and waste disposal, etc. The agreements with the former AATOs (now 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 the services performed was defined until 2012 in accordance with Presidential Decree No. 158/1999, where the tariff is 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 theowners are governed by service award agreements or business unit lease contracts and, for anything not covered thereunder, by prevailing industry rules.

As regards the economic aspect, business unit lease contracts fix the amount due from the operator to the owners for the use of networks and plants. On the basis of these contracts Hera must carry out, at its own cost and expense, ordinary and extraordinary maintenance as well as the expansion of the networks, as provided for in the investment plans agreed with the asset companies and, where relevant, by the area plans defined by the former AATOs (now Atesir).

Upon expiry of the lease contracts, provision is made for the handover of the business units to the owner, in a normalstate 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 associatedassets.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, implementing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the Directors' Report. Hera 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.

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 the Italian Authority for Electricity and Gas to the consumers. 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 the Italian Authority for Electricity and Gas and subsequent amendments and additions ("Provisions of the Italian Authority for Electricity and Gas for carrying out electricity transmission, distribution and measurement services for the regulatory period 2012-2015 and provisions regarding the economic conditions regulating the provision of the connection service"), which replaced the previous resolution no. 348/2007 applicable up to 31/12/2011 ("Amended provisions for the supply of electricity transmission, distribution and metering services for the regulatory period 2008-2011 and provisions regarding the economic conditions regulating the provision of the connection service").

Values shown in the table as at 31 December 2012, refer to the related parties hereunder:

Group A. Related parties non-consolidated subsidiaries:
Calorpiù Italia Scarl in liquidazione
Consorzio Frullo
Solhar Alfonsine S.R.L.
SolHAr Piangipane S.R.L.
SolHAr Ravenna S.R.L.
SolHAr Rimini S.R.L.

Group B. Jointly controlled associated companies:
Adriatica Acque S.R.L.
Aimag S.p.A.
Enomondo S.R.L.
Estense Global Service Soc.Cons.a r.l.
FlameEnergy Trading Gmbh
Ghirlandina Solare S.R.L.
Modena Network S.p.A.
Natura S.R.L. in liquidazione
Oikothen Scarl in liquidazione
Q.Thermo S.R.L.
Refri S.R.L.
Sei S.p.A.
Service Imola S.R.L.
Set S.p.A.
Sgr Servizi S.p.A.
So.Sel S.p.A.
Tamarete Energia S.R.L.

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 Ravenna
Comune di Rimini
HSST - Modena S.p.A.
Livia Tellus Governance S.p.A.

Group D. Other related parties:

Acosea Impianti S.R.L.
Amir - Asset
Aspes S.p.A.
Azimut S.p.A. - Asset
Calenia Energia S.p.A.
Con.Ami
Energia Italiana S.p.A.
Fiorano Gestioni Patrimoniali S.R.L.
Formigine Patrimonio S.R.L.
Galsi S.p.A.
Holding Ferrara Servizi S.R.L.
Maranello Patrimonio S.R.L.
Megas Net S.p.A.
Ravenna Holding S.p.A.
Rimini Holding S.p.A.
Romagna Acque S.p.A.
Sassuolo Gestioni Patrimoniali S.R.L.
Serramazzoni Patrimonio S.R.L.
Società Italiana Servizi S.p.A. - Asset
Sis Società Intercomunale di Servizi S.p.A. in liquidazione
TE.AM. Società Territorio Ambiente S.p.A. - Asset
Unica Reti - Asset
Wimaxer S.p.A. in liquidazione
Sindaci, Amministratori, Dirigenti strategici

2.04 Net Financial Indebt

2.04.01 Consolidated net financial indebtedness

In accordance with the requirement under Consob notification of 28 July 2006 and in compliance with the CERS recommendation of 10 February 2005 "*Recommendations for the standard implementation of European Commission rules on information prospectuses*", we note that the net financial position is as follows:

Millions of euro		31-dec-2012	31-dec-2011
a	**Cash and cash equivalents**	**424.2**	**415.2**
b	**Other current financial receivables**	**47.3**	**42.9**
	Short-term bank borrowings	(74.7)	(78.8)
	Current portion of bank borrowings	(225.7)	(39.1)
	Other current borrowings	(17.1)	(0.5)
	Finance lease payments - due within 12 months	(3.8)	(3.7)
c	**Current borrowings**	**(321.3)**	**(122.1)**
d=a+b+c	**Current net borrowings**	**150.2**	**336.0**
e	**Non-current financial receivables**	**17.6**	**11.0**
	Non-current bank borrowings and bonds issued	(2,371.0)	(2,328.8)
	Other non-current borrowings	0	0
	Finance lease payments - due beyond 12 months	(13.4)	(5.3)
f	**Non-current borrowings**	**(2,384.4)**	**(2,334.1)**
g=e+f	**Non-current net borrowings**	**(2,366.8)**	**(2,323.1)**
h=d+g	**Net borrowings**	**(2,216.6)**	**(1,987.1)**

2.04.02 Net financial indebtedness - Related parties

(€/millions)		31-dic-2012	vhich related par				31-dic-2011	vhich related par			
			A	B	C	D		A	B	C	D
a	**Cash and cash equivalents**	**424.2**					**415.2**				
b	**Other current financial receivables**	**47.3**					**42.9**				
	of which related parties			**33.0**		**0.2**			**28.1**		**0.4**
	Short-term bank borrowings	(74.7)					(78.8)				
	Current portion of bank borrowings	(225.7)					(39.1)				
	Other current borrowings	(17.1)					(0.5)				
	Finance lease payments - due within 12 months	(3.8)					(3.7)				
c	**Current borrowings**	**(321.3)**					**(122.1)**				
d=a+b+c	**Current net borrowings**	**150.2**		**33.0**		**0.2**	**336.0**		**28.1**		**0.4**
e	**Non-current financial receivables**	**17.6**					**11.0**				
	of which related parties			**17.1**					**10.6**		
	Non-current bank borrowings and bonds issued	(2,371.0)					(2,328.8)				
	Other non-current borrowings	0.0					0.0				
	Finance lease payments - due beyond 12 months	(13.4)					(5.3)				
f	**Non-current borrowings**	**(2,384.4)**					**(2,334.1)**				
g=e+f	**Non-current net borrowings**	**(2,366.8)**		**17.1**			**(2,323.1)**		**10.6**		
	of which related parties										
h=d+g	**Net borrowings**	**(2,216.6)**					**(1,987.1)**				
	of which related parties			**50.1**		**0.2**			**38.7**		**0.4**

Change in related parties				
Hera S.p.A. extended an interest-bearing loan to Tamarete Energia Srl	**31.0**		26.7	
Herambiente extended an interest-bearing loan to società Refri Srl	**0.2**		0.2	
Acantho S.p.A. extended an interest-bearing loan to Modena Network S.p.A.	**1.5**		0.9	
Hera S.p.A. extended an interest-bearing loan to Modena Network S.p.A.	**1.0**		1.0	
Hera S.p.A. extended an interest-bearing loan to Oikothen Scral	**2.6**		0.3	
Hera S.p.A. extended an interest-bearing loan to Set S.p.A.	**10.1**		5.9	
Hera S.p.A. extended an interest-bearing loan to Sei S.p.A.	**3.5**		3.3	
Hera Energie Rinnovabili S.p.A. extended an interest-bearing loan to Ghirlandina Solare Srl	**0.2**		0.2	
Acantho extended an interest-bearing loan to Wimaxer S.p.A.		**0.2**		0.4
Trading extended an interest-bearing loan to Dyne Green			**0.2**	
	50.1	**0.2**	38.7	0.4

2.05 Equity investments

2.05.01 List of consolidated companies

Name	Registered office	Share capital	% held direct	% held indirect	Total interest
Subsidiaries					
Parent company : Hera Spa	**Bologna**	**1,115,013,754**			
Acantho Spa	Imola (Bo)	22,500,000	79.94%		79.94%
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%
Energonut	Bologna	2,481,795		75.00%	75.00%
Eris Scrl	Ravenna	300,000		51.00%	51.00%
Famula On-line Spa	Bologna	4,364,030	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%
Gal.A. Spa	Bologna	300,000		45.00%	45.00%
HeraAmbiente Spa	Bologna	271,148,000	75.00%		75.00%
Hera Comm Srl	Imola (Bo)	53,136,987	100.00%		100.00%
Hera Comm Marche Srl	Urbino (Pu)	1,977,332		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%
Hera Servizi Cimiteriali S.r.l.	Bologna	20,000	100.00%		100.00%
Hera Servizi Funerari S.r.l	Bologna	10,000	100.00%		100.00%
Herasocrem Srl	Bologna	100,000	51.00%		51.00%
Hera Trading Srl	Imola (Bo) (**)	22,600,000	100.00%		100.00%
Marche Multiservizi Spa	Pesaro	13,484,242	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%
Nuova Geovis Spa	Sant'Agata Bolognese (Bo)	2,205,000		38.25%	38.25%
Romagna Compost Srl	Cesena (Fc)	3,560,002		45.00%	45.00%
Sinergia Srl	Forlì (Ce)	579,600		59.00%	59.00%
Sotris Spa	Ravenna	2,340,000	5.00%	52.50%	57.50%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Jointly controlled associated companies					
Enomondo Srl	Faenza (Ra)	14,000,000		37.50%	50.00%
Associated companies					
Aimag Spa*	Mirandola (Mo)	78,027,681	25.00%		25.00%
FlameEnergy Trading Gmbh	Vienna	3,000,000		50.00%	50.00%
Ghirlandina Solare Srl	Concordia Sulla Secchia (Mo)	60,000		33.00%	33.00%
Modena Network Spa	Modena	3,000,000	14.00%	23.98%	37.98%
Q.Thermo Srl	Firenze	10,000		39.50%	39.50%
Refri Srl	Reggio Emilia	6,800,000		15.00%	15.00%
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	32.00%		32.00%

* the company's share capital is composed of Euro 67,577,681 ordinary shares and € 10,450,000 of related shares
** the company registered office has moved to Trieste since January 2013.

2.05.02 Key financial and operating data of consolidated and associated companies

Subsidiaries

Subsidiaries	Fixed assets	Working assets	Share	Reserves	Profit + Loss -	Provisions	Provision for employee leaving indemnities	Payables
Acantho Spa	41,004	32,204	22,500	1,002	523	0	662	48,521
Akron Spa	15,724	33,456	1,153	3,808	4,078	0	469	39,672
ASA ScpA	3,891	14,048	1,820	622	-	14,446	136	915
Consorzio Akhea Fondo Consortile	-	661	200	-	-	-	-	461
Energonut Spa	44,466	16,589	2,482	7,354	7,159	401	274	43,385
Eris Scrl	1,898	2,826	300	1,088	225	1	-	3,110
Famula On-line Spa	5,164	28,749	4,364	873	2,357	158	1,140	25,021
Feronia Srl	5,497	6,164	2,430 -	685	442	2,017	-	7,457
Frullo Energia Ambiente Srl	100,111	21,560	17,139	15,292	4,547	2,959	1,364	80,370
Gal.A. Spa	7,577	649	300	60	45	541	-	7,280
Hera Comm Srl	97,280	728,432	53,137	15,051	26,224	2,963	3,918	724,419
Hera Comm Marche Srl	243	41,148	1,977	2,189	5,633	31	178	31,383
Hera Energie Rinnovabili Spa	11,653	8,232	1,832	413	675	-	-	16,965
Hera Energie Srl	2,510	7,141	926	1,721	631	-	12	6,361
Hera Luce Srl	7,185	30,189	1,000	5,090	2,256	14,701	841	13,486
Hera Servizi Cimiteriali Srl	8,836	4,478	20	-2	52	266	635	12,343
Hera Servizi Funerari Srl	171	1,209	10	2	302	-	32	1,034
Herasocrem Srl	2	409	100	3	27	-	143	138
Hera Trading Srl	18,609	570,928	22,600	3,145	14,187	124	219	549,262
Herambiente Spa	855,726	211,952	271,148	34,578	17,091	55,878	5,968	683,015
Marche Multiservizi Spa	110,851	62,437	13,484	9,505	5,501	29,905	8,615	106,278
Medea Spa	15,468	5,427	4,500	-1,118	441	867	159	16,046
Nuova Geovis Spa	14,634	8,295	2,205	2,734	1,694	9,987	259	6,050
Romagna Compost Srl	9,206	2,968	3,560	489	866	-	40	7,219
Sinergia Srl	2,865	7,147	580	3,615	1,211	-	268	4,338
Sotris Spa	7,802	13,679	2,340	3,769	248	11,117	92	3,915
Sviluppo Ambiente Toscana Srl	1,325	384	10		-17			1,716
Uniflotte Srl	4,827	17,024	2,254	492	2,825	397	2,848	13,035
MMS Ecologica Srl	856	6,114	95	124	52	4,382	258	2,059
Naturambiente Srl	1,226	6,690	50	29	-871	1,742	351	6,615

Subsidiaries	Value of production	Costs of production	Financial income (+) and charges (-)	Value adj. To assets	Extraordinary income (+) and charges (-)	Tax for year	Net profit
Acantho Spa	40,474	-39,002	-165	-350	359	-793	523
Akron Spa	45,176	-38,974	-264	-	-25	-1,835	4,078
ASA ScpA	5,264	-5,632	379	-	7	-18	-
Consorzio Akhea Fondo Consortile	633	-650	17	-	-	-	-
Energonut Spa	27,400	-18,413	-338		2,029 -	3,519	7,159
Eris Scrl	5,336	-5,026	-22	-	32	-95	225
Famula On-line Spa	45,953	-42,688	-7	-	68	-969	2,357
Feronia Srl	8,737	-8,074	-122	-	-	-99	442
Frullo Energia Ambiente Srl	38,030	-28,160	-1,893	-	-283	-3,147	4,547
Gal.A. Spa	1,389	-1,192	-118	-	6	-40	45
Hera Comm Srl	2,260,815	-2,211,852	-3,244	-	-	-19,495	26,224
Hera Comm Marche Srl	101,858	-92,406	245	-	71	-4,135	5,633
Hera Energie Rinnovabili Spa	4,081	-2,095	-847	-	-46	-418	675
Hera Energie Srl	11,326	-10,390	48	-	-3	-350	631
Hera Luce Srl	42,082	-38,873	13	-	1	-967	2,256
Hera Servizi Cimiteriali Srl	6,312	-5,672	-412	-	1	-177	52
Hera Servizi Funerari Srl	2,826	-2,361			0	-163	302
Herasocrem Srl	618	-577		-	1	-15	27
Hera Trading Srl	2,350,306	-2,325,407	-587	-	0	-10,125	14,187
Herambiente Srl	330,637	-304,978	-5,914	-	0	-2,654	17,091
Marche Multiservizi Spa	110,872	-104,136	214	-50	2,673	-4,072	5,501
Medea Spa	8,985	-8,031	-291	-	-	-222	441
Nuova Geovis Spa	12,284	-9,686	-113	-	79	-870	1,694
Romagna Compost Srl	5,600	-4,143	-124	- -	46	-421	866
Sinergia Srl	9,759	-8,014	23	-	18	-575	1,211
Sotris Spa	8,354	-8,139	146	-	20	-133	248
Sviluppo Ambiente Toscana Srl	275	-285	-7				-17
Uniflotte Srl	29,834	-25,893	53	-	-42	-1,127	2,825
MMS Ecologica Srl	2,688	-2,647	42	-	12	-43	52
Naturambiente Srl	6,417	-7,275	-15	-	3	-1	-871

Jointly controlled associated companies

Subsidiaries	Fixed assets	Working assets	Share	Reserves	Profit + Loss -	Provisions	Provision for employee leaving	Payables
Enomondo Srl	49,726	13,297	14,000	2,532	1,911	194	19	44,367

Subsidaries	Value of production	Costs of production	Financial income (+) and charges (-)	Value adj. To assets	Extraordinary income (+) and charges (-)	Tax for year	Net profit
Enomondo Srl	21,513	-16,035	- 1,695	-	- 54	-1,818	1,911

Associated companies

Subsidiaries	Fixed assets	Working assets	Share	Reserves	Profit + Loss -	Provisions	Provision for employee leaving indemnities	Payables
Aimag Spa*	184,971	52,440	78,028	41,026	7,736	20,992	3,820	85,809
FlameEnergy Trading Gmbh	-	4,873	3,000	35	647	0	-	1,191
Ghirlandina Solare Srl	2,946	663	60	37	76	0	-	3,436
Modena Network Spa	7,216	2,127	3,000	- 871	- 220	0	-	7,434
Q.Termo Srl	2,975	443	10	3,300	- 17			125
Refri Srl*	6,718	1,100	6,800	- 1,063	- 497	0	13	2,565
Set Spa	206,496	30,463	120	86,501	- 412	0	130	150,620
Sosel Spa	3,148	6,712	240	2,066	177	0	2,017	5,360
Sgr Servizi Spa	5,891	79,248	5,982	21,059	10,848	0	514	46,736
Tamarete Energia Srl	92,666	7,873	3,600	5,147	- 2,539	0	4	94,327

Subsidaries	Value of production	Costs of production	Financial income (+) and charges (-)	Value adj. To assets	Extraordinary income (+) and charges (-)	Tax for year	Net profit
Aimag Spa*	82,376	-71,967	1,120	-	-77	-3,716	7,736
FlameEnergy Gmbh	14,070	-13,225	18	-	-	-216	647
Ghirlandina Solare Srl	532	-318	- 95	-	-	-43	76
Modena Network Spa	1,111	-1,084	- 242	-	-	-5	-220
Q.Termo Srl		-23				6	-17
Refri Srl*	299	-491	- 14	- 298	7	0	-497
Set Spa	127,207	-121,034	- 5,209	-	- 391	-985	-412
Sosel Spa	13,058	-12,435	- 35		- 36	-375	177
Sgr Servizi Spa	190,723	-172,150	460		79	-8,264	10,848
Tamarete Energia Srl	- 2	-675	- 1,860	- 1	- 1		-2,539

2.05.03 List of significant investments

Direct investments at 31 December 2012

ACANTHO SpA share capital EUR 22,500,000 fully paid in– an investee company of Hera Spa since 2000

REGISTERED OFFICE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)

Shareholders	Equity investments in Euro	Equity investments in %
Hera S.p.A.	17.985.553	79,94%

AIMAG Spa share capital EUR 78,027,681 fully paid in, comprised of 67,577,681 ordinary shares and 10,450,000 related shares - an investee company of Hera SpA since 10 November 2009

REGISTERED OFFICE: Via Maestri del Lavoro n. 38 - 41037 Mirandola (MO)

Ordinary shareholders	Equity investments in Euro	Equity investments in %
Hera S.p.A.	16.894.420	25,00%

CALENIA ENERGIA SpA share capital EUR 100,000 fully paid in – an investee company of Hera Spa since 23 September 2004

REGISTERED OFFICE: Via AnticaFiumara n. 6 - GENOVA

Shareholders	Equity investments in Euro	Equity investments in %
Hera S.p.A.	15.000	15,00%

ENERGIA ITALIANA Spa share capital EUR 26,050,000 fully paid in - an investee company of HERA Spa since 2001

REGISTERED OFFICE: Via V. Viviani n. 12 - 20124 MILANO

Shareholders	Equity investments in Euro	Equity investments in %
Hera S.p.A.	2.865.500	11,00%

FAMULA ON-LINE Spa share capital EUR 4,364,030 fully paid in - an investee company of HERA Spa since 2001

REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Shareholders	Equity investments in Euro	Equity investments in %

HERA S.p.A.	4.364.030	100,00%

HERAMBIENTE SpA share capital EUR 271,148,000 fully paid in - an investee company of Hera Spa since October 2004.

REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	203.361.000	75,00%

HERA COMM Srl share capital EUR 53,136,987.42 fully paid in - an investee company of HERA Spa since 2001

REGISTERED OFFICE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	53.136.987,42	100,00%

HERA ENERGIE RINNOVABILI Spa share capital EUR 1,832,000 fully paid in - an investee company of HERA Spa since 27 April 2005.

REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Shareholder	Equity investments in Euro	Equity investments in %
HERA S.p.A.	1.832.000	100,00%

HERA LUCE Srl– Share capital Euro 1,000,000 fully paid in - an investee company of Hera Spa since 2000

REGISTERED OFFICE: Via Due Martiri n. 2 - 47030 S. MAURO PASCOLI (FC)

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	895.807	89,58%

HERA SERVIZI CIMITERIALI Srl share capital EUR 20,000 fully paid in - an investee company of HERA Spa since 22 December 2010

REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Shareholder	Equity investments in Euro	Equity investments in %
HERA S.p.A.	20.000	100,00%

HERASOCREM Spa share capital EUR 2,218,368 fully paid in - an investee company of HERA Spa since 10 July 2003

REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	100.000	51,00%

HERA TRADING Srl share capital EUR 22,600,000 fully paid in - an investee company of HERA Spa since 2001

REGISTERED OFFICE: Via Molino Rosso n. 8 40026 IMOLA (BO)

Shareholder	Equity investments in Euro	Equity investments in %
HERA S.p.A.	22.600.000	100,00%

MARCHE MULTISERVIZI Spa share capital EUR 13,450,012 fully paid in - an investee company of HERA Spa since 2002

REGISTERED OFFICE: Via deiCanonici n. 144 - 61100 PESARO (PU)

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	6.016.722	44,62%

MEDEA Spa share capital EUR 4,500,000 fully paid in - an investee company of HERA Spa since 1 July 2003

REGISTERED OFFICE: Via Torres n. 4 - 07100 SASSARI

Shareholder	Equity investments in Euro	Equity investments in %
HERA S.p.A.	4.500.000	100,00%

MODENA NETWORK Spa share capital EUR 3,000,000 fully paid in - an investee company of HERA Spa since 31 December 2005

REGISTERED OFFICE: Via Razzaboni n. 80 - 41100 MODENA

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	420.000	14,00%

SEI Spa share capital EUR 120,000 fully paid in - an investee company of HERA Spa since 9 May 2008

REGISTERED OFFICE: Via Uberti n. 37 - 20129 MILANO

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	24.000	20,00%

SERVICE IMOLA Srl share capital EUR 10,000 fully paid in - an investee company of HERA Spa since 1 November 2002

REGISTERED OFFICE: Via Allende n. 39 - 40021 BORGO TOSSIGNANO (BO)

Shareholders	Equity investments in Euro	Equity investments in %

HERA S.p.A.	4.000	40,00%

SET Spa share capital EUR 120,000 fully paid in - an investee company of HERA Spa since 15 December 2004
REGISTERED OFFICE: Viale Bianca Maria n. 15 - 20122 MILANO

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	46.800	39,00%

SVILUPPO AMBIENTE TOSCANA S.R.L.capitalesociale euro 10.000 i.v.partecipata da HERA S.p.A. dal 07-feb-2012
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	9.500	95,00%
HERAMBIENTE S.p.A.	500	5,00%

TAMARETE ENERGIA Srl share capital EUR 3,600,000 fully paid in - an investee company of HERA Spa since 16 December 2008
REGISTERED OFFICE: Contrada Tamarete s.n.c. - ORTONA (CH)

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	1.152.000	32,00%

UNIFLOTTE Srl share capital EUR 2,254,177 fully paid in - an investee company of HERA Spa since 2001
REGISTERED OFFICE: Viale Masini n. 42 - 40126 BOLOGNA

Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	2.186.551	97,00%

Indirect investments at 31 December 2012

Equity investment of Hera Servizi Cimiteriali Srl:		
HERA SERVIZI FUNERARI Srl share capital EUR 10.000 fully paid in. An investee company of HERA Servizi Cimiteriali Srl since 1 May 2012 REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		

Shareholders	Equity investments in Euro	Equity investments in %
HERA Servizi FunerariS.R.L.	10.000	100,00%

Equity investment of Herambiente Spa:		
A.S.A. Scpa share capital EUR 1,820,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Via Saliceto n. 43/A - 40013 CASTEL MAGGIORE (BO)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	928.200	51,00%
-	-	-
AKRON Spa share capital EUR 1,152,940 fully paid in. An investee company of HERAMBIENTE Spa since 10 July 2009		
REGISTERED OFFICE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	662.940	57,50%
ENERGONUT Spa share capital EUR 2.481.795 fully paid in. An investee company of HERAMBIENTE Spa since 31 October 2012		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	2.481.795	100,00%

-	-	-
ENOMONDO Srl share capital EUR 14,000,000 fully paid in. An investee company of HERAMBIENTE Spa since 31 December 2010		
REGISTERED OFFICE: Via Convertite n. 12 - 48018 Faenza (RA)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	7.000.000	50,00%
-	-	-
FERONIA Srl share capital EUR 2,430,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Piazza Verdi n. 6 - 41034 Finale Emilia (MO)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	1.701.000	70,00%
-	-	-
FRULLO ENERGIA AMBIENTE Srl share capital EUR 17,139,100 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	8.740.941	51,00%
-	-	-
GAL.A Spa share capital EUR 300,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009	-	-
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	180.000	60,00%
NUOVA GEOVIS Spa share capital EUR 2,205,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009	-	-
REGISTERED OFFICE: Via Romita n. 1 - 40019 Sant'Agata Bolognese (BO)	-	-
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	1.124.550	51,00%

-	-	-
REFRI Srl share capital EUR 6,800,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009 REGISTERED OFFICE: Via MeuccioRuini n. 10 - 42100 REGGIO EMILIA	-	-
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	1.360.000	20,00%

-	-	-
ROMAGNA COMPOST Srl share capital EUR 3,560,002 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009 REGISTERED OFFICE: Via CesareSpinelli n. 60 - 47023 CESENA (FC)	-	-
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	2.136.004	60,00%

SOLHAR ALFONSINE COMPOST Srl share capital EUR 10.000 fully paid in. An investee company of HERAMBIENTE Spa since 20 January 2001 REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA	-	-
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	10.000	100,00%

SOLHAR PIANGIPANE Srl share capital EUR 10.000 fully paid in. An investee company of HERAMBIENTE Spa since 30 January 2001 REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA	-	-
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	10.000	100,00%

SOLHAR RAVENNA Srl share capital EUR 10.000 fully paid in. An investee company of HERAMBIENTE Spa since 30 January 2001 REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA	-	-
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	10.000	100,00%

SOLHAR RIMINI Srl share capital EUR 10.000 fully paid in. An investee company of HERAMBIENTE Spa since 30 January 2001 REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA	-	-

Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	10.000	100,00%

SOTRIS SpA share capital EUR 2.340.000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009

REGISTERED OFFICE: S.S. 309 Romea Km. 2,6 n. 272 - 48100 RAVENNA

Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE S.p.A.	1.638.000	70,00%
HERA S.p.A.	117.000	5,00%

Equity investments of Sviluppo Ambiente Toscana Srl:		
Q.tHermo Srl share capital EUR 10.000 fully paid in. An investee company of Sviluppo Ambiente Toscana Srl since 16 May 2012	-	-
REGISTERED OFFICE: Via Baccio da Montelupo n. 52 - 50142 FIRENZE		
Shareholders	Equity investments in Euro	Equity investments in %
Sviluppo Ambiente Toscana S.R.L.	4.000	40,00%
-	-	-
Equity investment of Hera Comm Srl:		
ADRIATICA ACQUE Srl share capital EUR 89,033 fully paid in. An investee company of HERA COMM Srl since 23 November 2005	-	-
REGISTERED OFFICE: Via CirconvallazioneMeridionale n. 56 - 47900 RIMINI		
Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM S.R.L.	19.872	22,32%
Marche Multiservizi S.p.A.	6.838	7,68%
-	-	-
ERIS Scarl share capital EUR 300,000 fully paid in. An investee company of HERA COMM Srl since 28 September 2004	-	-
REGISTERED OFFICE: Via Romea Nord 180/182 - 48100 RAVENNA		
Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM S.R.L.	153.000	51,00%
-	-	-
ESTENSE GLOBAL SERVICE Scarl share capital EUR 10,000 fully paid in. An investee company of HERA COMM Srl since 27 September 2007 dal 27-set-2007	-	-
REGISTERED OFFICE: Via M.N. Plattis n. 5/c - 44100 FERRARA		
Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM S.R.L.	2.300	23,00%
HERA COMM MARCHE Srl share capital EUR 1,458,332 fully paid in.	-	-

An investee company of HERA COMM Srl since 28 July 2008		
REGISTERED OFFICE: Via Sasso n. 120 - 61029 Urbino (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM S.R.L.	1.134.500	57,38%
-	-	-
HERA ENERGIE Srl share capital EUR 926,000 fully paid in. An investee company of HERA COMM Srl since 30 June 2005	-	-
REGISTERED OFFICE: Via Tolmino n. 54 - 40134 BOLOGNA		
Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM S.R.L.	472.260	51,00%
-	-	-
SGR Servizi Spa share capital EUR 5,982,262 fully paid in. An investee company of HERA COMM Srl since 17 May 2005	-	-
REGISTERED OFFICE: Via Chiabrera n. 34/b - 47900 RIMINI		
Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM S.R.L.	1.771.062	29,61%
-	-	-
SINERGIA Srl share capital EUR 579,600 fully paid in. An investee company of HERA COMM Srl since 19 December 2005	-	-
REGISTERED OFFICE: Via Righi n. 1 - 47100 FORLI' (FC)		
Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM S.R.L.	341.964	59,00%
-	-	-
SO.SEL Spa share capital EUR 240,240 fully paid in. An investee company of HERA COMM Srl since 15 September 2009		
REGISTERED OFFICE: Via Bellinzona n. 37/F - 41100 MODENA		
Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM S.R.L.	62.462,40	26,00%
-	-	-
Equity investment of Hera Energie		

Rinnovabili Spa:		
Ghirlandina Solare Srl share capital EUR 60,000 fully paid in. An investee company of Hera Energie Rinnovabili Spa since 19 July 2010		
REGISTERED OFFICE: Via A. Grandi n. 39 - Concordia sullaSecchia (MO)		
Shareholders	Equity investments in Euro	Equity investments in %
Hera Energie Rinnovabili S.p.A.	19.800	33,00%
-	-	-
Equity investment of Hera Trading Srl:		
GALSI Spa share capital EUR 37,242,300 fully paid in. An investee company of HERA Trading Srl since 2003		
REGISTERED OFFICE: ForoBuonaparte n. 31 - 20100 MILANO		
Shareholders	Equity investments in Euro	Equity investments in %
Hera Trading S.R.L.	3.874.920	10,40%
-	-	-
FlameEnergy Trading Gmbh share capital EUR 3,000,000 fully paid in. An investee company of HERA Trading Srl since 19 April 2006		
REGISTERED OFFICE: VIENNA (Austria)		
Shareholders	Equity investments in Euro	Equity investments in %
Hera Trading S.R.L.	1.500.000	50,00%
-	-	-
Equity investment of Marche Multiservizi Spa:		
MMS Ecologica Srl share capital EUR 95,000 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 25 November 2009		
REGISTERED OFFICE: Via dei Canonici n. 144 - 61100 PESARO (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
MARCHE MULTISERVIZI S.p.A.	95.000	100,00%
NATURAMBIENTE Srl share capital EUR 50,000 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 14 July 2010		

REGISTERED OFFICE: Via dei Canonici n. 144 - 61100 PESARO (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
MARCHE MULTISERVIZI S.p.A.	50.000	100,00%

Direct and indirect equity investments in liquidation as at 31 December 2012

Equity investment of Acantho S.p.A.:		
WIMAXER Spa share capital EUR 500.000 fully paid in. An investee company of ACANTHO Spa since 6 May 2008		
In liquidation since 5 December 2012		
REGISTERED OFFICE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholders	Equity investments in Euro	Equity investments in %
Acantho S.p.A.	125.000	25,00%

Equity investments of Hera Spa:		
OIKOTHEN Scarl share capital EUR 63.332 fully paid in. An investee company of HERA Spa since 9 November 2007		
In liquidation since 29 June 2012		
REGISTERED OFFICE: Via Augusta n. 17 - 96100 SIRACUSA		
Shareholders	Equity investments in Euro	Equity investments in %
HERA S.p.A.	29.196	46,10%

Equity investments Hera Comm Srl:		
CALORPIU' ITALIA Scarl share capital EUR 10,000 fully paid in. An investee company of HERA COMM Srl since 26 September 2006		
In liquidation since 1 January 2009		
REGISTERED OFFICE: Via Razzaboni n. 80 - 41100 MODENA		
Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM S.R.L.	5.100	51,00%

Equity investments of Marche Multiservizi Spa:		
Acquagest Srl share capital EUR 51,480 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 1 January 2008		
In liquidation		
REGISTERED OFFICE: Via degliAbeti n. 120 - 61100 PESARO (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
MARCHE MULTISERVIZI S.p.A.	10.296	20,00%
SIS Società Intercomunale di Servizi Spa share capital EUR 103.300 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 1 November 2002		
In liquidation since 27 June 2011		
REGISTERED OFFICE: Piazza Municipio n. 1 - 61020 Montecalvo in Foglia (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
MARCHE MULTISERVIZI S.p.A.	43.127,75	41,75%
NATURA Srl share capital EUR 10,000 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 1 January 2008		
In liquidation since 5 August 2010		
REGISTERED OFFICE: Via Don Minzoni n. 44 - 61043 Cagli (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
MARCHE MULTISERVIZI S.p.A.	4.600	46,00%

2.06 table pursuant tu Art. 149 duodecies of the Issuers' Regulations

thousand of euro	2012
Financial statements certification service	749
Performance of other services targeted at the issuing of a certification (undbundling)	148
Other service	680
Total	**1,577**

2.07 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 no. 58 dated 24 February 1998:

- the adequacy with reference to the nature of the company; and
- the actual application of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements for 2012.

2 – We also declare that:

2.1 – the consolidated financial statements:

a. were prepared in compliance with the applicable International Accounting Standards recognised by the European Community pursuant to Regulation 1606/2002 (EC) of the European Parliament and the Council of 19 July 2002;
b. are consistent with the data contained in the accounting books and entries;
c. provide a true and accurate representation of the balance sheet and income statement of the issuer and of all its consolidated companies.

2.2 – The Directors' Report includes a reliable analysis of the trend and of the operating profit, the situation of the issuer and of all of the consolidated companies, together with the description of the major risks and uncertainties to which they are exposed.

The Managing Director

Maurizio Chiarini

The Manager in charge of the corporate accounting statements

Luca Moroni

Bologna, 22 March 2013

2.08 Report by the Independent Auditing Firm and the Board of Statutory Auditors

2.08.01 Independent Auditing Firm

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 31 December 2012 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 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 consolidated 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 5 April 2012.

3 In our opinion, the consolidated financial statements of the HERA Group as of 31 December 2012 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.

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

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** Zola Predosa 40069 Via Tevere 18 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. 0521242848 - **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

www.pwc.com/it

pwc

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 2012.

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.

2.08.02 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 2012, 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 08 April 2013, 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 2012 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".
- 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 2012. 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 2012.

- As far as the evaluation criteria are concerned, they are 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 134,358 thousand and group shareholders' equity amounting to EUR 1,751,884 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 2012 in conformity with the rules that govern the drawing up of consolidated financial statements.

Bologna, 08 April 2013

Board of Statutory Auditors

Chairman, Board of Statutory Auditors	Sergio Santi
Standing auditor	Antonio Venturini
Standing auditor	Elis Dall'Olio

CHAPTER 3

CHAPTER 4

Remuneration report

Section I

1 Introduction

The fundamental principle which underpins the Group's culture and directs its choices is its commitment to combining economic and social value with the ultimate goal of satisfying the legitimate expectations of all stakeholders. Hera wants to be a business that stands the test of time and improves society and the environment for future generations to come.

The sense of responsibility that is the hallmark of its corporate culture and mission translates into an approach to remuneration that is similarly responsible. The remuneration policy was conceived as something that contributes to improving corporate performance and the creation of value in the medium to long-term.

In a context of responsible rewards, the Board of Directors, with the support of the Remuneration Committee, developed the Remuneration Policy adopted by the Hera Group for 2012, in the light of the recommendations set out in Article 6 of the Borsa Italiana Spa Code of Conduct.

This report, produced pursuant to Article 123-ter of Legislative Decree no. 58/1998 of the Consolidated Finance Act (TUF), illustrates the fundamental principles and features of the above-mentioned policy, with reference to the remuneration of the top management of the Group. Note that management with strategic responsibilities corresponds to the positions of General Manager of Operations and General Manager of Development & Market.

2 Scope of application

In compliance with the provisions of Annex 3A for the implementation of the TUF adopted by Consob through Resolution no. 11971 of 14 May 1999 ("Issuers' Regulations"), the remuneration policy described in this document applies to the members of the administrative bodies and to the General Managers.

The table below illustrates 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 on 29 April 2011, as well as the General Managers.

Note that on 15 October 2012 the Shareholders' Meeting appointed:

- Daniele Montroni, acting as member of the Board of Directors, substituting the outgoing Nicodemo Montanari;
- Massimo Spina, acting as alternate auditor of the Board of Statutory Auditors, substituting the outgoing Stefano Ceccacci.

Also note that during the aforementioned Shareholders' Meeting a resolution was passed to enlarge, as of 1 January 2013, concurrently with the completion of the aggregation with the Acegas-Aps Group, the number of members of Hera's Board of Directors, increasing their number from 18 to 20. Two further directors were therefore appointed, represented by Giovanni Perissinotto and Cesare Pillon, who took office as of the same date, 1 January 2013.

BOARD OF DIRECTORS	
Name and Surname	**Office held**
Tomaso Tommasi di Vignano	Chairman
Maurizio Chiarini	CEO
Giorgio Razzoli	Vice Chairman (independent)
Mara Bernardini	Director (independent)
Filippo Brandolini	Director (independent)
Luigi Castagna	Director (independent)
Pier Giuseppe Dolcini	Director (independent)
Roberto Sacchetti	Director (independent)
Bruno Tani	Director (independent)
Daniele Montroni **	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 (independent)
BOARD OF STATUTORY AUDITORS	
Name and Surname	**Office held**
Sergio Santi	Chairman
Elis Dall'Olio	Statutory auditor
Antonio Venturini	Statutory auditor
Roberto Picone	Alternate auditor
Massimo Spina	Alternate auditor
MANAGERS WITH STRATEGIC RESPONSIBILITIES	
Name and surname	**Office held**
Roberto Barilli	General Manager of Operations of Hera S.p.A.
Stefano Venier	General Manager of Development & Market of Hera S.p.A.

** in office since 1 January 2013   ** outgoing as of 14 March 2013   *** died on 18 March 2013*

3 Governance Model

3.01 Remuneration policy definition and approval process

The Shareholders' Meeting decides the value of the fees for the Board of Directors.

The remuneration policy for Executive Directors is proposed to the Board of Directors by the Remuneration Committee. The Board of Directors then approves the remuneration for Executive Directors who are holders of mandates.

The CEO proposes policies for Group directors to the Remuneration Committee, which expresses its opinion and puts forward the policies to the Board of Directors.

This process is supported, as far as the technical aspects are concerned, by the Group Director of Human Resources and Organisation , who takes care of the implementation of these policies.

Enor Signorotto, Director of Executive Reward Services of the Hay Group, has been involved in the preparation of the remuneration policy in the capacity of independent expert.

3.02 Role, composition and responsibilities of the Remuneration Committee

The Remuneration Committee has the task of formulating proposals to the Board of Directors for the remuneration of the Chairman, Vice Chairman, CEO and General Managers, as well as based on the suggestions put forward by the CEO, for the adoption of general remuneration criteria for directors.

The Committee also regularly evaluates the adequateness, overall consistency and concrete application of the general policy adopted for the remuneration of Executive Directors and General Managers.

In carrying out its duties, the Remuneration Committee can access the necessary information and company functions for performing its tasks.

This Committee, initially set up at the meeting of the Board of Directors on 4 November 2002 and most recently, in its latest format, on 2 May 2011, comprises the following non-executive, independent directors: Giorgio Razzoli acting as Chairman, Bruno Tani, Marco Cammelli and Daniele Montroni, who as of 27 June 2012 substituted the outgoing Nicodemo Montanari. Note that at least one of the members of the Committee has experience in accounting and finance, deemed suitable by the Board of Directors at the time of appointment. The Chairman of the Board of Directors and the Group CEO may attend the Committee meetings upon express invitation of the Chairman of the Committee.

As of 14 March 2013, Daniele Montroni presented his resignation from the following offices: member of the Board of Directors of Hera Spa, and member of the Remuneration Committee.

The Remuneration Committee met 3 times during 2012, and all meetings were attended by the Chairman, the CEO and the Group Director of Human Resources and Organisation of Hera S.p.A. The meetings of the Remuneration Committee lasted, on average, between an hour and a half and two hours.

During the meetings held in the 2012 financial year, all regularly recorded in the minutes, the following subjects were discussed:

- Presentation of the Remuneration Report 2011.
- Summary of variable remuneration in 2011 for the Chairman and the CEO of Hera Spa.
- Variable remuneration in 2012 for the Chairman and the CEO of Hera Spa.
- Fixed and variable compensation guidelines for Directors, Directors of subsidiaries, and Group Executives in 2012.
- Balanced Scorecard system 2013 for Group Directors, Executives and Managers.
- Preliminary study concerning long-term incentives.

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 standardised remuneration comparisons and analyses that are consistent with the development over time of the Group's organisational framework.

4.02 Correlation between remuneration, risk profile and company performance

The Hera Group has defined an integrated risk management and internal control system in relation to the financial information process pursuant to the provisions of Article 123-bis, paragraph 2, letter b) of the TUF.

This system is aimed at identifying, evaluating, managing and monitoring the main risks that could compromise the achievement of the objectives of dependability, accuracy, reliability and timeliness of financial information. The Hera System takes its inspiration from the internationally recognised CoSO Framework reference model, for the analysis, implementation and evaluation of the risk management and internal control system.

In relation to the industry to which it belongs, the risk profile of the Hera Group 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 emphasise consistency with the risk profile, the current remuneration policy includes:

- a (variable remuneration) annual incentive plan based on a balanced scorecard system, with the objective of balancing the various perspectives of company stakeholders (reference shareholders, the market, institutional investors, customers, employees, the territory, etc.) with regard to the creation of value, sustainable performance and development of the dividend policy;
- in line with this risk profile, the maximum bonus that can be awarded is 30% of gross annual fixed remuneration for General Managers and 48% of gross annual fixed remuneration for Executive Directors, taking into account individual performance and the multiplier based on company results;
- 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;
- Directors not holding specific offices (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 and Cesare Pillon.

With regard to Non-executive Directors, following their appointment, the Shareholders' Meeting on 29 April 2011 established that they would receive a gross annual payment of €50,000, in addition to reimbursement of living expenses sustained while carrying out their office.

The Board of Directors, with regard to the offices held by Directors in Group companies, as well as on the Remuneration and Internal Control Committees, decided to award these Directors a total sum of €25,000 gross per year.

The same Board of Directors decided, on 12 May 2011, to award the Vice Chairman a fixed annual sum of €100,000 for the duration of his office, which includes the indemnity due as a director and any other fees for offices held in Group companies.

Note that, in line with best practices and the instructions in the Corporate Governance Code, there are no provisions for a variable component in the payment of Non-executive Directors.

5.02 Executive Directors and General Managers

On 15 May 2011, the Board of Directors resolved:

- with regard to the office of Chairman, the confirmation, for 2012, of fixed compensation equal to €350,000;
- with regard to the office of CEO, the confirmation, for 2012, of fixed compensation equal to €350,000;

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 system based on the Balanced Scorecard system.

With reference to the weight of the variable component in relation to the fixed component, the following figures are of note:

- the Hera S.p.A. Board of Directors decided, for the 2012 financial year, to award the Chairman and the CEO a variable payment of up to 40% of the total gross fixed fees, if 100% of the targets defined by the Remuneration Committee were reached;
- the Hera Spa Board of Directors decided, for the 2012 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 fees on reaching 100% of the targets.

The table below summarises the remuneration components awarded to the Directors and General Managers.

OFFICE	REMUNERATION PACKAGE COMPONENTS		
	Fixed Remuneration	Annual Variable Remuneration	Benefits
Chairman	✓	✓	✓
CEO	✓	✓	✓
Vice Chairman	✓		✓
Non-executive Directors	✓		✓
General Manager of Operations General	✓	✓	✓
General Manager of Development & Market	✓	✓	✓

6 Remuneration components

Currently, the typical remuneration components in Hera are:

6.01 Fixed remuneration

The fixed component of remuneration is usually determined by the professional specialisation and the organisational role 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 extends to include all Hera S.p.A. and Group subsidiary company Directors and Executives. The scope includes 42 Directors and 83 Executives. A similar evaluation form is planned for the Chairman and the CEO.

Incentive and objective definition process

The short-term incentive system includes an individual Balanced Scorecard (BSC) for each of the recipients. Each BSC includes a series of objectives belonging to three evaluation areas:

- 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 behaviour 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 2012, 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 48% of fixed remuneration, which breaks down as follows:

40% for results on target 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 results on target 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 17% and 30% of the individual gross annual remuneration.

The table below illustrates the mechanism for measuring accrued bonuses:

A	Gross Annual Remuneration (GAR)
B	Target Bonus (% GAR)
C	Individual targets reached (% Target Bonus)
D	Weighting coefficient (corporate performance)
E	% Bonus paid = B x C x D (%)
€	Value of Bonus paid = A x E

With regard to transactions of strategic importance of an exceptional nature, with significant effects on the results of the company, the Board of Directors, following the proposal of the Remuneration Committee, can award discretionary bonuses to executive directors and management with strategic responsibilities.

6.03 Benefits

Non-monetary benefit packages include:

- mixed-use company car
- company telephone

In line with best practices, they also receive D&O Liability insurance cover against third parties in corporate bodies, in the performance of their duties, designed to indemnify the Group from expenses resulting from related compensation, as a result of the provisions established on the subject by the applicable national collective labour agreement and the regulations on the mandate, excluding cases of wilful misconduct or gross negligence.

The following policies have been covered:

- an accident policy that covers both professional activities and non work-related events: the policy covers the insured for economic compensation that is commensurate with the degree of permanent invalidity, an allowance for temporary disability and cover for medical expenses;
- a permanent disability illness policy (only for the directors) which pays the insured economic compensation commensurate with the degree of permanent disability resulting from the illness;
- a temporary life insurance policy which pays the heirs compensation if the insured dies.

7 Compensation for cases of resignation, lay-off or termination of the employment relationship

There are agreements in place between the company and the Chairman of the Board of Directors and the CEO which stipulate the payment, if the employment relationship were to end before the due date, subject to the assumption of just cause, of an amount by way of compensation for damages equal to what they would have received as payment until the end of the mandate.

With the exception of the above-mentioned provisions, there are no agreements for cases of early termination of the employment relationship.

Section II

Introduction

This section of the report illustrates the items that make up the remuneration of members of the administrative and control bodies, as well as General Managers, with the aim of highlighting the consistency with the General Policy described in Section I.

With reference to the remuneration policies for Directors, it should be noted that, before the resolution of the Board of Directors which established the policy currently in force, there were provisions, with regard to the offices held by Directors under the scope of Group Companies, as well as on the Remuneration and Internal Control Committees, to pay the directors involved a figure of €25,000 gross per year, in the case of a single office, and a total payment of €50,000 gross per year, in the case of two or more offices.

From 1 May 2011, payment for offices held by Directors under the scope of Group Companies, as well as on the Remuneration and Internal Control Committees, with the exception of the Chairman, the CEO and the Vice Chairman, was reduced to €25,000 gross per year.

The value of the bonus received in 2012 by each figure is also indicated, in relation to the degree of achievement of the targets set in the previous year.

1 Description of the compensation paid to Directors and General Managers

This section contains the details of payments made during 2012, with reference, as far as the variable part is concerned, to the accrual criterion.

The following aspects are highlighted:

Chairman

The fixed payments for Tomaso Tommasi di Vignano are exclusively made up of fees from the Administration role. The aforementioned compensations also include all services and offices held in the Group's subsidiary and associate companies. Note that during 2012 he received a bonus with regard to the results of the previous year, equal to €140,000, following the achievement of an overall performance index of 100%.

CEO

The fixed payments for Maurizio Chiarini are exclusively made up of fees from the Administration role. The aforementioned compensations also include all services and offices held in the Group's subsidiary and associate companies. Note that during 2012 he received a bonus with regard to the results of the previous year, equal to €140,000, following the achievement of an overall performance index of 100%.

Vice Chairman

Giorgio Razzoli only received a fixed payment of €100,000 as the fee for his office.

Non-executive Directors

Mara Bernardini, Filippo Brandolini, Luigi Castagna, Pier Giuseppe Dolcini, Roberto Sacchetti, Bruno Tani, Nicodemo Montanari, Valeriano Fantini, Rossella Saoncella, Mauro Roda, Luca Mandrioli, Fabio Giuliani, Enrico Giovannetti, Marco Cammelli, Giancarlo Tonelli and Daniele Montroni received fixed payment for the office of Directors and a further payment for their involvement in Committees or as Directors of subsidiaries or associated companies, as set out in the Group remuneration policy (taking into account the changes that took place in 2012, described in the present section of the report). The compensation of Non-executive Directors is completed by several non-monetary benefits.

General Manager of Operations

The General Manager of Operations, Roberto Barilli, received compensation of €334,331 in the form of gross annual remuneration as a director. Note that during 2012 he received a bonus with regard to the results of the previous year, equal to €74,800, following the achievement of an individual performance index of 93.5% and a Group performance index of 100%. He furthermore received a non recurring allowance of €10,000 gross.

General Manager of Development & Market

The General Manager of Development & Market, Stefano Venier, received compensation equal to €333,872 in the form of gross annual remuneration as a director. Note that during 2012 he received a bonus with regard to the results of the previous year, equal to €77,600, following the achievement of an individual performance index of 97% and a Group performance index of 100%. He furthermore received a non recurring allowance of €10,000 gross.

Statutory Auditors

The members of the Board of Statutory Auditors received fixed compensation for the office of Auditor determined by the Shareholders' Meeting.

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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				350.000		140.000		6.514	2.279	498.793		
(II) Payments from subsidiaries and associated companies												
(III) Total				350.000		140.000		6.514	2.279	498.793		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				350.000		140.000		5.655	2.494	498.149		
(II) Payments from subsidiaries and associated companies												
(III) Total				350.000		140.000		5.655	2.494	498.149		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				100.000				4.912		104.912		
(II) Payments from subsidiaries and associated companies												
(III) Total				100.000				4.912		104.912		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000				601		50.601		
(II) Payments from subsidiaries and associated companies				25.000						25.000		
(III) Total				75.000				601		75.601		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000				3.669	1.634	55.303		
(II) Payments from subsidiaries and associated companies				25.000						25.000		
(III) Total				75.000				3.669	1.634	80.303		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000				1.554		51.554		
(II) Payments from subsidiaries and associated companies				25.000						25.000		
(III) Total				75.000				1.554		76.554		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000				3.179		53.179		
(II) Payments from subsidiaries and associated companies				25.000						25.000		
(III) Total				75.000				3.179		78.179		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000				3.803	1.397	55.200		
(II) Payments from subsidiaries and associated companies				25.000						25.000		
(III) Total				75.000				3.803	1.397	80.200		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000	25.000			1.195		76.195		
(II) Payments from subsidiaries and associated companies												
(III) Total				50.000	25.000			1.195		76.195		
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					
Daniele Montroni	*Director*	27.06.2012 – 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				25.556	12.777			354		38.687		
(II) Payments from subsidiaries and associated companies												
(III) Total				25.556	12.777			354		38.687		
Notes					I) as a member of the Remuneration Committee (27.06.2012 – 31.12.2012)							

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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000						50.000		
(II) Payments from subsidiaries and associated companies				25.000						25.000		
(III) Total				75.000						75.000		
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					
Rossella Saoncella	*Director*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000	25.000			609		75.609		
(II) Payments from subsidiaries and associated companies												
(III) Total				50.000	25.000			609		75.609		
Notes					I) as a member of the Internal 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					
Mauro Roda	*Director*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000				1.376		51.376		
(II) Payments from subsidiaries and associated companies				25.000						25.000		
(III) Total				75.000				1.376		76.376		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000	25.000			516		75.516		
(II) Payments from subsidiaries and associated companies												
(III) Total				50.000	25.000			516		75.516		
Notes					I) as a member of the Internal 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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000	25.000			941		75.941		
(II) Payments from subsidiaries and associated companies										0		
(III) Total				50.000	25.000			941		75.941		
Notes					I) as a member of the Internal 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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000				1.378		51.378		
(II) Payments from subsidiaries and associated companies				25.000						25.000		
(III) Total				75.000				1.378		76.378		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000	25.000			4.906		79.906		
(II) Payments from subsidiaries and associated companies												
(III) Total				50.000	25.000			4.906		79.906		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				50.000				720		50.720		
(II) Payments from subsidiaries and associated companies				25.000						25.000		
(III) Total				75.000				720		75.720		
Notes				II) for offices held in Group companies								

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					
Nicodemo Montanari	*Director*	01.01.2012 – 26.06.2012	26.06.2012									
I) Payments in the company preparing the financial statements				24.444	12.222			3.275	516	40.457		
(II) Payments from subsidiaries and associated companies												
(III) Total				24.444	12.222			3.275	516	40.457		
Notes					I) as a member of the la Remunerazione Committee (01.01.2012-26.06.2012)							

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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				120.000				2.368		122.368		
(II) Payments from subsidiaries and associated companies												
(III) Total				120.000				2.368		122.368		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				80.000				300		80.300		
(II) Payments from subsidiaries and associated companies												
(III) Total				80.000				300		80.300		
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*	01.01.2012 - 31.12.2012	Annual Financial Report approval as of 31.12.2013									
I) Payments in the company preparing the financial statements				80.000				526		80.526		
(II) Payments from subsidiaries and associated companies												
(III) Total				80.000				526		80.526		
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*	01.01.2012 - 31.12.2012										
I) Payments in the company preparing the financial statements				334.331		84.800		16.578		435.709		
(II) Payments from subsidiaries and associated companies												
(III) Total				334.331		84.800		16.578		435.709		
Notes						Includes 10,000 as a non recurring allowance						

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*	01.01.2012 - 31.12.2012										
I) Payments in the company preparing the financial statements				333.872		87.600		17.063		438.535		
(II) Payments from subsidiaries and associated companies												
(III) Total				333.872		87.600		17.063		438.535		
Notes						Includes 10,000 as a non recurring allowance						

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)	140.000						
		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									

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)	140.000						
		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									

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)	74.800						
		Plan B (related approval date)	UT 10,000						
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total									

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)	77.600						
		Plan B (related approval date)	UT 10,000						
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total									

Surname and Name	Offices in Hera Spa	Investee company	N. shares held at the end of the preceding financial year	N. shares purchased	N. sharessold	N. shares held at the end of the current financial year
Tomaso Tommasi di Vignano (1)	Chairman	Hera Spa	20.000	10.000	-	30.000
Maurizio Chiarini (5)	CEO	Hera Spa	39.200	-	-	39.200
Giorgio Razzoli	Vice Chairman	Hera Spa	-	-	-	-
Mara Bernardini	Director	Hera Spa	17.400	-	-	17.400
Filippo Brandolini	Director	Hera Spa	-	-	-	-
Marco Cammelli	Director	Hera Spa	-	-	-	-
Luigi Castagna (2)	Director	Hera Spa	60.000	15.000	-	75.000
Pier Giuseppe Dolcini	Director	Hera Spa	2.750	-	-	2.750
Valeriano Fantini	Director	Hera Spa	27.000	-	2.500	24.500
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	-	25.000	12.500	12.500
Rossella Saoncella	Director	Hera Spa	-	-	-	-
Bruno Tani	Director	Hera Spa	110.000	-	-	110.000
Giancarlo Tonelli	Director	Hera Spa	-	-	-	-

Surname and Name	Offices in Hera Spa	Investee company	N. shares held at the end of the preceding financial year	N. shares purchased	N. sharessold	N. shares held at the end of the current financial year
Nicodemo Montanari (in office until 26/06/2012) (3)	Director	Hera Spa	54.000	-	-	54.000 (4)
Daniele Montroni (1) (in office since 27/06/2012)	Director	Hera Spa	2.750 (6)	-	-	2.750
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	13.300	3.500	8.300	8.500
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 60,000 shares held, 1,950 are held by the spouse (3) of the 54,000 shares held, 30,000 are held by the spouse (4) shares held at 26/06/2012, date of the termination of office 5) of the 39,200 shares held, 15,000 are held by the spouse (6) shares held at 27/06/2012, date of appointment

HERA S.p.A.
Holding Energia Risorse Ambiente
Sede legale: *Viale Carlo Berti Pichat 2/4 40127 Bologna*
tel. 051.287.111 fax 051.287.525
www.gruppohera.it