

ROE ÷ CASH  
 FLOW  
 >51mln/€  
 + PATRIMONIO  
 NETTO  
 MOL + ROS  
 Ricavi \*  
 COSTI %

-  2011
-  half - year
-  financial
-  statements  
as at 30 june

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# Introduction

## Hera's Mission

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

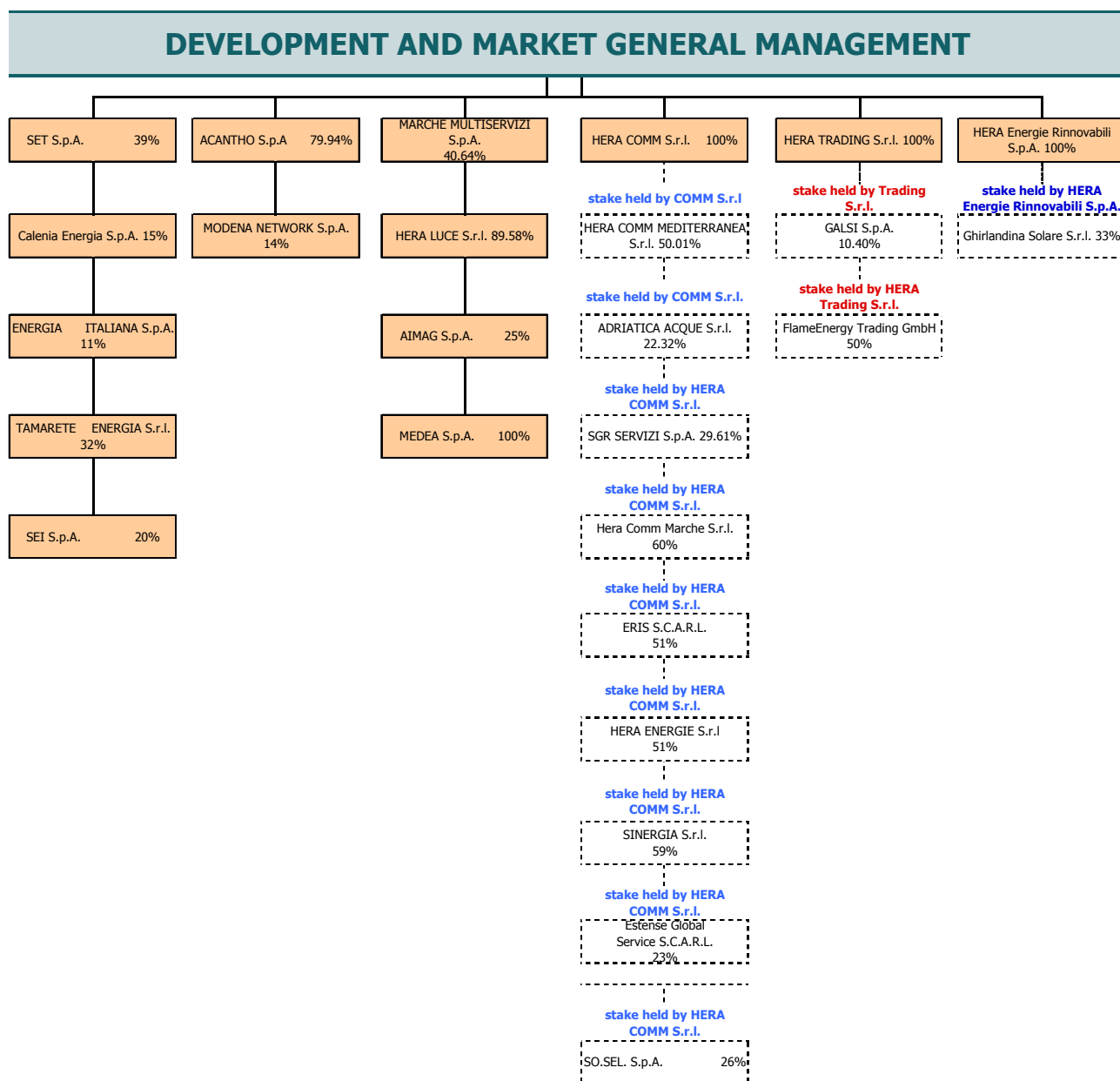
*For Hera, being the best means inspiring the pride and trust of: customers, who receive, thanks to Hera's responsiveness to their needs, quality services that satisfy their expectations; the women and men who work at Hera, whose skills, engagement and passion are the foundation of the company's success;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



## Administrative and control bodies

<b>Board of Directors</b>	
Chairman	Tomaso Tommasi di Vignano
Vice-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	Nicodemo Montanari
Director	Mauro Roda
Director	Roberto Sacchetti
Director	Rossella Saoncella
Director	Bruno Tani
Director	Giancarlo Tonelli
<b>Board of Statutory Auditors</b>	
Chairman	Sergio Santi
Standing Auditor	Antonio Venturini
Standing Auditor	Elis Dall'Olio
<b>Internal Control Committee</b>	
Chairman	Giorgio Razzoli
Member	Fabio Giuliani
Member	Luca Mandrioli
Member	Rossella Saoncella
<b>Remuneration Committee</b>	
Chairman	Giorgio Razzoli
Member	Marco Cammelli
Member	Nicodemo Montanari
Member	Bruno Tani
<b>Executive Committee</b>	
Chairman	Tomaso Tommasi di Vignano
Vice-Chairman	Giorgio Razzoli
Member	Maurizio Chiarini
<b>Ethics Committee</b>	
Chairman	Giorgio Razzoli
Member	Filippo Bocchi
Member	Mario Viviani
<b>Independent auditing firm</b>	
	PricewaterhouseCoopers

## Group structure

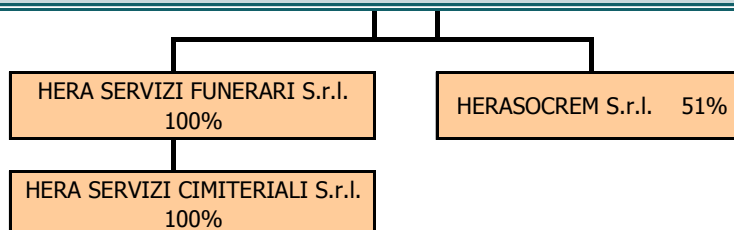


Disposal of the equity investments is also scheduled: Modena Formazione S.r.l., Democenter - SIPE Scarl and Oikothern S.C.A.R.L.

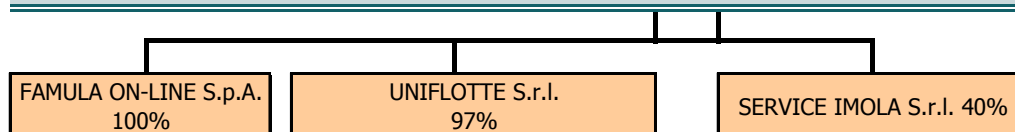
The merger by incorporation of Sadori Gas S.r.l. in Hera Comm Marche S.r.l. took effect from 1 July 2011.

Companies in liquidation: Acef S.r.l., Italcic S.C.A.R.L. and Dyna Green S.r.l.

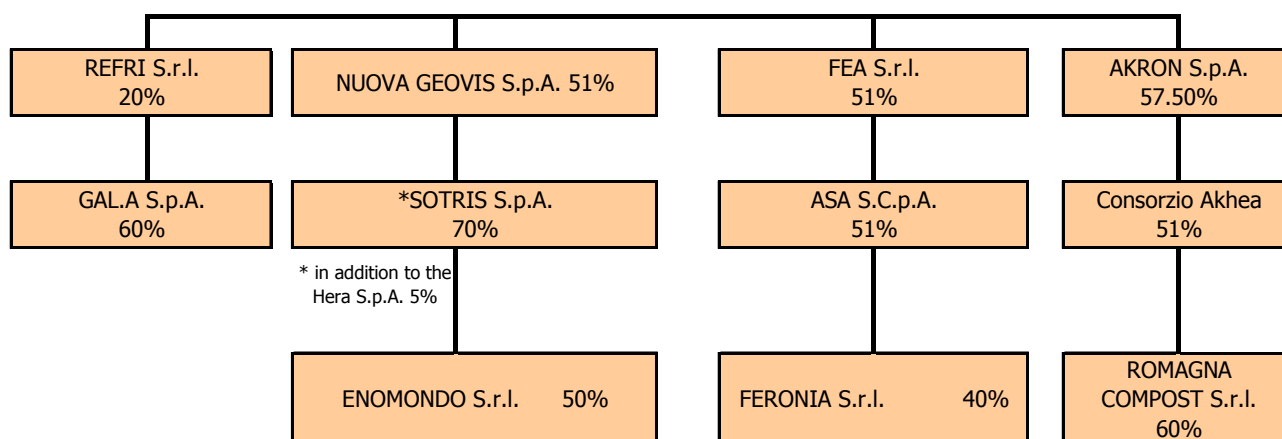
## GENERAL OPERATIONS MANAGEMENT



## SERVICES AND INFORMATION SYSTEMS CENTRAL DEPARTMENT

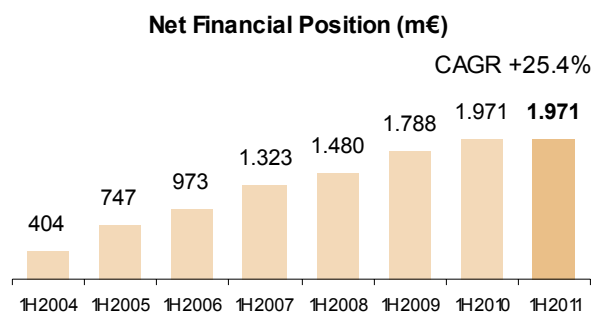
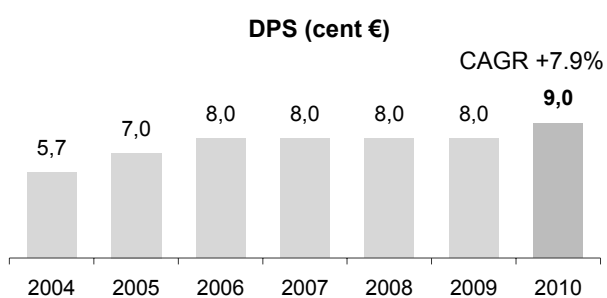
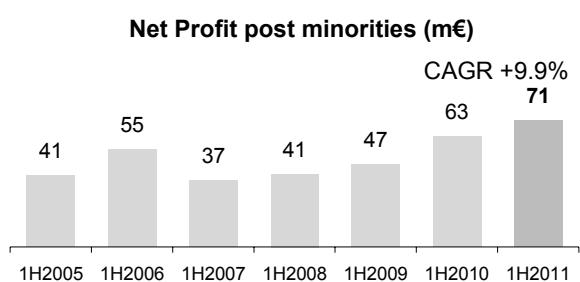
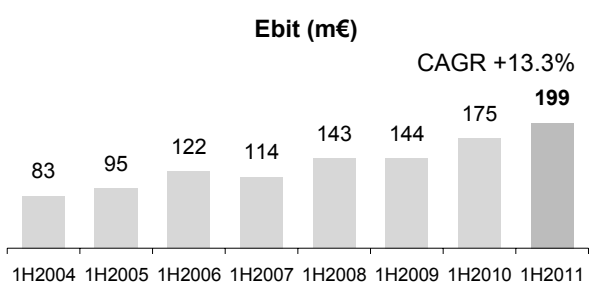
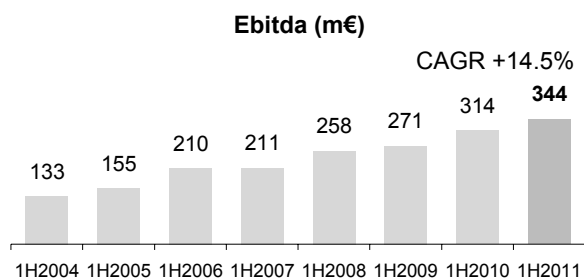
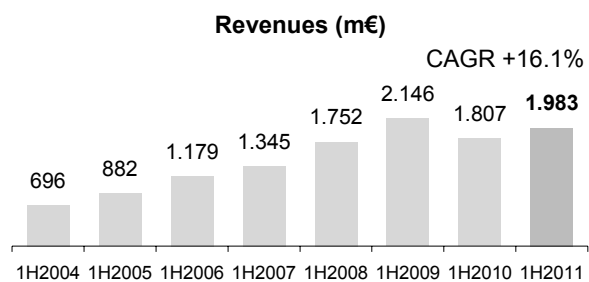


## HERAMBIENTE S.p.A. 75%





## Summary data



## Strategic approach

**Hera's strategy** is focused on the creation of value through a multi-stakeholder approach and is aimed at achieving growth through all lines of development, both internal and external, benefiting from both economies of scale and synergies from mergers with multi-utility companies operating in the reference sectors.

For Hera, the **multi-business portfolio** is a distinctive feature that management has focused on since its establishment, because it guarantees strategic advantages that stem from the single management of related activities. Synergies of cost and revenue are one of the most visible advantages; in actual fact it has been possible through the individual management of the water, gas distribution, district heating and electricity networks to achieve synergies in maintenance activities, remote-control operations, and customer management. The composition of Hera's core activities portfolio demonstrates a firm commitment to limiting the legal/regulatory, operational and financial risk profile. This is achieved by having a balance between regulated and free-market activities, which gives the economic-financial results a low volatility profile and a good long-term outlook.

Hera pursues **efficiency strategies** which leverage an innovative organisational model based on centralising several general functions and maintaining a strong local presence in the areas served. In 2010, the multi-business companies operating in the regions were transformed into organisational units as part of a further cost-cutting measure, while maintaining a local presence to safeguard the customer base.

The **development of free competition markets** has always been one of the Group's key strategies, even in times of economic-financial crisis. Great emphasis has been placed on cross-selling policies of services to the customer base in the activities portfolio. The development of quotas in the free markets of energy and the treatment of special waste is supported by the plant-capacity development strategy, which has reached its final stage; during the last 12 months two WTE plants and one CCGT cogeneration plant came into operation.

The free competition market for the treatment of waste in Italy continues to highlight serious shortcomings in infrastructures compared with the average in other European countries. In some regions of Italy this situation has led to a real "waste emergency". As a result, government authorities have taken measures to unleash the construction of new plants in Italy, setting the stage for an important development in the industry. In view of these prospects, Hera intends to expand its presence in the domestic market, using its leadership position for leverage and the exclusive know-how from the construction, in recent years, of a large number of plants that have transformed the Emilia-Romagna region into one of the most technologically advanced areas in the country, with an impressive number of infrastructures.

In the area of **regulated activities** the goal has been to pursue the expansion of the reference area by increasing the ownership of assets through the purchase of gas and district heating networks managed by the Group and belonging to third parties in order to further streamline ownership structures, investments, management and maintenance costs. The strategy in regulated activities areas is to renew licences that are expiring, bid for tenders in the reference areas and expand into several adjacent areas for some network services.

Hera also takes advantage of opportunities for developing external lines, both through multi-business combinations in nearby areas and through companies integrated upstream in the liberalised activities chain. The **multi-business** development line concentrates on businesses operating in areas adjacent to the reference area, which allows the development of improved economies of scale for the management of efficiency processes in the short-to-medium term. These expansion criteria led Hera to purchase 25% of Aimag's share capital in 2009, with a view to carrying out a full merger in the future. The strategic goal of the **mono-business** operations is to strengthen both waste treatment activities, taking advantage of the favourable market conditions, and energy sector activities, to develop sales through a balanced integration policy upstream of electricity generation.

Hera formalises its strategic goals in an industrial plan that is updated annually; the last update was in September 2010 (in a five-year plan going up to 2014) and it highlights strategies for further growth in the markets, for both liberalised activities and the upstream chain. The plan also confirms the attention that has been focused on synergies of cost and revenues, the development of new plants for generating electricity from renewable sources and the expansion of the plant base. The plan establishes the growth targets which, in the main, rely on factors that have already been established through the development of internal growth lines (new plants which have been launched recently or are in advanced stages of construction, future rates already agreed for regulated activities, company streamlining operations that have already been implemented). Future growth involves the creation of a fund designed to cover the planned investment programme (gradually being reduced compared with its scope in recent years thanks to the completion of an ambitious plant development plan), a flow of increasing dividends and the preservation of the current sound financial structure.

Hera's strategy is also aimed at **sustainable business development through a multi-stakeholder approach**. On 29 April 2011, the Shareholders' Meeting approved the 2010 Sustainability Report, which, for the seventh consecutive year, highlights the increase in added value, confirming the soundness of the Group's sustainable approach in managing activities.

## Business Sectors

Hera maintains a balanced development between **regulated activities** (integrated water service, collection and disposal of urban waste, distribution of methane gas and electricity, district heating) and **liberalised activities** (sale of methane gas and electricity, disposal of special waste and public-lighting services) in terms of contribution to EBITDA.

The effectiveness and the **low risk profile**, associated with this balanced multi-business approach, are particularly obvious if one notes the continued and uninterrupted growth in consolidated EBITDA over the years, even in a period of economic crisis like the one currently affecting all Western countries.

Hera is the **leading national operator in the waste management sector** by quantity of waste collected and treated: the activities of collecting urban waste are regulated by licences which will expire in 2012 in all reference areas (seven provinces in Emilia-Romagna and several areas in northern Le Marche), whilst waste disposal is a free-market business with no regional restrictions. Rates in 2008-2012 have, on the whole, already been agreed with local authorities.

The Group's plant equipment, which has been expanded over the last seven years, boasts 80 plants, including seven latest-generation waste-to-energy (WTE) plants, is capable of covering the entire range of possible waste treatments, and is a feature of the Group's excellence on a domestic scale.

Hera is also one of the key Italian players for the production of electricity from waste and is the only company which, in recent years, has managed to build and activate five new WTE plants in Italy, bringing its installed capacity to more than 100 megawatts and approximately 1 million tonnes per year. Herambiente is the special-purpose company created to facilitate overseeing the market for waste treatment and disposal and for exploiting the exclusive know-how that has been accumulated in the construction/management of these plants.

In light of the insufficient infrastructures in the waste treatment sector in Italy, which culminated in the waste emergency, firstly in Campania and then in Sicily, invitations to tender were put out for the construction of new WTE plants in several Italian regions. Herambiente is already active in bidding for some of these to increase its share in a rapidly developing domestic market.

Hera Group is the **second-biggest operator in Italy** in the management of the **complete water cycle**, from the collection and purification of waste water to the distribution of drinking water. Hera is the only operator to carry out this service in seven provinces in Emilia-Romagna and in the north of Le Marche, on the basis of long-term concessions (on average until 2022). The rates for the 2008-2012 period have already been agreed through contracts signed with the local authorities.

Increased efficiency in the management of more than 26,000 kilometres of water networks, economies of scale in purchasing, and the adjustment of 2008-2012 rates to comply with regulations are the main drivers of growth, together with the contribution coming from the growth of external lines.

Hera covers virtually the entire reference area in the **gas sector**, is the **most important “local” business** and is ranked fourth in Italy in terms of volumes sold. With approximately 1.1 million customers, Hera sells more than 2.9 billion m<sup>3</sup> of gas per year.

The Group protects its market share through the supply of gas directly from overseas sources, thanks to its ability to transport it directly via the TAG gas pipeline. This annual capacity will be increased by a further 1 billion m<sup>3</sup> per year with the Galsi pipeline between Italy and Algeria. The procurement of raw materials takes place mainly through annual contracts (unlike the majority of operators in the sector, which use long-term contracts with take-or-pay clauses) and through spot markets, making it possible to take advantage when the prices of raw materials fall.

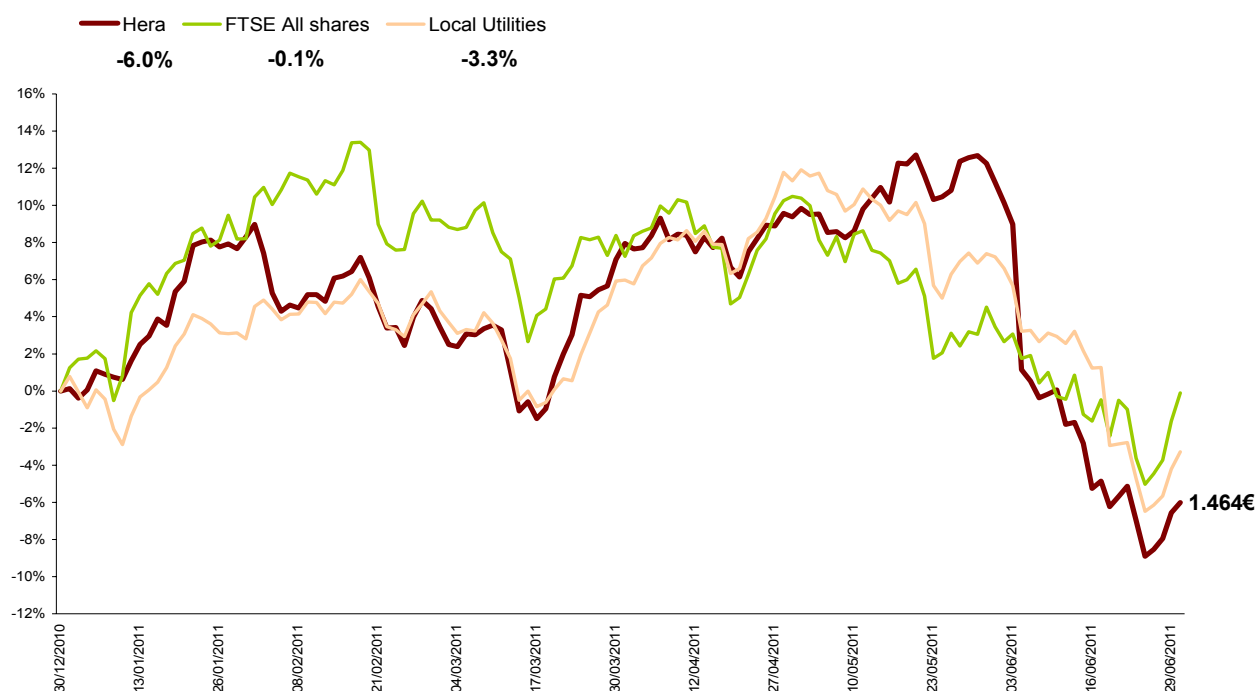
Since its establishment, Hera has pursued a “dual fuel” commercial strategy which allows the **electricity** market to be developed at sustained growth rates through cross-selling activities to existing customers and expansion into new markets. Hera is among the top 10 domestic operators in this sector. In 2011, growth continued at a pace which was sustained thanks to the awarding of tenders for services which made it possible to expand the customer base by more than 100 thousand units starting in the first semester of the year.

Commercial development has been accompanied by the simultaneous development of the availability of energy, by the establishment of joint ventures for purchasing shares in high-yield combined-cycle plants, the development of plants for generating energy from renewable or assimilated sources and the launch of next-generation cogeneration plants. This strategy has been conducted guaranteeing cover for only part of electricity sales, leaving space to benefit from current commodity market conditions.

## Share performance

The FTSE Italia All-Share Index was broadly unchanged at the end of June 2011, down by 0.1% on the end of 2010. The Italian local utilities index fell by 3.3%, while Hera's share price dropped by 6.0% to end the first half of 2011 on €1.464.

### Performance of Hera share in the first half of 2011



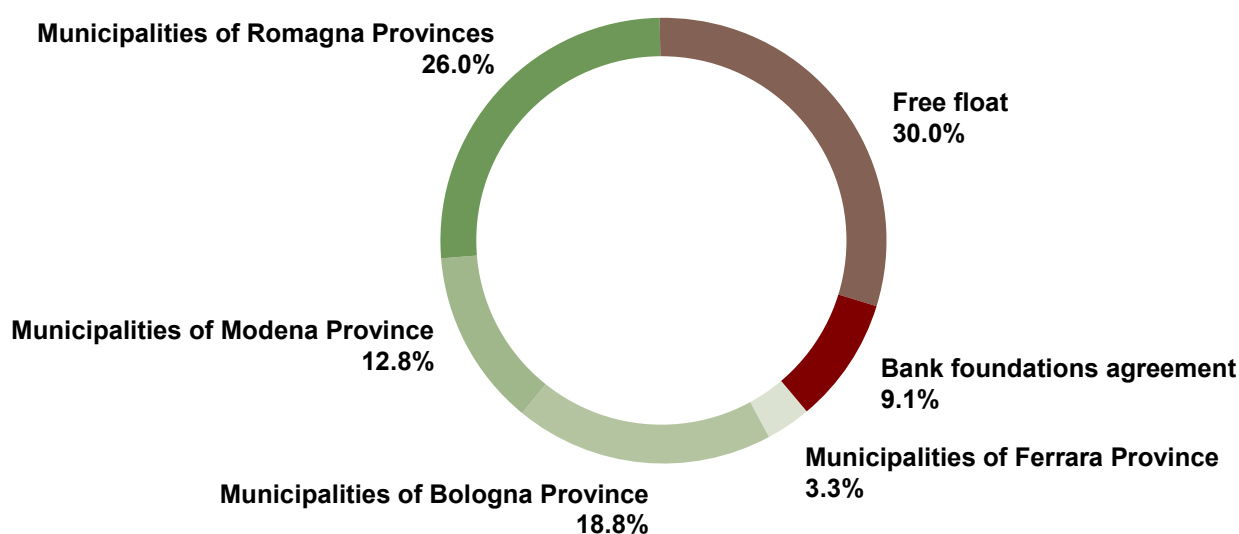
The share price rose over the first five months of the period, boosted by strong annual results (published at the end of March) and first-quarter results (published in mid-May) that showed respective net profit increases of 65% and 40%, as well as by a unit dividend payment of €0.09 (up by 12.5%) on 9 June 2011. In June, in the wake of the national referendum and the sovereign-debt crisis, Hera shares fell by €0.27. The share price, which at the end of the period returned to the levels of December 2010, reflects a market capitalisation of 0.88 times shareholders' equity as at 30 June 2011.

Hera's shares are covered by analysts at 12 independent firms, of which six are foreign. These firms are: Banca Akros, Banca IMI, Banca Leonardo, Centrobanca, Cheuvreux, Deutsche Bank, Equita, Intermonte, Kepler, Mediobanca and UniCredit. Exane began its coverage of Hera shares in July 2011 with an 'outperform' recommendation. The Hera stock has a consensus target price of €1.95 and has been chosen on several occasions among the best investment picks by analysts at various firms, including UniCredit, Equita, Centrobanca, Banca IMI and Banca Leonardo. It currently has nine 'buy/outperform' recommendations.

The Group's financial position is assessed by the world's two biggest credit rating agencies: Moody's has updated Hera's long-term debt **rating** to A3 with a stable outlook, while on 23 June 2010 Standard & Poor's adjusted Hera's long-term debt rating from A- with a negative outlook to BBB+ with a stable outlook and confirmed its short-term debt rating of A-2.

Following the mergers by incorporation, the **share capital** consists of 1,115,013,754 ordinary shares, each with a nominal value of €1.

Hera's ownership is unique in Italy. Its shareholder structure consists of more than 190 local public institutions, which have a combined stake of around 62% (of which 51% is bound by a shareholders' pact), more than 400 Italian and foreign institutional investors and over 21,000 private shareholders.



Since 2006, Hera has conducted a **share buyback programme** with a maximum of 15 million shares, up to a total amount of €60 million. This programme aims to finance any opportunities to buy small companies and to rectify any unusual movement in the Group's share price compared with its major domestic competitors. The shareholders' meeting of 29 April 2011 renewed the share buyback programme for a further 18 months, up to a total amount of €60 million. Hera held 5.9 million treasury shares in its portfolio as at 30 June 2011.

The Group's corporate website ([www.gruppohera.it](http://www.gruppohera.it)) is undoubtedly its primary means of **communication** with the financial market. Hera came second in Hallvarsson & Halvarsson's Webranking 2010, just behind the leading company. This makes [www.gruppohera.it](http://www.gruppohera.it) one of the best corporate sites among the major large-cap Italian companies.

During the first six months of 2011, and particularly upon presentation to the financial community of the 2010 annual results, dialogue with Italian and foreign investors continued in the form of more contacts, roadshows and meetings (around 200 contacts and meetings in 2011, in line with the first half of the previous year) in response to the difficult market conditions.



## **Directors' report**



## 1.01 Introduction

Despite the macroeconomic climate in Italy, which continues to be hampered by the prolonged global economic crisis that has caused sharp falls across all Western stock markets, the Hera Group recorded **growth in all its results – including net profit** – in the first half of 2011. The Hera Group's results were boosted by contributions from new plants and installations, the usual organic-growth factors, both in regulated and deregulated activities, and extraordinary financial transactions.

**The contribution from new plants and installations** represented only part of their actual capacity: the waste-to-energy plant at Rimini started out in 2010 with waste disposal and then began to generate electricity midway through the first quarter of 2011. The contribution of the Enomondo (joint venture with an industrial partner) biomass thermoelectric plant was consolidated into the Group's financial results from the start of the year. This plant allows Hera to process and dispose of waste with efficiency and environmental standards above the European average. It also ensured another solid contribution to operating results, despite a drop in urban-waste volumes owing to less household consumption as a result of the economic crisis.

**The improved natural-gas supply contract for the 2010-2011 thermal year** enabled Hera to capitalise on excess supply in the commodities market. This contributed significantly to the improved results in the period, despite lower sales volumes as a result of the mild winter. These results highlight the positive contribution of ongoing strategies to maintain a diverse and flexible structure of procurement sources.

**The strategy of expanding in the electricity market**, which was able to rely on a solid commercial structure, effective cross-selling and efficient customer support continued to support **electricity sector sales growth** in the first half of 2011, confirming the strength of the Group's presence in open markets. The results were also boosted by the allocation of mandates for default-provider services (2011-2013 period) in some Italian regions, helping the Group to reach a customer base of more than 453,000 (up 18.6% on the start of 2011). Upstream development in electricity production to partially cover sales also enabled the Group to capitalise on the good supply conditions offered by the procurement market and to mitigate the impact of lower margins from producing electricity from traditional sources.

Despite the tough macroeconomic climate, characterised by ongoing weak growth in GDP and manufacturing, there was a slight increase (0.9% in terms of volume) in the **industrial-waste disposal business**.

**Business from energy distribution, urban-waste collection and integrated water service concessions** also played a part in the improved first-half results, owing mainly to price adjustments in accordance with returns guaranteed by national laws and by the new tariff systems.

Lastly, there was also progress in **external development** through the acquisition of gas sales company Sadori Gas, which has 34,000 customers in Le Marche and Abruzzo and will contribute to the Group's results from the second half of the year, and the expansion of Marche Multiservizi's environmental activities.

EBIT increased from the same period in the previous year owing to the contribution from all the Group's strategic business segments (Environment, Energy and Networks), which was reflected in the Group's net profit (+14%).

As at 30 June 2011, the Group's net financial position was broadly unchanged compared with a year earlier at around €1.97 billion. The debt-to-EBITDA and debt-to-equity ratios improved. The positive cash flow in the first half of 2011 was also testament to the Group's financial stability, more than offsetting investments of over €138 million.

First-half operations confirmed the competitive strength of the company in open-market businesses and provided further evidence of the growth trend outlined in the business plan across all Hera's activities. Moreover, the Group's financial flexibility has laid the foundations for pursuing further growth opportunities that are not part of the business plan.

## 1.02 Corporate events

The Group continued to rationalized its corporate structure in the first half of 2011. This involved liquidating two companies, removing three companies from the Companies Register, making one new equity investment, increasing equity investments in two companies and two merger/transformation transactions.

In 2010, the corporate streamlining involved selling/liquidating two subsidiaries, making four equity investments, three mergers by incorporation and two company transformations.

The main M&A transactions were as follows:

### **Enomondo S.r.l.**

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

### **Acantho S.p.A.**

On 7 March 2011, Hera S.p.A. completed the acquisition from Infracom Italia S.p.A. 17.50% of the share capital of telecoms company Acantho S.p.A., taking its stake from 62.436% al 79.936%.

### **Herasocrem S.r.l.**

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

### **Sadori Gas S.r.l.**

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

### 1.03 Group performance as at 30 June 2011:

#### Consolidated summary results of the Hera Group:

(€ million)	30-Jun-10	% weight	30-Jun-11	% weight	% change
<b>Revenues</b>	<b>1,807.0</b>		<b>1,983.2</b>		<b>+9.8%</b>
<b>EBITDA</b>	<b>313.5</b>	<b>17.4%</b>	<b>344.0</b>	<b>17.3%</b>	<b>+9.7%</b>
Operating margin (EBIT)	174.8	9.7%	199.4	10.1%	+14.1%
<b>Net income</b>	<b>69.2</b>	<b>3.8%</b>	<b>83.2</b>	<b>4.2%</b>	<b>+20.2%</b>

#### 1.03.01 Results and investments

In the first half of 2011, as in the first quarter, the Hera Group continued to record economic growth compared with the same period in 2010; all the main business areas recorded increases and all economic indicators signalled a positive trend.

Unlike the economic results, some quantitative indicators fell, with lower volumes of gas and heat sold and distributed as a result of higher average temperatures compared with the first six months of 2010, and lower volumes of urban waste collected and disposed of. Conversely, higher volumes of electricity were sold, particularly due to the allocation of a default-provider service mandate for customers in the Lombardy, Tuscany, Lazio, Abruzzo, Molise and Puglia regions for the 2011-2013 period.

Other events also occurred in the first six months of 2011, mainly affecting the waste management segment:

- Since February 2011, HERAmbiente has consolidated its stake in Enomondo to 50%, a company that manages a 13 MWe biomass plant in a joint venture with Caviro Distillerie S.r.l.
- Since the second half of 2010, the Marche Multiservizi Group has consolidated its stake in Naturambiente, which manages landfill operations for the Municipality of Cagli (PU).

As seen from the financial statements at 31 December 2010, the Consolidated Income Statement applies the interpretation of the IFRIC 12 accounting principle "Service Concession Arrangements", which has changed the way in which transactions are accounted for by businesses operating in industries regulated by specific concessions. At an accounting level, the impact of the application of this principle, whilst not changing the results, has meant that investments in assets under concession (network services) are reported in the income statement. Therefore, the income statement shows an increase in other operating income of €61.1 million for the first half of 2011 and €65.5 million for 2010, lower capitalised costs of €16.3 million in 2011 and €15.7 million in 2010, and increased operating costs for services, materials and other operating costs of €44.8 million in 2011 and €49.8 million in 2010.

In addition, the accounts for the first half of 2010 have been reclassified to give a better representation of the plants and other works of companies within the Group; specifically, the costs of services and capitalised costs have been increased by the same amount.

The table below gives the economic results for the first half of 2010 and 2011:

Income statement (€ million)	30-Jun-10	% weight	30-Jun-11	% weight	Change	% change
Revenues	1,807.0	100.0%	1,983.2	100.0%	+176.2	+9.8%
Other operating income	101.8	5.6%	87.7	4.4%	-14.1	-13.9%
Raw materials	(1,036.4)	-57.4%	(1,122.0)	-56.6%	+85.6	+8.3%
Cost of services	(405.6)	-22.4%	(422.1)	-21.3%	+16.5	+4.1%
Other operating costs	(18.8)	-1.0%	(17.5)	-0.9%	-1.3	-6.9%
Personnel costs	(184.6)	-10.2%	(189.7)	-9.6%	+5.1	+2.8%
Capitalised costs	50.3	2.8%	24.4	1.2%	-25.9	-51.5%
<b>EBITDA</b>	<b>313.5</b>	<b>17.4%</b>	<b>344.0</b>	<b>17.3%</b>	<b>+30.5</b>	<b>+9.7%</b>
Depreciation, amortisation and provisions	(138.7)	-7.7%	(144.6)	-7.3%	+5.9	+4.3%
<b>EBIT</b>	<b>174.8</b>	<b>9.7%</b>	<b>199.4</b>	<b>10.1%</b>	<b>+24.6</b>	<b>+14.1%</b>
Financial operations	(54.8)	-3.0%	(53.5)	-2.7%	-1.3	-2.4%
<b>Pre-tax profit</b>	<b>120.1</b>	<b>6.6%</b>	<b>145.9</b>	<b>7.4%</b>	<b>+25.8</b>	<b>+21.5%</b>
Taxes	(50.9)	-2.8%	(62.8)	-3.2%	+11.9	+23.4%
<b>Net profit for the period</b>	<b>69.2</b>	<b>3.8%</b>	<b>83.2</b>	<b>4.2%</b>	<b>+14.0</b>	<b>+20.2%</b>

\* Figures to 30 June 2010 have been reclassified as described in the "Financial statements" paragraph of the notes to the balance sheet

EBITDA rose from €313.5 million in 2010 to €344.0 million in 2011 (+9.7%), while EBIT rose from €174.8 million to €199.4 million (+14.1%), pre-tax profit increased by 21.5% from €120.1 million to €145.9 million, and net profit jumped from €69.2 million in 2010 to €83.2 million in the first six months of 2011 (+20.2%).

Revenues at 30 June 2011 increased by €176.2 million (+9.8%), from €1,807.0 million at 30 June 2010 to €1,983.2 million at 30 June 2011. The main reasons for this are: (i) higher volumes of electricity sold (+29.8%) and distributed, (ii) increased revenues from gas distribution and sales, and (iii) increased revenues in the waste management segment, especially due to increased revenues from electricity generation.

The increase in the cost of raw materials and other materials, equal to €85.6 million compared with the previous year, is attributable to the higher volumes of electricity sold and the increase in the price of gas.

Other operating costs (service costs rose by €16.5 million and other operating expenses fell by €1.3 million) saw a net increase of €15.2 million (+3.6%).

The increase in personnel costs, which went from €184.6 million in the first half of 2010 to €189.7 million in 2011 (+2.8%), is mainly related to changes in contract dynamics.

The decrease in capitalised costs, which went from €50.3 million to €24.4 million, is mainly linked to the decrease in work on plants and other works by Group companies.

The Group's consolidated EBITDA for the first half of 2011 rose from €313.5 million at 30 June 2010 to €344.0 million (+9.7%). This was due to the performance of all the main business segments of the Group. The solid performance of the electricity area, which rose from 10.1% to 12.3% of the total result, and the increased margin on municipal waste services, are particularly noteworthy.

Depreciation, amortisation and provisions increased by 4.3%, from €138.7 million in the first six months of 2010 to €144.6 million for the same period in 2011. This increase is mainly due to (i) increased provisions made for the provision for bad debts and the provision for risks, and (ii) the entry into operation of the new plants that offset the effect of the reduction in depreciation rates, before publishing the 2010 annual financial report.

The first six months of 2011 showed an operating profit of €199.4 million, up 14.1% compared with the first half of 2010.

The financial management result at 30 June 2011 stood at €53.5 million, compared with €54.8 million at 30 June 2010. owing to the lower cost of €0.9 million linked to the dynamics between interest expense and interest income and to higher profits from associates (approximately €0.4 million).

In light of the above, pre-tax profit rose from €120.1 million for the first half of 2010 to €145.9 million for the first half of 2011, an increase of 21.5%, or €25.8 million.

Taxes rose from €50.9 million in the first half of 2010 to €62.8 million in the first half of 2011. The final tax rate was 43%. The increase compared with the tax rate in the first half of 2010 (42.4%) is due to the 0.30% increase in the rate of business tax (IRAP) following the recent austerity measures introduced by the Italian government (applicable to the parent company, Hera S.p.A.) and to the absence of benefits linked to Decree-Law 78/2009, which had been included in the calculation of tax at 30 June 2010. Taxes as at June 30, 2011 do not take into account IRES increase, the so called Robin tax (4 percentage points) as per Italian legislative decree of 13 August 2011. For more information see also section 1.10 Directors Report: "Significant events after the end of the half-year and outlook".

Net profit as at 30 June 2011 was €83.2 million, up 20.2% compared with the €69.2 million recorded for the same period in 2010.

## Analysis of the Group's capital structure

The following table shows the performance of the Group's net invested capital and its sources of financing for the year ended 31 December 2010 and for the half year ended 30 June 2011:

Invested capital and sources of financing (€ million)	31-Dec-10	% weight	30-Jun-11	% weight	Change	% change
Net fixed assets	4,142.3	111.0%	4,207.6	110.2%	65.3	+1.6%
Working capital	(29.1)	-0.8%	1.3	0.0%	30.4	-104.3%
(Provisions)	(382.8)	-10.3%	(391.8)	-10.3%	(9.0)	+2.4%
<b>Net invested capital</b>	<b>3,730.4</b>	<b>100.0%</b>	<b>3,817.1</b>	<b>100.0%</b>	<b>86.7</b>	<b>+2.3%</b>
Shareholders' equity	1,870.2	50.1%	1,846.0	48.4%	(24.2)	-1.3%
Long-term financial debt	2,292.1	61.4%	2,279.7	59.7%	(12.4)	-0.5%
Short-term net financial position	(431.9)	-11.6%	(308.6)	-8.1%	123.3	-28.5%
Net financial position	1,860.2	49.9%	1,971.1	51.6%	110.9	+6.0%
<b>Total sources of financing</b>	<b>3,730.4</b>	<b>100.0%</b>	<b>3,817.1</b>	<b>100.0%</b>	<b>86.7</b>	<b>+2.3%</b>

Net invested capital increased by 2.3%, from €3,730.4 million to €3,817.1 million in the first half of 2011. The rise was due to the investment programme, details of which can be found in the relevant section.

Net fixed assets at 30 June 2011 amounted to €4,207.6 million, an increase of 1.6% on the end of December 2010 (€4,142.3 million).

Provisions at 30 June 2011 amounted to €391.8 million, an increase of 2.4% on the end of December 2010 (€382.8 million).

The €30.4 million increase in working capital compared with December 2010 was due mainly to greater volumes as a result of winning new electricity customers following the allocation of the default-provider service mandates for Tuscany, Lazio, Abruzzo, Molise, Puglia and Lombardy. Inventories increased by around €20 million.

Shareholders' equity dropped from €1,870.2 million to €1,846.0 million owing to dividend payments of €118.0 million.

## Analysis of the Group's net financial position

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

millions of euro		30-Jun-11	% weight	31-Dec-10	% weight	Change	% change
<b>a</b>	<b>Cash and cash equivalents</b>	<b>356.3</b>		<b>538.2</b>			
<b>b</b>	<b>Other current loans</b>	<b>51.2</b>		<b>44.3</b>			
	Bank overdrafts	-23.4		-58.4			
	Current portion of bank debt	-63.2		-71.1			
	Other current financial liabilities	-8.9		-16.6			
	Finance lease payables due within 12 months	-3.4		-4.6			
<b>c</b>	<b>Current financial debt</b>	<b>-98.9</b>		<b>-150.7</b>			
<b>d=a+b+c</b>	<b>Net current financial debt</b>	<b>308.6</b>	<b>-0.2</b>	<b>431.8</b>	<b>-0.2</b>	<b>-123.2</b>	<b>-0.3</b>
<b>e</b>	<b>Non-current loans</b>	<b>10.8</b>		<b>10.3</b>			
	Non-current bank debt	-292.0		-345.8			
	Bonds issued	-1,768.1		-1,787.3			
	Other non-current financial liabilities	-222.9		-160.4			
	Finance lease payables due after 12 months	-7.5		-8.8			
<b>f</b>	<b>Non-current financial debt</b>	<b>-2,290.5</b>		<b>-2,302.3</b>			
<b>g=e+f</b>	<b>Net non-current financial debt</b>	<b>-2,279.7</b>	<b>1.2</b>	<b>-2,292.0</b>	<b>1.2</b>	<b>12.3</b>	<b>-0.0</b>
<b>h=d+g</b>	<b>Net financial debt</b>	<b>-1,971.1</b>	<b>1.0</b>	<b>-1,860.2</b>	<b>1.0</b>	<b>-110.9</b>	<b>0.1</b>

The Group's net financial position went from €1,860.2 million as at 31 December 2010 to €1,971.1 million as at 30 June 2011, an increase of €110.9 million due to the distribution of a €118 million dividend in June. The debt continues to consist mainly of medium-/long-term borrowing. Hera S.p.A. enjoys a long-term rating of A3 from Moody's and BBB+ from Standard & Poor's, both with a stable outlook.



## Hera Group Investments

The Group's tangible and intangible investments totalled €133.0 million, compared to €169.1 million in the same period of the previous year. During the same period, financial investments of €5.8 million were made in Sadori, a company involved in the sale of gas in the Marche region.

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

Total investment (€ million)	30-Jun-10	30-Jun-11	Change	% change
Gas	21.6	20.6	-1.0	-4.6%
Electricity	24.0	13.0	-11.0	-45.8%
Integrated water cycle	44.3	43.7	-0.6	-1.4%
Waste management	53.9	29.3	-24.6	-45.6%
Other services	3.8	6.7	+2.9	+76.3%
Head office	21.6	19.8	-1.8	-8.3%
<b>Total operating investments</b>	<b>169.1</b>	<b>133.0</b>	<b>-36.1</b>	<b>-21.3%</b>
Total financial investments	1.0	5.8	+4.8	+480.0%
<b>Total</b>	<b>170.2</b>	<b>138.8</b>	<b>-31.4</b>	<b>-18.4%</b>

*The investments for 2010 were reclassified so that they gave a better representation of the implementation of plants and other works for companies operating within the Group.*

Investments in the **Gas** service were lower on the whole than in the same period of the previous year. Operations in the GAS service in the reference area refer to network extensions, improvements and upgrading of networks and distribution systems. In District Heating the service includes network extension works in the areas around Bologna (€1.3 million), Imola (€2.5 million), Forlì Cesena (€2.2 million), Ferrara (€0.3 million) and Modena (€0.3 million), while Forlì plant was also completed.

Investments in Heat Management are directed at structural operations on thermal plants operated by Group companies.

Gas (€ million)	30-Jun-10	30-Jun-11	Change	% change
Hera S.p.A. network	11.3	12.9	+1.6	+14.2%
Marche/Sardinia networks	0.7	1.0	+0.3	+42.9%
District heating/heat management	9.5	6.6	-2.9	-30.5%
Other	0.1	0.1	+0.0	+0.0%
<b>Total Gas</b>	<b>21.6</b>	<b>20.6</b>	<b>-1.0</b>	<b>-4.6%</b>

Investments in the **Electricity** service were mainly aimed at the extension of the service, extraordinary maintenance on distribution networks and plants around Modena and Imola, and network support services. Regional investment was down compared with the same period of the previous year due to the completion of the new photovoltaic plant at the Bologna freight terminal and the final phase of the commitment for the wholesale replacement of existing meters with smart meters, in order to comply with the substitution plans authorised by the AEEG (€1.6 million for the current year). Investments in electricity and heat production plants (CCGT) refer to the completion of the Imola CHP plant, while cogeneration activities relate to creating new plants for companies in the area.

<b>Electricity (€ million)</b>	<b>30-Jun-10</b>	<b>30-Jun-11</b>	<b>Change</b>	<b>% change</b>
Regional	16.2	8.7	-7.5	-46.3%
Imola CCGT	4.7	3.2	-1.5	-31.9%
Cogeneration	3.1	1.0	-2.1	-67.7%
<b>Total electricity</b>	<b>24.0</b>	<b>13.0</b>	<b>-11.0</b>	<b>-45.8%</b>

As far as the **Integrated Water Cycle** is concerned, the results are essentially in line with the same period in the previous year. The investments mainly regard the extension, improvement and upgrading of networks and plants, in addition to regulatory compliance, particularly for purification and sewerage systems.

<b>Integrated Water Cycle (€ million)</b>	<b>30-Jun-10</b>	<b>30-Jun-11</b>	<b>Change</b>	<b>% change</b>
Mains supply	22.9	21.3	-1.6	-7.0%
Treatment	9.4	11.2	+1.8	+19.1%
Sewerage	12.0	11.2	-0.8	-6.7%
<b>Total Integrated Water Cycle</b>	<b>44.3</b>	<b>43.7</b>	<b>-0.6</b>	<b>-1.4%</b>

The **Waste Management** area recorded reduction compared with the previous year in maintenance and expansion activities for existing plants in the area. For investments in waste to energy (WTE), operations mainly relate to the construction of the Rimini plant, as both the Ferrara and Forlì waste-to-energy plants are now finished and operational.

<b>Waste Management (€ million)</b>	<b>30-Jun-10</b>	<b>30-Jun-11</b>	<b>Change</b>	<b>% change</b>
Existing plants	20.0	17.0	-3.0	-15.0%
<i>New plants</i>				
WTE Modena	13.9	0.7	-13.2	-95.0%
WTE Forlì	0.7	0.0	-0.7	-100.0%
WTE Rimini	19.3	11.5	-7.8	-40.4%
<b>Total Waste Management</b>	<b>53.9</b>	<b>29.3</b>	<b>-24.6</b>	<b>-45.6%</b>

In **Other Services**, in telecommunications, IRU linked to the exit of Infracom (€1.3 million) was acquired, with a corresponding disposal of assets purchased in previous years (€2.8 million). Public Lighting recorded a fall in investment compared with 2010 and the "Other" item includes investments in cemetery services.

<b>Other Services (€ million)</b>	<b>30-Jun-10</b>	<b>30-Jun-11</b>	<b>Change</b>	<b>% change</b>
Telecommunications	2.5	5.9	+3.4	+136.0%
Public lighting and signage	0.9	0.4	-0.5	-55.6%
Other	0.4	0.4	+0.0	+0.0%
<b>Total Other Services</b>	<b>3.8</b>	<b>6.7</b>	<b>+2.9</b>	<b>+76.3%</b>

Investments at head office decreased overall compared with the previous year due to the decline in property transactions. Other investments include work on the completion of laboratories and remote-monitoring units.

<b>Head Office (€ million)</b>	<b>30-Jun-10</b>	<b>30-Jun-11</b>	<b>Change</b>	<b>% change</b>
Property investment	12.6	10.5	-2.1	-16.7%
Information systems	5.2	6.1	+0.9	+17.3%
Fleet	2.2	2.0	-0.2	-9.1%
Other investments	1.6	1.2	-0.4	-25.0%
<b>Total Head Office</b>	<b>21.6</b>	<b>19.8</b>	<b>-1.8</b>	<b>-8.3%</b>

### 1.03.02 Regulatory framework and regulated revenues

#### 1. Regulations

A referendum on economically significant local public services was held on 12-13 June 2011, which was in favour of repealing two regulations concerning the Group's activities. The repeal came into effect with the issuance of Presidential Decrees 113 and 116 of 18 July 2011.

The withdrawal of Article 23-*bis* of Law 133 of 6 August 2008, as amended by article 15 of Decree 135 of 25 September 2009 (the 'Ronchi' decree, converted by Law 166 of 20 November 2009) eliminates a regulatory framework governing the entire services sector. The main effects of this include cancellation of the transitional arrangement for management concessions (in the Group's case, water services and urban waste management), which stipulated, for listed companies, that concessions would last until the expiry date set out in the original service agreements, provided that the publicly held share capital of the concessionaires was gradually reduced. The elimination of the transitional arrangement, and therefore of the restrictive condition, means that concessions are valid until their natural expiry.

The second rule repealed by the referendum is included in article 154, paragraph 1, of Legislative Decree 152 of 3 April 2006, and relates to the requisite 'adequacy of the return on invested capital', a component of the integrated water service tariff. This partial repeal does not affect the EU principles of: full recovery of costs in the tariff; 'the polluter pays' (i.e. taking environmental effects into account when using a resource); and ensuring balanced economic and financial management. Any measure designed to undermine these principles cannot be regarded as legitimate; moreover, stable tariff profiles established under valid contractual relationships or related resolutions (tariff agreements with local water boards) may not be challenged.

Furthermore, the applicable tariff method (the 'standardised method', pursuant to Ministerial Decree 1.08.1996) will remain in force until it is amended, in accordance with article 170 of Legislative Decree 152 of 3 April 2006.

The next review of the standardised method will be one of the tasks assigned to the new Independent National Regulatory Agency for Integrated Water Services (*Agenzia nazionale indipendente di regolazione del servizio idrico integrato*), set up under Law 106 of 12 July 2011, converting Decree-Law 70 of 13 May 2011 relating to the "European Semester – first urgent provisions for the economy".

The new regulatory authority has inherited the functions of the former National Supervisory Commission for Water Resources (*Commissione Nazionale di Vigilanza sulla Risorse Idriche*), with broader economic regulatory powers (e.g. approval of tariffs drawn up by the competent local authorities), which limits discretionary local powers where these exist. Most significantly, the authority's board is appointed according to the model for independent authorities established by Law 481/95: i.e., its members must be approved by the competent parliamentary committees by a two-thirds majority. The new body's independent status suggests that reforms which have until now been blocked might be fast-tracked, and it may represent a development opportunity for the sector.

In energy services, the adoption into national law of the EU's Third Energy Package, via Legislative Decree 93 of 1 June 2011, has brought in major changes designed to guarantee secure energy supplies, greater competition and consumer protection and to stimulate the creation of a single European market, in which the recently established Agency for Cooperation of Energy Regulators (ACER) has also played a role.

The provisions of the decree include:

- with regard to competition, regulations governing the complete operational separation of gas transmission businesses. EU regulations stipulate that Member States in which the transportation/transmission system belongs to a vertically integrated business must choose between ownership and operational models when selecting a method to guarantee the transporter's independence. Italy has opted for the second alternative: in other words, the largest transport business will have to split up its operations, creating an independent system operator. Other unbundling measures that should be highlighted include the prohibition on confusion between the distributor's brand and communication policies, selling on the free market and selling on the regulated market within vertically integrated businesses. In this regard, the Italian electricity and gas authority (AEEG) has been mandated to issue suitable measures, after consultation with operators;
- with regard to gas distribution tenders, article 24, paragraph 4 of the Legislative Decree stipulates that from the date of its publication in the Official Gazette, distribution concessions may only be allocated through regional tender processes defined in number 177 of the Mse-Regional Affairs decree in force since 1 April 2011, thus putting an end to doubts about the interpretation of rules allowing municipalities to hold individual tenders, while waiting for the introduction of actual regional tender processes. Other key aspects are: (i) a provision (amending Legislative Decree 164/2000) to reimburse the outgoing operator at a price (i.e. in the periods following the first round of the regional tender processes), based on the value of the net fixed assets at the distribution and metering service sites, calculated using the methods stipulated by the applicable tariff regulation; and (ii) a provision to allow the AEEG, exclusively during the first period in which the concessions allocated by region are exercised, to recognise in the tariff of the incoming operator the depreciation of the difference between the value of the repayment to the outgoing operator and the value of the net fixed assets at the sites, as calculated according to the applicable tariff regulation;
- regulations for increased consumer protection in both the gas and the electricity markets. With regard to gas, the definition of 'vulnerable' customers has been established, to include residential customers, uses relating to public service activities for social care purposes, and household and non-household customers consuming less than 50 thousand cubic metres per annum. With regard to electricity, the scope of the protection scheme has been defined as follows: household customers and low-voltage businesses with fewer than 50 employees and annual turnover of less than €10 million, who do not choose a supplier on the free market, provided, in addition, that monitoring of market performance and the existence of "effective competition conditions" is carried out (by the Ministry of Economic Development) at least every two years. Finally, the AEEG must take steps to ensure that the switching period does not exceed three weeks and that customers have access to their own consumption data and transparent information about tariffs and economic conditions;
- new rules regarding penalties. Specifically, similar to the procedures of the Italian antitrust authority (*Autorità garante della concorrenza e del mercato*), the operator is now permitted to submit binding long term commitments, subject to validation by the AEEG, within 30 days of the launch of enforcement proceedings, which provides an opportunity to terminate the proceedings. This also applies in the event of breaches of rulings relating to EU areas of regulation.

With regard to incentives for renewable energy sources, Legislative Decree 28/2011 has been issued, implementing Directive 2009/28/EC, with the aim of supporting the development of renewable energy sources to achieve the target set by the 2020 National Action Plan (NAP), completely redefining and reorganising previous incentive schemes which were suffering from too many successive layers of legislation due to the need for continual adjustment to find a balance between development, being too burdensome, competition and the market. The Decree specifically defines the criteria and methods for the support mechanisms (note the gradual withdrawal of the incentive mechanism based on Green Certificates), postponing most of the economic issues until the publication of specific implementing decrees, expected by the end of 2011. The decree provides for a TRANSITIONAL bridging period with current legislation for plants entering into operation before 31/12/2012. Subsequently all plants will be subject to the new regulations. Specifically in terms of solar power, note that the 'Fourth Energy Account', a ministerial decree approved on 5 May 2011, has been issued, which sets out the incentive model in force from 1 June 2011. This is 'emergency' legislation in response to the solar power boom prompted by the generous incentive system established by the Third Energy Account, the 'salva-Alcoa' decree and, in particular, the simultaneous plunge in the cost of solar power modules. Without this measure, the cost of sustaining the sector would have become untenable (*Gestore dei Mercati Energetici S.p.A.* estimates that installed solar power will exceed 8,000 MW in 2011). The law provides for a steady and substantial reduction in the incentive tariff, with total spending caps for large plants imposed between 2011 and 2012, to be rolled out to other plants in 2013-2016. The target is to reach national installed power of 23 gigawatts by 2016, favouring small- to medium-sized plants and measures aimed at own consumption.

Finally, the State-Regions Conference is examining a measure to determine the municipalities to be included in the 177 regions for gas distribution tender processes, established by the Ministerial Decree of 19 January 2011 – 'Determination of Regional Areas in the Natural Gas Distribution Sector' – published in the Official Gazette on 1 April this year. Meanwhile, the Council of State is still examining the Regulation for Competition Policy, which represents the final regulatory foundation stone for future regional tender processes, since the Employment Protection Decree has also already been published (Official Gazette 4/05/2011).

## 2. Regulations

The following regulatory developments took place in the gas sector in the period under review:

- with Resolution ARG/gas 45/11, the authority defined rules governing the evaluation of the economic merits of natural gas, introducing market mechanisms to increase the flexibility and liquidity of the natural gas offering. The new mechanism provides for the creation of a central platform (organised by *Gestore dei Mercati Energetici S.p.A.*) to enable the acquisition, based on criteria of economic merit (i.e. the best offer), of the resources required to balance its own positions and ensure the constant equilibrium of the network, in order to make the system more secure. Specifically, on the platform operators will offer the ability to reduce or increase the gas injected into or taken from stocks, and the company responsible for balancing, *Snam Rete Gas*, will acquire the resources required to ensure constant network equilibrium. Implementation of these rules was deferred by Resolution ARG/gas 81/11 until the first day of the following December;
- Resolution ARG/gas 64/11 launched the procedure to draw up measures for gas distribution and metering service quality for the regulatory period 2013-2016. Issuance of the relative consultation document is pending.

- with Resolution ARG/gas 71/11, the AEEG has reformulated the scope of persons benefitting from protection service for the supply of gas at regulated prices, establishing that, as well as residential end-customers covered by the original measure, schools, hospitals and other social service organisations carrying out activities of general and social interest in an approved way, as well as small and medium-sized enterprises consuming no more than 50,000 smc per annum, may continue to use the service;
- also with regard to the protection service, a procedure has been implemented, by Resolution ARG/gas 77/11, to reform the relative economic conditions of supply, particularly the *CCI* component (a fixed component covering international transmission costs and wholesale margins), from 1 October 2012. This is partly in view of possible changes in the market due to the next implementation of the assessment of economic merit, as well as measures already in force designed to increase flexibility and competition, pursuant to Legislative Decree 130/10. Issuance of the relative consultation document is pending.
- the consultation launched by the AEEG by Consultation Document 28/11 to define the switching process in a coherent manner, simplifying the procedures for operators and recognising, also in the gas sector, the key element in the switching procedure: the 'Point of Delivery - Owner of the Point' relationship.

Changes affecting the electricity sector can be summarised as follows:

- in Consultation Document 24/11, the AEEG has proposed the introduction of a mechanism to reimburse non-recoverable expenses sustained by operators while safeguarding electricity provision to end-customers whose supply cannot be cut off because of their specific circumstances, as well as defining methods of recovery and management of the relative receivable;
- Consultation Document 29/11 was subsequently published as part of the procedure launched by Resolution ARG/elt 6/11, aimed at setting up tariff measures for electricity transmission, distribution and metering services and economic conditions for the provision of connection services, for the regulatory period 2012-2015. With this consultation document, the AEEG has not only set out general aims but has also proposed preliminary guidelines for calculating recognised costs for electricity transmission, distribution and metering services. For the calculation of the recognised cost, with particular reference to operating costs, the AEEG – in line with the previous regulatory period – proposes a parametric method, providing for the uniform distribution of the largest efficiency gains compared with the revenue cap set for the previous regulatory period (profit sharing); for recognition of the cost of depreciation, the AEEG plans to use a valuation that is partly simplified/parametric and partly detailed (i.e. calculated on effective investments 'by business'). Finally, the Regulator plans to adopt the historical cost valuation method as the general valuation criterion for invested capital; however, this valuation must be carried out using a mixed approach: a simplified/parametric valuation for the portion of capital relating to assets classified up to 2007 (in the first hypothesis) and a detailed valuation, based on effective investments declared to the AEEG by each business, for assets realised and put into operation in the subsequent years; for distribution, this method – according to the intentions of the AEEG – should lead to identification of invested capital 'by business'. With regard to investment incentives, the AEEG identifies two types of measure (smart-grids and electric vehicles) and announces a subsequent, specific consultation. Subsequent consultation documents will address, in detail, the question of incentive mechanisms to promote investment, rules governing economic conditions for connection services, equalisation mechanisms, determining tariffs and caps and the regulation of system charges;

Finally, the following measures apply across both sectors:

- the consultation launched by the AEEG by Consultation Document 10/11, in view of the forthcoming implementation of a monitoring system for the retail electricity and gas markets;
- the consultation (Consultation Document 4/11) which the AEEG plans to use to supplement the rules governing substitution of one seller with another with an open delivery point (switching) and with a simultaneous change in the end-customer (i.e. a change in contract);
- Resolution ARG/com 92/11, by which the AEEG, following a long and complex consultation during the first half of 2011, suspended its provision for the publication of the comparative performance of electricity and gas sellers, in response to written complaints, and simultaneously launched a new consultation phase with operators, expected to end by 31 March 2012.



## Regulated revenues from gas metering and distribution

2011 is the third year of the current regulatory period (2009-2012) for gas metering and distribution tariffs, which is governed by the RTDG regulation introduced under AEEG Resolution arg/gas no. 159/08 of November 2008.

The tariff system outlined by the RTDG ensures that each operator can generate *permitted revenues* determined by the AEEG on the basis of recognised costs, expressed in the *reference tariffs*, and of the number of redelivery points served, separating business revenues from the volumes distributed. This can be done using tariff equalisation mechanisms that allow operators to use the Electricity Equalisation Fund to settle differences between their own permitted revenues and the revenues generated by invoicing sales companies. These latter revenues arise from the *compulsory tariffs* determined by the AEEG on the basis of macro-regional size.

The AEEG approved both the compulsory tariffs and the reference tariffs for 2009 and 2010, but only the compulsory tariffs have currently been approved for 2011, while the reference tariffs based on the permitted revenues of each operator have not even been provisionally defined. Following rulings by the Lombardy Regional Administrative Court in October 2010 which partially annulled the RTDG, the AEEG passed Resolution arg/gas no. 235/10 of December 2010 to formally begin a process aimed at evaluating possible resulting changes to tariff regulations, which should lead to regulatory powers being re-exercised and the RTDG being subsequently revised, even if only partially. Pending such revision, the AEEG has suspended reference tariff approvals for 2011 and declared the previous approvals for 2009 and 2010 to be provisional.

It should be stressed that, as well as relating to a first-instance ruling against which the AEEG has already lodged an appeal with the Council of State, the partial annulment of the RTDG affects specific regulations for which any changes being considered by the AEEG would likely have a broadly neutral, if not positive, effect on Hera compared with previously approved tariffs.

For these reasons, Hera S.p.A.'s gas metering and distribution revenues for the first half of 2011 are the result of appropriate estimates of 2011 reference tariffs based on regulatory continuity in relation to previous years' tariff approvals. More specifically, tariffs for the first half of 2011 were estimated taking into account the principle of graduality in recognising capital costs, which was introduced by the AEEG with a view to spreading over the four-year regulatory period the convergence from the values under the previous methodology towards those defined by the RTDG. As a secondary factor in terms of economic impact, the tariff adjustment in 2011 also takes into account changes in net invested capital which took place in 2009 and updates to operating costs recognised according to the standard price-cap rule, applying an annual productivity recovery rate of 3.2% for Hera.

Under the system described above, Hera S.p.A.'s gas metering and distribution revenues for the first half of 2011 amounted to €84.8 million, with 1,256 million cubic metres distributed at a unit price of €0.0675. The revenue amount reported takes into account an appropriate estimate of the effects of tariff equalisation.

Gas metering and distribution – Regulated revenues	30/06/2010	30/06/2011	% change
<b>Hera S.p.A.</b>			
- Revenues (€ million)	82.5	84.8	3%
- Volume (m <sup>3</sup> million)	1,371	1,256	-8%
- Unit revenues (€ cent/m <sup>3</sup> )	6.02	6.75	12%

Despite an 8% reduction in volumes distributed (from 1,371 million m<sup>3</sup> to 1,256 million m<sup>3</sup>), revenues rose from €82.5 million to €84.8 million – an increase of around 3% on the first half of 2010. The €2.3 million rise resulted from the expected increase in the 2011 revenue cap compared with 2010, caused primarily by the release of the third graduality quota for converging capital costs towards expected 2012 levels.

Introducing Marche Multiservizi S.p.A. into the Hera Group's consolidation scope as at 30 June 2011, consolidated Group revenues from gas metering and distribution amounted to €93.1 million, with 1,352 million cubic metres distributed at a unit price of €0.0689.

Gas metering and distribution – Regulated revenues	30/06/2010	30/06/2011	% change
<b>Hera CONSOLIDATED</b>			
- Revenues (€ million)	90.7	93.1	3%
- Volume (m <sup>3</sup> million)	1,475	1,352	-8%
- Unit revenues (€ cent/m <sup>3</sup> )	6.15	6.89	12%

## Regulated revenues from electricity metering and distribution

During the first half of 2011, the regulatory framework surrounding the mechanisms for determining electricity metering and distribution tariffs, as outlined by the Consolidated Tariffs Act (AEEG Resolution no. 348/07), remained broadly unchanged from the end of 2010. Essentially, the tariff regulation is based partly on the AEEG's determination of tariffs by unique user type at a national level and partly on the definition of appropriate cost and revenue equalisation mechanisms.

AEEG Resolution arg/elt no. 228/10 updated fees for electricity transmission, distribution and metering for 2011. The regulated revenues for the first half of 2011 are based on these fees and are therefore founded on solid tariff conditions. The period was also marked by the AEEG's use of Resolutions arg/elt no. 74/11 and no. 97/11 to define the revenue equalisation amount for low-voltage metering for 2009 and to revise the previously approved amount for 2008.

Under the system described above, electricity metering, distribution and transmission revenues for the six months to 30 June 2011 amounted to €24.2 million, an increase of €2.5 million on the same period a year earlier (€21.7 million). This last figure absorbed all tariff equalisations pertaining to previous years, amounting to €1.4 million. Net of this effect, revenues increased by €1.1 million (+4.9%) owing essentially to a 5.1% rise (from 1,078 million kWh to 1,133 million kWh) in volumes distributed. Resolution arg/elt no. 228/10 approved tariff levels for 2011 that were broadly unchanged from 2010.

Electricity transmission, metering and distribution – Regulated revenues	30/06/2010	30/06/2011	% change vs. 30/6/10
<i>Hera S.p.A.</i>			
- Revenues (€ million)	21.7	24.2	11.5%
- Volume (kWh million)	1,078	1,133	5.1%
- Unit revenues (€ cent/kWh)	2.01	2.14	6.50%

**Water cycle: tariff framework**

*Effects of the referendum result, regarding the repeal of the section “adequacy of the return on invested capital”, in article 154, paragraph 1 of Legislative Decree 152/2006.*

The referendum result led to the repeal of paragraph 1 of article 154 of Legislative Decree 152/2006; we can therefore assume that the current tariff method will be revised, as envisaged in paragraph 2 of the same article. The recent conversion into law of Decree Law 70 of 13 May 2011, which established the National Agency for Water Regulation and Supervision (*Agenzia nazionale per la regolazione e la vigilanza in materia di acqua*), tasks the agency with preparing a tariff method for water services and defining its cost components. Until this date, pursuant to article 170, paragraph 3 of the aforementioned Legislative Decree 152/2006, operators had to apply tariffs approved pursuant to the current reference legislation, i.e. the standardised method set out in the Ministerial Decree of 1 August 1996.

The definition of a new tariff method for water services is to be welcomed as an opportunity for certain reforms that have never been implemented, in compliance with the EU-imposed principle of full cost coverage, in accordance with the ‘polluter pays’ principle.

The economic agreements signed with the relevant environmental authorities (AATOs), based on existing agreements, relate to the period 2008-2012 for all the regions governed by these authorities (ATOs) with the exception of Modena, for which tariffs have already been agreed until 2014. In light of what stated above, the Group assumes that the situation can lead, in a not near future and in a widest temporal horizon compared to present tariff agreements, to a business models and operations variation which will be affecting all the business sector and which should be surveyed during the next fiscal years

A comparison with data for financial year 2010 shows an increase of 2.7% in unit revenue, mainly reflecting the application of the tariff agreements established by the regions. Meanwhile, volumes for the first six months of 2011 were in line with the previous year.

Hera Group consolidated: Water Cycle - tariff revenues	30/6/11	30/6/11	% change
Tariff revenues (€/mn)	199.0	204.2	2.6%
Volumes (m <sup>3</sup> /mn)	120.7	120.7	-0.1%
Average unit revenue (€cent/m <sup>3</sup> )	164.8	169.2	2.7%

### Urban hygiene: tariff framework

At June 2011, urban waste management services were provided in 181 municipalities, 51% of which (92 municipalities) used the tariff system pursuant to Presidential Decree 158/99, serving a population representing 66% of the region served; 49% of the municipalities are still using the solid urban waste tax (TARSU) system.

A detailed comparison of homogenous data from the consolidated Hera Group gives the following results.

Hera Group consolidated: Urban Cleanliness - tariff revenues (TIA + TARSU)	2010	2011	% change
Tariff revenues (€/mn)	197.6	206.1	4.3%
Residents served* (000)	2,733	2,779	1.7%
Average unit revenue (€/resident)	72.3	74.2	2.6%

\*number of residents served at 01/01/

The total increase in regulated revenues for urban hygiene services to municipalities under concession (4.3%) mainly reflects the average tariff increase of about 3.5%, which also recovers the inflationary increase in costs.

The remainder of the difference is attributable to the inclusion of new municipalities within the scope of operations of the Marche Multiservizi Group and to additional services requested by the municipalities.

### 1.03.03 Analysis by business segment

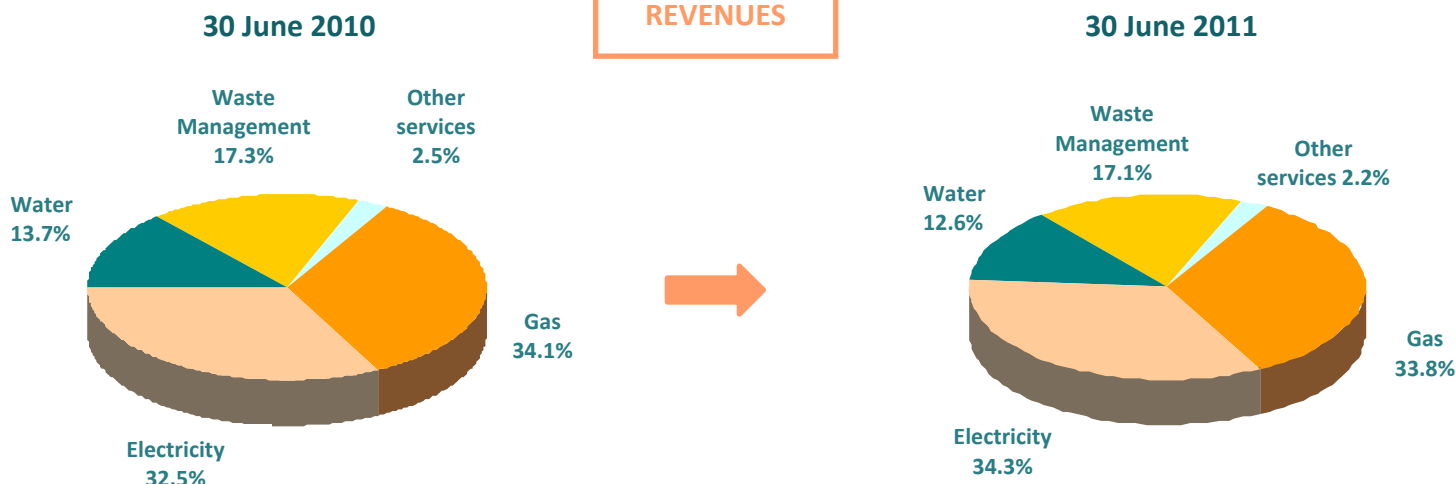
A breakdown of the operating results achieved in the business segments in which the Group operates is given below:

(i) the Gas sector, which includes methane gas and LPG distribution and sales services, district heating and heat management; (ii) the Electricity sector, which includes electricity production, distribution and sales services; (iii) the Integrated Water Cycle sector, which includes mains water, wastewater and sewage services; (iv) the Waste Management sector, which includes waste collection, treatment and disposal services; and (v) the Other Services sector, which includes public lighting, telecommunications and other minor services.

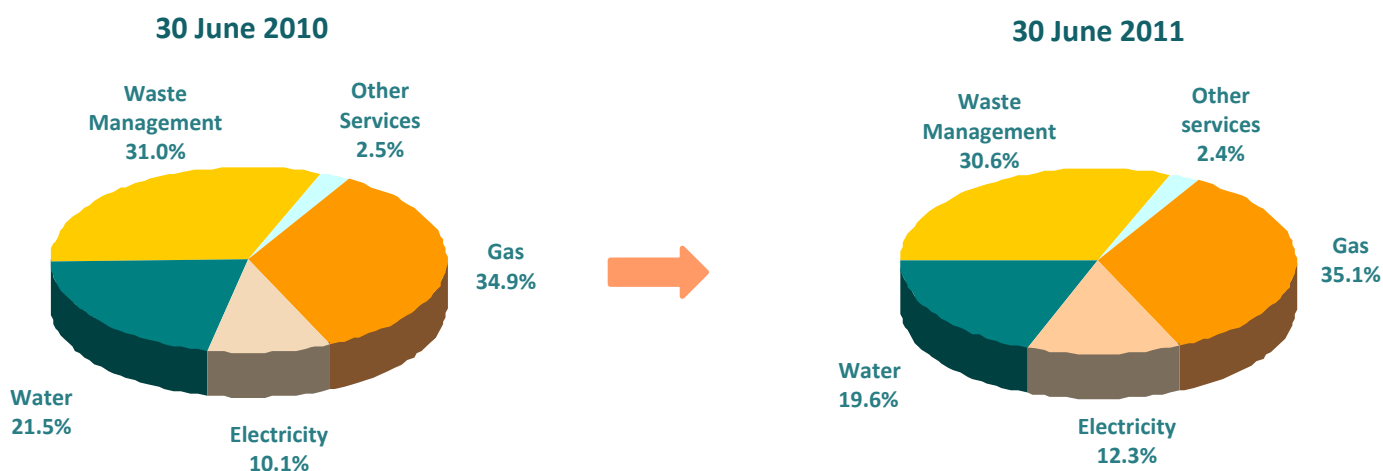
In light of the above, the composition and development of revenues and EBITDA over the years is shown in the graphs below:

#### Breakdown of the business portfolio

##### REVENUES



##### EBITDA



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

The analysis by business segment takes into consideration the value of the increased revenues and increased costs, with no impact on EBIDTA, relating to the application of IFRIC 12, as explained in the Group's Consolidated Income Statement. The business sectors affected by the application of the above principle are: methane gas distribution services, electricity distribution services, only for Imola area, all integrated water cycle services and public lighting services.

The accounting reclassification for 2010, which increases the costs of services and capitalised costs by the same amount, is also taken into consideration. This reclassification, which has an impact on all business segments, was necessary in order to provide a better representation of the creation of plants and other works by companies operating within the Group.

## Analysis of the Gas segment

As at 30 June 2011, the Gas segment posted growth compared with the same period in the previous year, with a slight increase in the percentage contribution to the Group's EBITDA:

(€ million)	30-Jun-10	30-Jun-11	Change	% change
<b>Area EBITDA</b>	<b>109.3</b>	<b>120.6</b>	<b>+11.3</b>	<b>+10.3%</b>
Group EBITDA	313.5	344.0	30.5	+9.7%
Percentage weighting	34.9%	35.1%	+0.2 p.p.	

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

Quantitative data	30-Jun-10	30-Jun-11	Change	% change
Gas volumes distributed (millions of m <sup>3</sup> )	1,475.6	1,351.7	-123.9	-8.4%
Gas volumes sold (millions of m <sup>3</sup> )	1,680.2	1,688.5	+8.3	+0.5%
- of which trading volumes	368.6	503.0	+134.4	+36.5%
Heat volumes supplied (GWht)	313.9	296.1	-17.8	-5.7%

The volumes of gas distributed, based on the same number of concessions managed, went from 1,475.6 million m<sup>3</sup> in 2010 to 1,351.7 million m<sup>3</sup> in 2011, a fall of 8.4%. This fall was sharper than the fall in demand for natural gas recorded domestically, which was equal to 7.9%, mainly due to the weather, since average temperatures were higher than in the same period of the previous year.

The volumes of gas sold, on the other hand, went from 1,680.2 million m<sup>3</sup> in the first half of 2010 to 1,688.5 million m<sup>3</sup> in 2011, an increase of 0.5% compared with the first half of 2010 as a result of the increase in volumes traded, in spite of the aforementioned effect of the weather.

The volumes of heat supplied went from 313.9 GWht in 2010 to 296.1 GWht in the first six months of 2011, with a 5.7% decrease, which was also connected to the higher average temperatures recorded in the first half of 2011, resulting in lower heat consumption.



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

Income Statement (€ million)	30-Jun-10	% weight	30-Jun-11	% weight	Change	% change
Revenues	686.7		731.5		+44.8	+6.5%
Operating costs	(562.2)	-81.9%	(581.1)	-79.4%	+18.9	+3.4%
Personnel costs	(33.6)	-4.9%	(36.8)	-5.0%	+3.2	+9.5%
Capitalised costs	18.4	2.7%	7.0	1.0%	-11.4	-62.0%
<b>EBITDA</b>	<b>109.3</b>	<b>15.9%</b>	<b>120.6</b>	<b>16.5%</b>	<b>+11.3</b>	<b>+10.3%</b>

Revenues increased by 6.5%, going from €686.7 million in the first half of 2010 to €731.5 million in 2011, as a result of the increased revenues from sales, in spite of the lower volumes sold, linked to the increase in the cost of raw materials, greater volumes traded and higher revenues from distribution.

Operating costs increased by 3.4% due to the increase in the cost of natural gas.

EBITDA for the Gas segment increased by €11.3 million, going from €109.3 million to €120.6 million, with the EBITA margin increasing from 15.9% in the first six months of 2010 to 16.5% in 2011. This result is attributable to the increased gas sales margins resulting from favourable contracts for purchasing raw materials and increased revenues from gas distribution.

### Analysis of the Electricity Segment activities

At the end of the first half of 2011, the Electricity segment recorded growth compared with the same period in 2010, including in terms of the contribution to the Group's overall EBITDA margin, which went from 10.1% to 12.3%, as shown in the table below:

(€ million)	30-Jun-10	30-Jun-11	Change	% change
<b>Area EBITDA</b>	<b>31.8</b>	<b>42.2</b>	<b>+10.4</b>	<b>+32.9%</b>
Group EBITDA	313.5	344.0	+30.5	+9.7%
Percentage weighting	10.1%	12.3%	+2.2 p.p.	

EBITDA went from €31.8 million as at 30 June 2010 to €42.2 million as at 30 June 2011, an increase of 32.9%.

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

Quantitative data	30-Jun-10	30-Jun-11	Change	% change
Volumes sold (Gw/h)	3,710.6	4,815.0	+1,104.4	+29.8%
Volumes distributed (Gw/h)	1,077.8	1,132.9	+55.1	+5.1%

The increase in volumes distributed, equal to +5.1%, shows a recovery in consumption, which was higher in the Imola and Modena area than both the average for the reference area of Emilia-Romagna and Tuscany (+0.9%) and the national average (+1.1%), by virtue mainly of the flows in the Modena area.

The 29.8% increase in volumes sold was caused thanks to both the good performance of sales activities and the acquisition of new default-provider service customers, with a total of more than 102 thousand new supply points, net of churn rate. The sales company was assigned the task of managing electricity-supply default-provider service customers in Lombardy, Tuscany, Lazio, Abruzzo, Molise and Puglia for the 2011-2013 period.

An analysis of the main segment results is given below:

Income Statement (€ million)	30-Jun-10	% weight	30-Jun-11	% weight	Change	% change
Revenues	652.7		741.5		+88.8	+13.6%
Operating costs	(616.7)	-94.5%	(691.5)	-93.3%	+74.8	+12.1%
Personnel costs	(12.1)	-1.9%	(14.0)	-1.9%	+1.9	+15.7%
Capitalised costs	7.9	1.2%	6.2	0.8%	-1.7	-21.4%
<b>EBITDA</b>	<b>31.8</b>	<b>4.9%</b>	<b>42.2</b>	<b>5.7%</b>	<b>+10.4</b>	<b>+32.9%</b>

Revenues went from €652.7 million in the first half of 2010 to €741.5 million in 2011, with an increase of 13.6% due to higher sales volumes and greater revenues from distribution.

The increase in sales volumes had an impact on the increase in operating costs for the purchase of raw materials.

The EBITDA margin therefore increased from 4.9% in the first six months of 2010 to 5.7% in 2011 as a result of the aforementioned mix.

At the end of the first six months of 2011, EBITDA went from €31.8 million in 2010 to €42.2 million, an increase of 32.9%, thanks to the contribution from the increased sales volumes and the revenues from distribution. Lastly, the activities launched in renewable sources and industrial cogeneration made a contribution to the overall result.

## Analysis of the Integrated Water Cycle activities

The Integrated Water Cycle segment, as at 30 June 2011, was in line with the same period in the previous year:

(€ million)	30-Jun-10	30-Jun-11	Change	% change
Area EBITDA	67.5	67.5	+0.0	+0.0%
Group EBITDA	313.5	344.0	+30.5	+9.7%
Percentage weighting	21.5%	19.6%	-1.9 p.p.	

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

Income Statement(€ million)	30-Jun-10	% weight	30-Jun-11	% weight	Change	% change
Revenues	274.9		273.3		-1.6	-0.6%
Operating costs	(162.0)	-59.0%	(156.1)	-57.1%	-5.9	-3.6%
Personnel costs	(52.5)	-19.1%	(52.9)	-19.4%	+0.4	+0.8%
Capitalised costs	7.2	2.6%	3.3	1.2%	-3.9	-54.1%
<b>EBITDA</b>	<b>67.5</b>	<b>24.6%</b>	<b>67.5</b>	<b>24.7%</b>	<b>+0.0</b>	<b>+0.0%</b>

Revenues, equal to €273.3 million, fell by 0.6% compared with the first half of 2010, due to the combined effect of (i) increased revenues from administration for the services requested, (ii) the reclassifying of business segments in accordance with IFRIC 12, and (iii) lower revenues for work done by contractors, with corresponding lower operating costs.

The 3.6% decrease in operating costs is linked to the constant attention paid to operational efficiency and to the reduction in work done by contractors.

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

Quantitative data	30-Jun-10	30-Jun-11	Change	% change
<b>Volumes sold (millions of m<sup>3</sup>)</b>				
Mains water	120.7	120.7	+0.0	+0.0%
Sewerage	105.5	104.1	-1.4	-1.3%
Purification	105.8	104.2	-1.6	-1.5%

The volumes of water supplied were in line with the first six months of 2010, while sewerage and purification decreased in the Pesaro-Urbino area due to the expiry on 1 January 2011 of AATO resolution no. 14 of 13 September 2010. EBITDA stood at €67.5 million in both the first half of 2010 and the first half of 2011.

### Analysis of the Waste Management Segment activities

The Waste Management Segment shows an increase in EBITDA compared with the first half of 2010 by 8.3%, as seen in the table below:

(€ million)	30-Jun-10	30-Jun-11	Change	% change
<b>Area EBITDA</b>	<b>97.1</b>	<b>105.2</b>	<b>+8.1</b>	<b>+8.3%</b>
Group EBITDA	313.5	344.0	+30.5	+9.7%
Percentage weighting	31.0%	30.6%	-0.4 p.p.	

Hera Group operates in an integrated way in the complete waste cycle, with 80 urban waste and special waste treatment and disposal plants.

Compared with the first six months of the previous year, the Group consolidated its stake in Enomondo S.r.l., which has a new 120 thousand tonne biomass plant and a composting plant, to 50%.

Moreover, in the second half of 2010, the scope of activities was extended through the consolidation of Naturambiente S.r.l., which operates in the urban hygiene and waste disposal sectors of the Marche Multiservizi Group.

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

Income Statement (€ million)	30-Jun-10	% weight	30-Jun-11	% weight	Change	% change
Revenues	347.3		370.4		+23.1	+6.7%
Operating costs	(189.3)	-54.5%	(195.4)	-52.8%	+6.1	+3.2%
Personnel costs	(76.3)	-22.0%	(76.4)	-20.6%	+0.1	+0.1%
Capitalised costs	15.4	4.4%	6.7	1.8%	-8.7	-56.4%
<b>EBITDA</b>	<b>97.1</b>	<b>28.0%</b>	<b>105.2</b>	<b>28.4%</b>	<b>+8.1</b>	<b>+8.3%</b>

Revenues as at 30 June 2011 show an increase of 6.7% compared with the same period in the previous year, going from €347.3 million to €370.4 million thanks to greater revenues from electricity production and, to a lesser extent, increased revenues from urban hygiene through rate adjustments to cover the increase in services requested.

Separated waste collection accounted for 49.6% of the total volumes collected at the end of the first half of 2011, compared with 47.0% for the same period in 2010, an increase of 2.6 percentage points. The percentage represented by separated waste collection for the whole of 2010 was not yet affected by the modification to Regional Government Decree 1620-01 which excludes the non-reusable fractions of multi-material collections from the calculation of separated waste collection. Based on a standardised comparison of the figures, the percentage represented by separated collection would increase in the first six months of 2011 by 2.9 percentage points.

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

Quantitative Data (thousands of tonnes)	30-Jun-10	% weight	30-Jun-11	% weight	Change	% change
Urban waste	930.8	31.6%	904.1	33.2%	-26.7	-2.9%
Market waste	810.1	27.5%	817.1	30.0%	+7.0	+0.9%
<b>Commercialised waste</b>	<b>1,740.8</b>	<b>59.1%</b>	<b>1,721.2</b>	<b>63.2%</b>	<b>-19.6</b>	<b>-1.1%</b>
Plant by-products	1,206.0	40.9%	1,000.9	36.8%	-205.1	-17.0%
<b>Waste treated by type</b>	<b>2,946.9</b>	<b>100.0%</b>	<b>2,722.1</b>	<b>100.0%</b>	<b>-224.8</b>	<b>-7.6%</b>
Landfills	722.5	24.5%	632.5	23.2%	-90.0	-12.5%
Waste-to-energy plants	405.1	13.7%	489.6	18.0%	+84.5	+20.9%
Selection plants	156.2	5.3%	151.2	5.6%	-5.0	-3.2%
Composting plants	232.5	7.9%	284.1	10.4%	+51.6	+22.2%
Stabilisation and physicochemical treatment plants	674.5	22.9%	479.8	17.6%	-194.7	-28.9%
Other	756.0	25.7%	685.0	25.2%	-71.0	-9.4%
<b>Waste treated by plant</b>	<b>2,946.9</b>	<b>100.0%</b>	<b>2,722.1</b>	<b>100.0%</b>	<b>-224.8</b>	<b>-7.6%</b>

The breakdown of the quantitative data shows a fall of 1.1% in commercialised waste, due, in the main, to the decrease in urban waste (-2.9%), which was offset by an increase in market waste (+0.9%). The increase in market waste was made possible by the increased disposal capacity and more intensive marketing activities in the reference areas. The decrease in by-products from plants, on the other hand, should be related to the different weather conditions, especially the lower rainfall compared with the first six months of 2010, which resulted in lower leachate generation.

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

EBITDA in the Waste Management segment increased by €8.1 million compared with the previous year, going from €97.1 million for the first half of 2010 to €105.2 million in 2011, an increase of 8.3%, tanks to all the activities of the integrate cycle.

### Analysis of the Other Services Segment activities

As at 30 June 2011, the results for the Other Services Segment showed a slight increase compared with the same period in the previous year, with EBITDA rising from €7.8 million to €8.4 million in the same period in 2011 (+7.3%), as shown in the table below:

(€ million)	30-Jun-10	30-Jun-11	Change	% change
Area EBITDA	7.8	8.4	+0.6	+7.3%
Group EBITDA	313.5	344.0	+30.5	+9.7%
Percentage weighting	2.5%	2.4%	-0.1 p.p.	

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

Income Statement (€ million)	30-Jun-10	% weight	30-Jun-11	% weight	Change	% change
Revenues	49.3		48.1		-1.2	-2.4%
Operating costs	(32.7)	-66.3%	(31.4)	-65.3%	-1.3	-4.0%
Personnel costs	(10.1)	-20.5%	(9.5)	-19.7%	-0.6	-5.9%
Capitalised costs	1.4	2.7%	1.2	2.6%	-0.2	-14.8%
<b>EBITDA</b>	<b>7.8</b>	<b>15.9%</b>	<b>8.4</b>	<b>17.5%</b>	<b>+0.6</b>	<b>+7.3%</b>

The telecommunications business recorded growth compared with the first six months of 2010, while the public lighting service essentially stayed the same.

The main operating indicators, which are listed in the table below, highlight an increase in lighting points thanks to the recent acquisition of the services in the town of San Donato Milanese, which offset the loss of several minor municipalities:

Quantitative data	30-Jun-10	30-Jun-11	Change	Change %
<b>Public lighting</b>				
Lighting points (thousands)	331.5	336.1	+4.6	+1.4%
Municipalities served	61.0	59.0	-2.0	-3.3%

## 1.04 Commercial policy and customer care

As far as accessibility of channels is concerned, in spite of the constant increase in flows, the level of performance confirms the overall trend of improvement for branches where the effectiveness of the actions implemented for improving processes has led to a considerable improvement in quality.

- ✓ *family call centres*: 92.6% of calls answered, compared with 94.1% for the first half of 2010, with an average queue time (AQT\*) of 94.6 seconds, compared with 72.6 seconds for the first half of 2010.
- ✓ *company call centres*: 93.3% of calls answered, compared with 95% for the first half of 2010, with an average queue time (AQT\*) increasing from 51 seconds for the first half of 2010 to 71.4 seconds due to more customers using interactive voice response systems;

If the increase in average waiting times is attributable to an increased number of calls on both toll free numbers (40,000 additional calls in the half-year), it should be noted that 23,000 additional calls were answered in the half-year period compared with 2010. The opening hours of the family call centre were extended from 18.00 to 20.00, Monday to Friday, to improve accessibility and customer service.

- ✓ *family branches*: average waiting times were reduced further to 11.59 minutes, compared with 16 minutes for June 2010, in spite of the 7% increase in flows;
- ✓ *company branches*: average waiting times for companies were almost halved compared with June 2010, decreasing from 6.35 minutes to 3.45 minutes.

The results achieved are the result of continuous improvement activities focusing along two lines: organisational management aimed at optimising the organisation of activities and processes at several major branches, plus the optimisation of management, including flow-prediction management; the other, educational, aspect is aimed at the continuous development of people and is also supported by an improvement in work methods thanks to new knowledge-management instruments.

The above indicators also showed signs of improvement as perceived by customers contacting the call centre and branches. The satisfaction of customers contacting the family call centres and branches, measured on a monthly basis during the year, also showed an improvement compared with the excellent results achieved previously, confirming the excellent scores for company call centres in 2010, specifically:

- *family call centres*: from an average of 73 for the first half of 2010 to 76 for the first half of 2011 (score on a scale from 1 to 100)
- *company call centres*: an average score at June 2011 of 69 for the first half of the year already reached in the first half of 2010
- *branches*: went from 74 for the first half of 2010 to 77 for the first half of 2011



The client base in the regulated water market shows a slight increase compared with June 2010, confirming the inertial growth for this service. The EHT (Environmental Hygiene Tariff) increase was higher than the inertial growth rate (+3.78%) following the shift to the EHT of several municipalities in the reference area. The number of consumers supplied for the liberalised electricity market confirms significant growth (+28.87%) due to both the continuous development of commercial activities and the acquisition of new customers following the awarding of the Service Protection contract in the regions of Tuscany, Lazio, Abruzzo, Molise, Puglia and Lombardy. The number of supply points served in the gas market, on the other hand, fell slightly as a result of the effect of the competition that counterbalances the free-market acquisitions in the areas of commercial expansion.

	29/06/2007	29/06/2006	Change in supply points (no.)	Change in supply points (%)
Gas	1,067	1,070	3	-0.26%
Electricity	453	352	102	28.87%
Water	1,179	1,175	3	0.27%
EHT	991	955	36	3.78%

*Figures expressed in thousands*

Volumes of electricity and gas supplied in the first half of 2011 can be summarised as follows:

- ✓ Electricity (Hera Comm & Hera Comm Mediterranea): went from 3,784 GWh in the first half of 2010 to 5,191 GWh in the first half of 2011, an increase of 37.18%, which reflects the dynamics of the customer-base development.
- ✓ Gas (Hera Comm & Hera Comm Marche): went from 1,312 million m<sup>3</sup> in the first half of 2010 to 1,186 million m<sup>3</sup> in the first half of 2011, a fall of 9.60% due mainly to the milder winter compared with the first months of 2010, affecting industrial customers, business customers and small businesses combined.

In line with Group policies, Hera is continuing to encourage its customers to receive electronic bills and to register and use the Her@ ON-LINE channel. Confirming satisfaction with this service, the number of customers registered with Her@ ON-LINE increased by 34%, going from just under 85,000 in June 2010 to 114,000 in June 2011, a customer-base penetration of 7%. Customers who opted for electronic bills increased by 51%, going from approximately 18,000 in June 2010 to over 27,000 in June 2011, a customer-base penetration of 2.1%.

Notes:

\* AQT: In line with AEEG regulations, AQT measures the average time between the beginning of the call until the operator answers or the customer rings off, for calls in which the customer chooses to speak with the operator.

### 1.04.01 Customer satisfaction

#### A strategic perspective of the last 5 years

Since its establishment in 2002, the Group has enjoyed a sound customer base, dedicated to the quality of primary services and loyal after many years of services being managed by municipal companies which then became part of 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 offering**, by reducing service interruption times through an emergency service system that is both rapid and efficient, through improved consumption measurement and meter reading systems and through more frequent analysis of the quality of water resources and environmental impact assessment.

The **quality of its services and customer care** has always been of particular strategic importance to the Group and has allowed it to make significant improvements to the service on offer. This has been specifically borne out in the financial statements over the last three years by such improvements as reduced waiting times at customer help desks, improved telephone helpline services, the increase in the number of customer requests that were resolved more quickly and, lastly, the constantly improving website facilities.

The results of these activities are monitored annually by **market research into both retail customers and business customers**. Over the last three years, this research has revealed a constant increase in the degree of satisfaction regarding service and after-sales service, until a high approval rating has been achieved (an average score of 7/10), with a reduction in the number of cases where satisfaction is deemed to be “poor” and a greater number of customers being satisfied, with levels increasing year on year. These results have to a large extent been confirmed by the sample surveys conducted monthly by the Group.

Following the period of physical disruption due to the installation of new “single bill” invoicing systems, customer satisfaction trends recorded have become positive once again. This unified billing system, together with the improvement and reorganisation of after-sales service performance, has led to a rapid recovery in good customer satisfaction levels. Added to this is the improvement in the image of the Company, which is often perceived as reliable, transparent, attentive to its customers, innovative and sustainable. The degree of customer satisfaction has therefore often equalled or exceeded the level recorded prior to the mergers.

Market research also shows that an increased degree of satisfaction brings with it a greater perception of “convenience”, a propensity to “cross-selling” and positive “word of mouth” recommendations to other potential customers. This evidence supports Hera’s multi-utility strategy, especially for upstream energy activities, which are the precursors of a really competitive offering. These factors are at the root of the commercial success that the Group has continued to achieve over the last five years. Expansion in the various markets has produced a significant, constant growth in customer numbers. In this regard the figures relating to the electricity sector, where growth rates are in double digits, are particularly significant. Excellent customer loyalty in the gas industry has also allowed Hera to consolidate its dominant position in the reference area markets.

## 1.05 Trading and procurement policy

As far as the gas sector is concerned, the first half of the year has seen a fall in consumption of more than 4% compared with the same period in the previous year. The relative recovery in consumption recorded in the industrial sector was more than offset by the reduction recorded in the service and domestic sectors, which were affected by the mild weather conditions and the reduction in use in the thermo-electric sector.

As usual, the first months of the year were dedicated, on the one hand, to the management of the contract portfolio with the aim of balancing and optimising the Group's short-term position and, on the other hand, to finalising new contracts for the 2011-2012 thermal year.

As far as shipping activities conducted by Hera Trading are concerned, the daily adjustment of the position prevented impacts on logistic and storage costs.

The necessary short-term adjustments were made through purchase or sales adjustments at the Virtual Exchange Point (VEP) in Baumgarten using the reserved Trans Austria Gasleitung GmbH (TAG) transport capacity and at Net Connect Germany using the transport capacity contracted to Transitgas. These transactions generally took place at favourable market conditions and made it possible to achieve results that were slightly better than those forecast.

The purchase of gas intended for regulation and measurement stations was finalised in two stages in March and April, at market conditions which, even ex-post, were among the best to be found on the market.

In April, it was possible to purchase storage capacities for a year at particularly favourable conditions, from two industrial counterparties under the scope of allocations made pursuant to Legislative Decree no. 130 of 13 August 2010.

During the 2<sup>nd</sup> quarter flat procurement amounts were finally defined for the purpose of balancing the portfolio for direct supplies from Hera Trading to regulation and measurement stations and for off-network development by Hera Comm for the 2011-2012 thermal year.

As regards the electricity market, the first six months of 2011 featured a slight recovery in consumption compared with the same period in the previous year (+1.6%).

In spite of the increase in demand, the spark spread of thermal power plants (CCGT) decreased further, as a result of the considerable over capacity, getting close to zero. The increase in the price recorded on the Italian stock exchange (national standard price - NSP) was not sufficient to offset the strengthening of commodities prices which determine the price of gas.

The negativity of the market scenario was countered, as far as Hera was concerned, by operating on the Dispatching Service Market (DSM). The Teverola and Sparanise plants achieved particularly satisfying results. The situation of the COGEN plant remains more complex, as it is very much constrained by district-heating restrictions, meaning it cannot take advantage of market opportunities linked to the flexibility of operations.

As far as trading in the electricity sector and environmental certificates are concerned, the results for the half-year were basically in line with the budget, in spite of the sharp fall in European Union Allowances (EUAs) in the second half of June.

Activity in the electricity sector during the half-year also took the form of management/optimisation of Hera Comm's purchase portfolio through transactions carried out on the Stock Exchange and on over-the-counter (OTC) platforms.

As regards management of commodity and exchange risk, operations during the first half of 2011 were particularly effective. They have now been consolidated in both the gas and electricity sectors through a concentrated risk portfolio which provides for deconstructing formulas and for netting of positions and hedging of volumes. Hera Trading activated this instrument at the beginning of 2007 to manage hedging activities. It is proving essential for adequate and dynamic operations in both the wholesale and retail markets.

## 1.06 Financial policy and rating

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

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

### Liquidity risk – Credit rating

The Group's aim is to have a level of liquidity which allows it to meet its contractual commitments both under normal business conditions and during a crisis, by maintaining available 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.

As part of its short-term financial debt at 30 June 2011, of €98.9 million, the Group has €356 million in cash, €280 million in unused committed lines of credit and ample space on its uncommitted lines of credit (more than €1,200 million), giving it sufficient liquidity to cover any financial commitments for the next two years at least.

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

At 30 June 2011, long-term debt accounted for over 95% of the Group's total financial debt. The average term is more than nine years, and 75% of the debt is repayable after five years.

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

As far as Put Bond/Loan are concerned maximum financing duration was estimated therefore, Put Options won't have same deadlines as per related contracts.

Nominal debt (€ million)	Second half of 2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015	Over 5 years	Total
Bonds	0	0	0	0	0	1,25	1,25
Convertible bonds	0	0	140	0	0	0	140
Put bond/loan	0	0	0	0	0	540	540
Bank debt/other payables	28	36	33	31	202	76	406
<b>Gross financial debt</b>	<b>28</b>	<b>36</b>	<b>173</b>	<b>31</b>	<b>202</b>	<b>1,866</b>	<b>2,336</b>

There are no financial covenants on the debt except for the restriction on a single corporate rating falling below "Investment Grade" level (BBB-).

### Interest rate risk

The Group is exposed to fluctuations in interest rates (Euribor) concerning the portion of financial expense relative to debt.

The structure of fixed- and variable-rate debt with and without the impact of hedging derivatives is shown below.

Gross financial debt *	30/06/2011			31/12/2010		
(€ million)	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
Fixed rate	1,842.6	1,574.4	67%	1,819.8	1,665.5	69%
Variable rate	516.04.00	784.06.00	33%	588.05.00	742.08.00	31%
<b>Total</b>	<b>2,359.0</b>	<b>2,359.0</b>	<b>100%</b>	<b>2,408.3</b>	<b>2,408.3</b>	<b>100%</b>

(\*) Nominal flow which includes overdrafts

The portion of debt exposed to the risk of interest rate fluctuations is around 33%. The remaining 67% is fixed-rate debt. Moreover underlying derivatives are matched to the underlying debt.

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

In 2011, despite the significant proportion of long-term debt (around 95%), the Group has managed to maintain the cost of debt at an overall average of around 4.3%.

### Exchange rate risk not related to commodity risk

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

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

### Rating

Hera S.p.A. has a long-term rating of "A3, outlook stable" from Moody's and "BBB+, outlook stable" from Standard & Poor's. These ratings were revised by the ratings agencies in July and June 2010 respectively.

The Group's primary objective in defining its plans is to implement strategies aimed at maintaining/improving its high ratings.

## 1.07 Research and development

The Group's research activities in the first half of 2011 chiefly consisted of the technological development of renewable sources, the development of environmental monitoring and control technologies, energy efficiency and optimisation of network management.

The main research projects were:

**Energy Laboratory.** The area intended for laboratory construction has been prepared and planning documents together with additions necessary to outsource the work have been completed. The Energy Laboratory will be used to assess various technologies, from those already on the market to those still in the prototype phase, thanks to the advanced data-measurement and -acquisition network. The research will be managed in collaboration with the University of Bologna.

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

**Automatic leak detection.** This project consists of looking at innovative systems for automatic leak detection, to be used in conjunction with the remote-metering system. A test site was set up in 2007, and tests in different environmental conditions were carried out. The initial test results were extremely interesting. In 2008, investigation techniques were refined with the creation of an automatic field acquisition system, the development of a statistical-analysis tool based on the MatLab® platform and the creation of a leak-simulation tool. The tool was ready in 2009, when it was rolled out to customers together with the acquisition tools completed the previous year. The mass of data collected has been used to enable 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, acquisition began at real connection points with various versions of the new tool.

**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 and/or the organic portion of solid urban waste. The project is in association with Herambiente and the Faculty of Engineering at the University of Bologna and is jointly funded by the Ministry of Agricultural, Food and Forestry Policy. 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 waste with hydrogen fermentation.

In parallel, the University is developing bio-production tests and prototype reactor design.

**Automatic plant management.** This project, produced in association with ENEA, involves the development of a system for automatic management of the main operating parameters of water-treatment plants. The system must maintain the process conditions of a given plant at maximum efficiency, depending on the composition of the waste water (depuration plants) or untreated water (potability treatment plants).

In 2008, work began at the Calderara di Reno - Bologna depuration plant, chosen as a test site. In 2009, analysis and control instruments were installed at the site and field-data acquisition began.

The data acquired in 2010 confirm what we knew about SBR systems and reveal new characteristics in terms of the quantities monitored, helping to differentiate between standard operation or malfunctions at the plant. In general, the theoretical application of automatic plant control has been demonstrated. In 2011, the second phase of the project began, involving the construction of prototype software to be used as a decision-making tool.

**Modelling water-treatment plants.** This project involves the development of mathematical models intended for the hydraulic and process simulation of depuration plants. The aim is to acquire the instruments and know-how necessary to begin coordinating the mathematical modelling of integrated water-treatment plants. The project is in association with ENEA. In 2009, the preliminary work was carried out to produce a model of the sample site and to select calculation software from those commercially available. In 2010, at the end of the evaluation phase, software licences were acquired. The first half of 2011 saw the start of modelling activities within the Group, although the project is still in the pilot phase.

**Increase in intellectual property.** This activity, which began in 2010, is continuing with the scouting and protection of new patentable ideas and enhancements to existing patents.

**Energy recovery from water-treatment plants.** In 2010, the possibility of energy recovery from water-treatment plants was investigated, with a study of the technologies involved. An initial feasibility study was developed to recover energy from the Bologna depuration plant using a high-performance hydraulic screw developed by the Loccioni Group. In 2011, two other studies were in the development phase: the first concerns energy recovery from the mains water supply using in-pipe-turbine (IPT) or pump-as-turbine (PAT) systems; the second project involves heat recovery from mains water using low-enthalpy heat-pump systems.



**Characterisation and analysis of polyethylene pipes.** Polyethylene pipes used for the mains water supply have a higher burst rate than pipelines made from other materials. To examine the causes of this in more detail, a project is under way to perform a critical analysis of burst pipes, to increase know-how about PE pipes, to provide basic criteria with which to classify the various types of burst pipe, to identify the principal causes and to design improvement plans.

The project has been developed in collaboration with LyondellBasell, one of the world's leading manufacturers of polyolefins, and with the Plastics Testing Laboratory at the Department of Chemistry, Materials and Chemical Engineering at the Politecnico di Milano. In 2010, samples were collected along sections of pipeline which had burst and a visual analysis carried out of the samples taken. In 2011, laboratory tests began for precise fault characterisation, the results of which will be used to define action and improvement plans.

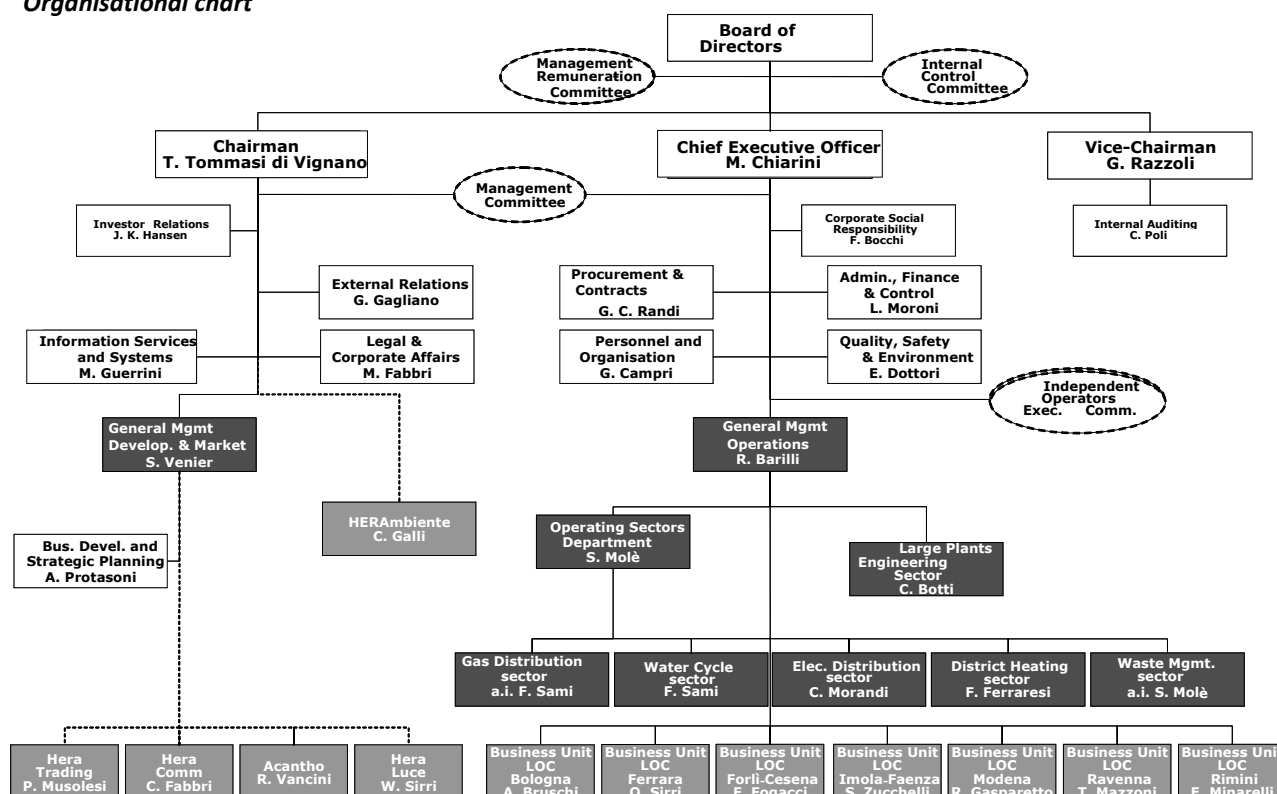
**Study of water meters and "antifreeze" technologies.** In 2011, following extensive market research, experiments began at the R&D laboratory to test the strength and reliability of various types of meter and "antifreeze" technologies. A freeze test was carried out on a system connected to four meters, recreating the real-life situation of meters which are exposed to very low temperatures ( $<-10^{\circ}\text{C}$ ) for long periods of time and which, when they burst, must be immediately replaced. The study also includes the mathematical modelling of the phenomenon. The idea is to provide useful elements for a possible update of the supply specifications for those meters that are subject to these meteorological conditions, depending on the location and type of installation.

## 1.08 Human resources and organisation

### 1.08 Human resources and organisation

#### Company organisation and Group structure

##### Organisational chart



#### Human resources

At 30 June 2011, the Hera Group had 6,530 employees (consolidated companies), with the following breakdown by role: managers (128), middle managers (339), employees (3,356), and workers (2,707). This workforce was the result of the following changes: new recruits (+97\*), leavers (-59), change in scope (+1\*\*). The new hires in question were made essentially with a view to changing the employee mix by adding more qualified staff. There was an overall increase in the number of graduates compared with 2010, from 1,033 at 31 December 2010 (16% of all permanent employees) to 1,074 at 30 June 2011 (16.4% of all permanent employees).

(\*) includes 11 employees added to Hera Luce (in relation to the tender process in the Bologna area) who left the group with effect from 1 July 2011

(\*\*) Enomondo

## Organisation

The Hera model stands out from its peers in the multi-utility sector for its successful business and operational integration founded on a single holding company, which:

- through Central Departments of structuring, support and control, ensures an integrated view of the Group and encourages synergies;
- through General Management Departments and Central Business Sectors, directs and coordinates the different businesses.

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

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

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

- The following central departments report to the Chairman: Legal and Corporate Affairs; Information Services and Systems; External Relations and Investor Relations. The Development and Market Management Department and Herambiente S.p.A. also report to the Chairman.
- The following central departments report to the CEO: Procurement and Contracts; Administration, Finance and Control; Personnel and Organisation; Quality, Safety and Environment; Corporate Social Responsibility. The CEO also oversees the Operations General Management Department, within which the Operating Sectors Department was created in 2010. The following departments report to this new department: Gas Distribution Sector; Electricity Distribution Sector; Waste Management Sector; Water Cycle Sector; and District Heating Sector. The seven Local Business Units and the Large Plants Engineering Department also report to the Operations General Management.
- The Vice-Chairman oversees the Internal Auditing Department

There have been several organisational changes (effective from 1 July 2011) within the Development and Market General Management Department, particularly at Hera Comm, relating to marketing and indirect sales processes. These are aimed at ensuring a sharper focus on analysing profit for commercial development, on identifying opportunities in the market and on helping business units to reach their sales targets.

The process-analysis and -optimisation programme continued at Herambiente S.p.A., involving application of the Lean Organisation method.

With reference to the Central Departments and their respective governance and support processes, efforts continue in an attempt to find the best balance between process governance and internal client orientation and to make process integration more efficient.

The project to update information systems following the transformation of the Local Operating Companies into Business Units (the DESOT Project) has been completed.

The process-analysis and -optimisation programme continued at the Administration, Finance and Control Central Department through application of the Lean Organisation method, pertaining in particular to certain administrative-accounting and credit-management processes. In addition, it is important to note that Credit Management and Finance teams have been reorganized with a view to further strengthening organisational control of these areas across the Group.

Also Quality, Safety and Environment Department structure (pertaining in particular to QSE Coordination and Protection- and Prevention-Service Coordination), has been reorganized in order to consolidate the organisational changes and the centralisation process beginning in late 2009.

The process-analysis and optimisation programme continued at the Operations General Management Department, involving application of the Lean Organisation method.

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

### **Industrial relations**

During the first half of 2011, the Group continued to honour the commitments made when the Supplementary Collective Labour Agreement was signed on 24<sup>th</sup> March 2010).

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

Group-wide and regional negotiations with union representatives led to an agreement in April on the current tax-break rules within the Hera Group and enabled the Group to define new rules on the canteen service for all companies in the Ferrara area.

Also in April, the Group reached an agreement with the trade unions in the Bologna area on the repercussions of relocating some business units currently situated in Bologna to the site at Granarolo (to the Granarolo site).

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

In June, at the same time as Hera Luce S.r.l. activities were interrupted. in Bologna, an agreement was reached with the trade unions in the Bologna area on the redundancy (Law no. 223/91) of Hera Luce S.r.l. employees. The affected workers agreed to be placed on the redundancy scheme.

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

During the first six months of 2011, the Group also worked with the Federations on renewing the national collective labour agreements for the gas and water, electricity and waste-management services sectors. With regard to the latter, Hera's intervention led to a specific clause on protecting outsourcing to social cooperatives being inserted in the Federambiente agreement. The clause stipulates that 5% (this can be increased to as much as 15% within a particular company) of the economic volume (total revenues generated through internal resources) of street-sweeping, waste-collection and -transportation (excluding the transfer business), cesspit-emptying and skip-cleaning activities be exempt from the waste-management services national collective labour agreements through the definition of social-inclusion projects.

## Training and development

In relation to the new leadership model, internally run training workshops were held for all managers and middle managers. A seminar took place on the first of the four key elements of the model and team-management training began for managers and middle managers. In addition, there were individual coaching courses and team-building and communication training exercises as part of the institutional and managerial training programmes.

As part of the Work Force Management project, the trainers' training and sequential end-user training was completed in the pilot business units of Bologna and Imola/Faenza. The trainers' training was completed in all the other business units, and the end-user sequential training is undergoing completion.

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

The WFM Project Forum was set up at the end of 2010 to provide effective support for change management, share and make transparent useful information for users involved in the change process, facilitate the initiation and maintenance of relations between expert users, encourage remote teamwork and enable any problems in the management of the training process to be overcome. Initially, only the key users and trainers of the Bologna and Imola Faenza pilot business units were trained up; the key users and trainers from the other business units were trained up at a later stage.

As at the end of the first half of 2011, the Forum had 3,260 views, 227 messages and 98 discussions.

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

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

Staying with environmental services, a seminar on "Changes to Part IV of the Environmental Code", hosted by Dr. Paola Ficco and organised jointly by Hera S.p.A. and Herambiente, was staged in Rimini on May 19-20. More than 200 people took part in the event over the two days, including managers and specialists from the environment and networks sectors.

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

An internal-services satisfaction survey was conducted on a significant sample of the workforce in order to get a better understanding of satisfaction levels regarding facility management, internal catering, help-desk services and information- system maintenance. The survey identified some areas for improvement and enabled the Group to draw up corrective actions to be implemented in the coming months.

There were around 19,895 participants in training activities, and 89% of Group employees were involved in at least one training activity.

Net of costs for the staff being trained and for the internal facilitators, investment for 2011 is forecast at €654,700.

The 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.

Training area	
Professional and specialist training	29,052
Quality, safety and environment	22,295
Institutional and managerial training	18,184
IT	20,985
<b>Total</b>	<b>90,516</b>

The Graduate Programme, which began in 2004, continued in 2011. It aims to recruit young graduates with excellent professional potential. The workforce currently contains 116 employees who have joined the Group since 2004. In 2011, 60 young graduates were assessed for selection. Fifteen will be hired over the course of the year and will take part in the introductory training programme, which includes a basic management course.

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

The Programme includes all members of the 2004, 2005 and 2006 Graduate Programmes, as well as other young employees with similar qualities and qualifications. In total, since February 2008, 95 employees have undergone a motivational and career-orientation interview before attending two Assessment Development Centre days, during which their professional-development potential was assessed.

The most suitable individual professional-development programmes were drawn up based on the results. These programmes are frequently reviewed. A second assessment phase has been planned for members of the 2007, 2008 and 2009 Graduate Programmes, as well as other young employees with similar qualities and qualifications.

## 1.09 Information systems

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

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

- more than 8 million bills issued, of which over 115,000 were sent electronically – a significant increase on 2010
- more than 2,300 online tenders managed
- around 60,000 emergency calls handled
- more than 4.6 million active contracts for five services (electricity, gas, district heating, water, waste management)
- around 65,000 km of distribution network managed
- 1.9 million service requests, managed through four channels
  - call centres
  - branches
  - mail
  - internet

There have also been significant accomplishments, such as:

- the completion of the project to update the systems to the reorganisation of the Local Operating Companies (the LOC reverse spin-off project), having achieved the objective of minimising the impact on normal system activity
- the start-up in all areas of the new information system to support network management and maintenance activities (Work Force Management). The new system is already fully implemented, as demonstrated by the following figures recorded in four months when the system was in operation (since March in two areas and since May for the remaining areas):
  - More than 33,000 emergency orders processed
  - Around 4,000 quotes
  - Around 160,000 tasks created in the new works organisation and management system (Front End, Emergencies, Management and Maintenance)

Important work continues to updating the information systems in relation to regulatory obligations on separating the distribution and sales processes (software unbundling) and the administrative and accounting processes (accounting unbundling) for companies operating in the electricity and gas sectors (Resolution 11/07 et seq.).

Among the most important initiatives this year is the start of the project to review applications supporting metering-management processes. This project aims to a more efficient process and streamline applications.

The information systems' "Quality Management System" has been launched. It has the following aims:

- Standardise processes and make operations uniform
- Increase the quality of activities carried out
- Obtain ISO 9001 certification

As well as the above projects, the other main projects initiated in the first half of the year (more than 60) were classified into the following types:

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

- Steps to optimise existing systems aimed at improving sales processes
- Implementation of a tool for automating customer-service processes (Mashup)
- Migration and management of contracts acquired in the default-provider market
- Switch of seven new municipalities to the TIA waste-management tariff
- Revision of the invoice-printing model and update to new specifications
- Implementation of the investment-control and -management process
- Identification of a solution for the centralised management of employee data and employee-management processes
- Extension of the Group's document-management system to Protocol management

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

- Update to Resolution 219-10 on the functioning of the Simplified Indemnification System
- Update to Resolution 67-10 on tariff regulation for temporary connections to medium- and high-voltage electricity-distribution networks
- Update to Resolution 125-10 on active connections
- Update to Resolution 156-07 on changes to metering frequency
- Update to EC Regulation 254/09 on IFRIC 12: Service Concession Arrangements.
- Update to Resolution 104-10 on managing customer compensation for non-communication
- Integration of SISTRI (waste-traceability control system)
- Update to the regulation on the traceability of financial flows relating to works, supplies and services tender contracts
- Tariff update for water and gas services

Reduce technological risk and improve security levels:

- Start of technological renewal project
- Update to changes required by security and privacy managers
- Oracle 11 upgrade for SAP

The information systems also ensured continuity of their own service, minimising the impact of new projects and fulfilling ordinary maintenance and system-development requests in accordance with agreed priorities.



### 1.10 Quality, safety and environment

In the first half of 2011, the Quality, Safety and Environment Department (DCQSA) underwent major restructuring. The key phases were as follows:

- the creation of a regulatory framework for Quality, Safety and Environment (QSE);
- the identification and appointment of a health and safety coordinator;
- the creation of a single Health and Safety Department providing support to the Local Operating Company business units in Imola-Faenza, Ravenna, Forlì-Cesena and Rimini, classed as the “Romagna” region;
- the restructuring of QSE coordination through the definition of areas of specialisation, mainly to foster better synergies within the technical aspects of the sector.

With the definition and publication of the guidelines entitled **“Hera Group Quality, Safety and Environment Policy and Management System”** (issued on 21 March 2011), the importance of the coordination carried out by the DCQSA within the Group has been further strengthened, clarifying its role in subsidiary and investee companies.

In the first half of 2011, two major non-conformities were resolved on schedule (by February 2011). These concerned the third part of the scope, in the water-cycle certification process, recorded by the certification body (DNV) at the LOC business units in Bologna and Imola-Faenza. Certification was subsequently awarded with satisfactory results, integrated for the first time across the three certification models (Quality, Safety, Environment) in line with the planned objective, for all entities and central divisions and for all local operating companies (LOC). The exceptions were the Ravenna and Modena LOC, which, due to the parallel implementation of the new WFM information system, requested a revision of the timetable for water-cycle certification, to be concluded in September.

As planned, the major review of environmental assessment and legislative compliance was completed, which began last year with the integrated water cycle. During this period, the revision of environmental aspects for the Environmental Services, Gas, Electricity and District Heating sectors was also completed.

During the same period, the specific risk-assessment criteria and methodology were finalised for health and safety in the workplace, as required by Legislative Decree no. 81/08 (as subsequently amended), leading to the publication of specific operating procedures.

Once again, with a view to improving and standardising the management of key QSE aspects and improving their efficiency, some critical processes have been coordinated by DCQSA:

- ➔ the “management review” process, which has seen both the LOC (level III review) and Business Sectors (level II review) involved in the analysis of defined and shared inputs aimed at generating, in a virtuous, closed circle, outputs used in the preparation of the final management review (level I review);
- ➔ internal audit activities, which this year have sought to optimise and capitalise on the Group’s QSE expertise and to align approaches and audit methodologies in order to maximise audit efficiency and streamline the resulting outputs. The key stages of this project consisted, in line with the restructuring of QSE coordination, of a clear assignment of areas of responsibility, the definition of common audit criteria as a guide to planning and management of audits by the entire Group, and a combined analysis of the results for each sector.

During the first half, the targets set by the Quality, Safety and Environment Department were achieved with satisfactory results. The service carried out by the DCQSA is aimed at all Group business units, particularly involving the Local Operating Company business units, which have made a huge effort and commitment to work towards achieving the ambitious objective of certifying our integrated Quality, Safety and Environment management system.

Some of the most notable results include reaching the impressive milestone represented by the certification of the environmental management system and validation of the environmental declaration for the purposes of EMAS registration of the Casalegno di Imola cogeneration plant, a large 80 MW plant providing district heating for the city of Imola, which in 2010 had not yet completed the final registration process with the Ecoaudit-Ecolabel committee. Again this year the audit results were excellent, with no recommendations and with a new certificate of conformity issued for the environmental declaration updated for 2010. In May 2011, the EMAS registration process was finally completed and the number IT-001333 was assigned.

In early 2011, the **health and safety** issues raised included the following:

- ❖ the preparation, with the help of medical coordinator Dr Sante Tabanelli, of draft company regulations on the consumption of alcohol. This was presented to all employee safety representatives at a special meeting;
- ❖ the completion of training on health and safety in the workplace aimed at senior management, much of which was based on a cascade approach intended for managers and workers;
- ❖ the introduction of computerised management for occupational medicine and the gathering of information for the risk-assessment document and accident-data management.

Following the training course on incident and near-miss investigation techniques, a licence has been obtained to use the procedure covered in the course, known as the Systematic Cause Analysis Technique (SCAT). This tool has been refined and customised for Hera and was rolled out in 2010 after undergoing tests and inspections. An additional effort will be needed to ensure that all business segments are using it methodically and consistently.

In conjunction with the Group Purchasing and Procurement Department, a specific audit cycle has been completed aimed at verifying the level of implementation of the principal company procedures for supplier and supply control, activities which are increasingly important for the Hera Group in view of the size of the investments made and the impact of supplier performance on QSE issues.

As every year, in preparation for 2011 Emissions Trading certification, a series of actions have been carried out concerning 2010 data. These include:

- performance of internal audits,
- organisation of a task force on this subject to analyse common issues and harmonise behaviour.

In early 2011 certification was obtained for all 11 plants assessed, in recognition of the compliance and comprehensiveness of the data and management of the system certified.

These are in addition to the normal activities that the DCQSA plans and carries out to maintain the Group's integrated management system. Of those carried out since the start of 2011, the DCQSA has notably been involved in:

- conducting QSE coherence checks for procedures and instructions drawn up by the various business units;
- updating the system documentation, QSE manual, system procedure, risk-assessment documents and environmental analyses;
- supporting Facility Management in its inspection of regional centres within the various LOC and structuring major projects to address certain non-conformities which have emerged in terms of environmental aspects and supplier control.

In 2011, the launch of the project "Un Anno per la Sicurezza nel Gruppo HERA" ("A Year of Safety at the Hera Group") was decided to foster a health-and-safety culture and to improve conduct in the workplace. A steering committee has been set up, composed of the chairman of Hera S.p.A., the vice-chairman of Hera S.p.A., the CEO of Hera S.p.A., the chairman of Herambiente, the DCQSA, the DCPO, the DCSR and the DGO. The project consists of 15 schemes, some of which encompass the entire Group and some of which are pilot schemes managed at a local level.

Project status is monitored and coordinated by a group which draws up the guidelines for each individual project and verifies their overall development, periodically reporting back to the steering committee on progress.

The coordination group is composed of:

- three employers' representatives (Hera S.p.A. LOC business unit, Hera S.p.A. Central Bodies-DCSSI, Herambiente),
- DCQSA – DCSR – DCPO – DCRE – DSO,
- the health and safety coordinator and QSE coordinator,
- an employee health and safety representative.

Within the coordination group there is a scientific committee consisting of three external specialists in the fields of employment and health and safety in various areas (legal, economic, psychosocial).

**In terms of data protection**, during the first half of 2011 the data-protection management system was further enhanced and consolidated with the units concerned.

The system covers various organisational ambits, primarily focusing on those aimed at: governing and guaranteeing compliance of internal and outsourced activities; intervening to prevent unlawful conduct; maximising the re-engineering and streamlining of privacy-oriented processes.

In this context, numerous activities have been carried out, such as:

- the first uniform survey of company databases, documented in the 2011 Safety Programming Document,
- a procedure aimed at managing company data-protection obligations (awaiting publication),
- cross-functional activities for specific data-protection managers/Group companies;
- fundamentals identified for data-protection management and adaptation of critical processes (administration of Group information systems, employer audits, video surveillance),
- process under way to assign responsibility for data protection to suppliers,
- "passive nominations" procedure with assignment of responsibility for data protection by third parties,
- data-protection assessments initiated within the Group based on the key business ambits (Hera Comm/FoL),
- distribution of letters of appointment for employees/contractors,
- regulatory support/consultancy given to Group business units.

### **1.11 Significant events after the end of the half-year and outlook**

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

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

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

#### **Decree Law 138 of 13 August 2011**

Decree Law 138 (additional urgent measures for financial stability and growth) was published in the Gazzetta Ufficiale on 13 August 2011. As well as extending the scope of application of the so-called Robin Hood Tax (companies with revenues of more than €10 million which are involved in the production, transmission and dispatch, distribution or sale of electricity, or in the transportation or distribution of natural gas, are now included), Article 7 of said Decree Law imposed a rise of 4 percentage points (from 6.5% to 10.5%) in the relative IRES surtax for 2011, 2012 and 2013. Having carefully considered how the Decree Law affects the various Group companies, and pending its actual conversion into law, Hera S.p.A. has estimated that the application of the aforementioned rate increase during preparation of this half year report would result in a lower net profit at Group level, equal to around €2 million.



## **Consolidated financial statements**

## 2.01 Consolidated financial statements

## 2.01.01 Income statement

thousands of Euro	notes	30/6/2011 (6 months)	30/6/2010 (6 months) reclassified
Revenues	4	1.983.185	1.806.961
Other operating income	5	87.701	101.758
Use of raw materials and consumables	6	-1.122.021	-1.036.447
Service costs	7	-422.065	-405.637
Personnel costs	8	-189.662	-184.581
Amortisation, depreciation and provisions	9	-144.589	-138.663
Other operating costs	10	-17.536	-18.821
Capitalised costs	11	24.357	50.279
<b>Operating profit</b>		<b>199.370</b>	<b>174.849</b>
Portion of profits (losses) pertaining to associated companies	12	4.723	4.337
Financial income	13	33.795	55.336
Financial charges	13	-91.972	-114.448
<b>Total financial operations</b>		<b>-53.454</b>	<b>-54.775</b>
<b>Pre-tax profit</b>		<b>145.916</b>	<b>120.074</b>
Taxes for the period	14	-62.759	-50.911
<b>Net profit for the period</b>		<b>83.157</b>	<b>69.163</b>
Attributable to:			0
Shareholders of Parent Company		71.398	62.573
Minority shareholders		11.759	6.590
Earnings per share	14.1		
base		0,064	0,056
diluted		0,061	0,056

\* Figures as at 30 June 2010 were reclassified as described in the explanatory notes in the section "Financial statements".

## 2.01.02 Aggregate income statement

thousands of Euro	30/06/11	30/06/10
<b>Net profit/(loss) for the period</b>	<b>83.157</b>	<b>69.163</b>
Change in cash flow hedge reserve	7.524	255
Tax effects of other components of comprehensive income	-2.113	-270
Share of "other components of income" attributable to investments valued at equity	315	-455
<b>Total profit/(loss) for the period</b>	<b>88.883</b>	<b>68.693</b>
Attributable to:		
Shareholders of Parent Company	76.394	62.481
Minority shareholders	12.489	6.212

## 2.01.03 Balance sheet

thousands of Euro	notes	30-Jun-11	31-Dec-10
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible fixed assets	15	1.870.945	1.840.232
Intangible fixed assets	16	1.746.247	1.728.498
Goodwill	17	377.744	377.579
Equity investments	18	138.151	135.344
Financial assets	19	10.915	10.912
Deferred tax assets	20	89.877	84.290
Financial instruments – derivatives	21	26.629	40.071
<b>Total non-current assets</b>		<b>4.260.508</b>	<b>4.216.926</b>
<b>Current assets</b>			
Inventories	22	72.606	53.880
Trade receivables	23	1.114.174	1.134.496
Contract work in progress	24	18.365	17.228
Financial assets	25	41.541	46.084
Financial instruments – derivatives	21	21.608	12.796
Other current assets	26	219.212	181.607
Cash and cash equivalents	27	356.264	538.226
<b>Total current assets</b>		<b>1.843.770</b>	<b>1.984.317</b>
<b>TOTAL ASSETS</b>		<b>6.104.278</b>	<b>6.201.243</b>

cont.d



thousands of Euro	note	30-giu-2011	31-dic-2010
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>	<b>28</b>		
Share capital		1.115.014	1.115.014
-Reserve for treasury shares at par value		-5.938	-5.940
Reserves		537.339	514.662
-Reserve for treasury shares exceeding par value		-3.195	-3.105
Reserves for derivative instruments valued at fair value		-7.726	-12.407
Retained earnings (losses)		2.061	2.061
Profit (loss) for the period		71.398	117.218
<b>Group shareholders' equity</b>		<b>1.708.953</b>	<b>1.727.503</b>
Minority interest		137.045	142.720
<b>Total shareholders' equity</b>		<b>1.845.998</b>	<b>1.870.223</b>
<b>Non-current liabilities</b>			
Loans - maturing beyond the next year	29	2.299.451	2.313.722
Employee leaving indemnity and other benefits	30	94.094	95.643
Provisions for risks and charges	31	219.675	210.968
Deferred tax liabilities	32	77.992	76.143
Financial leasing payables – maturing beyond the next year	33	7.499	8.882
Financial instruments – derivatives	21	25.685	44.082
<b>Total non-current liabilities</b>		<b>2.724.396</b>	<b>2.749.440</b>
<b>Current liabilities</b>			
Banks and other borrowings - maturing within the next year	29	97.764	147.837
Financial leasing payables – maturing within the next year	33	3.457	4.599
Trade payables	34	894.273	1.061.003
Income tax liabilities	35	240.817	124.502
Other current liabilities	36	281.782	230.050
Financial instruments – derivatives	21	15.791	13.589
<b>Total current liabilities</b>		<b>1.533.884</b>	<b>1.581.580</b>
<b>TOTAL LIABILITIES</b>		<b>4.258.280</b>	<b>4.331.020</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>6.104.278</b>	<b>6.201.243</b>

## 2.01.04 Cash flow statement

thousands of Euro	30-Jun-11		30-Jun-10
<b>Operations</b>			
<b>Cash flow</b>			
Net profit attributable to Group and minority shareholders	83.157		69.163
Depreciation and write-downs of tangible fixed assets	61.237		59.567
Amortisation and write-downs of intangible fixed assets	50.816		53.453
<b>Total cash flow</b>	<b>195.210</b>		<b>182.183</b>
Profit (loss) of equity-accounted investments	(2.344)		(2.464)
(Gains) Losses on disposal of fixed assets	330		(1.711)
Changes in prepaid and deferred taxes	(3.735)		(12.846)
Employee leaving indemnities and other benefits:			
Provisions/ (uses)	(1.549)		(2.131)
Provisions for risks and charges:			
Provisions/ (uses)	7.972		4.928
<b>Total cash flow before changes in net working capital</b>	<b>195.884</b>		<b>167.959</b>
<b>Working Capital</b>			
Change in trade receivables	19.544		83.861
Change in inventories	(19.863)		(11.858)
Change in other current assets	(37.604)		(8.506)
Change in trade payables	(166.392)		(205.897)
Change in tax liabilities	116.067		151.419
Change in other current liabilities	51.702		15.469
Change in financial instruments - derivatives	(6.843)		(16.665)
<b>Change in working capital</b>	<b>(43.389)</b>		<b>7.823</b>
<b>Change in financial instruments - non-current derivatives</b>	<b>689</b>		<b>(40.063)</b>
<b>Liquidity generated by operations</b>	<b>153.184</b>	<b>a)</b>	<b>135.719 a)</b>
<b>Investment activities</b>			
Disinvestment/(investment) in tangible fixed assets, net of net investments/disinvestments	(63.590)		(85.036)
Disinvestment/(investment) in intangible fixed assets, net of net investments/disinvestments	(67.667)		(64.062)
Goodwill	0		0
Equity investments net of disinvestments	(7.114)		(3.028)
(Increase)/decrease in other investments	2.490		(11.582)
Change in financial instruments - derivatives			
<b>Liquidity generated/(absorbed) by investment activities</b>	<b>(135.881)</b>	<b>b)</b>	<b>(163.708) b)</b>
<b>Financing activities</b>			
Medium/long-term loans	(24.463)		15.315
Change in shareholders' equity	(627)		613
Change in equity interests	0		0
Change in short-term bank indebtedness	(53.892)		10.403
Dividends paid out	(118.026)		(96.814)
Change in financial leasing payables	(2.525)		(2.252)
<b>Liquidity generated/(absorbed) by financing activities</b>	<b>(199.533)</b>	<b>c)</b>	<b>(72.735) c)</b>
		<b>(182.230)</b>	<b>(100.724)</b>
		<b>(a+b+c)</b>	<b>(a+b+c)</b>
<b>Change in net financial position</b>			
Cash and cash equivalents at the beginning of the period	538.226		350.332
Contribution of cash from business combinations	268		1.055
Cash and cash equivalents at the end of the period	356.264		250.663
	<b>(182.230)</b>		<b>(100.724)</b>

(\*) Pursuant to Consob resolution no. 15519 of 27 July 2006, the effects of transactions with related parties on the Cash Flow Statement are disclosed in the special cash flow statement format shown in the following pages and are further described in paragraph 2.02.03 of these consolidated half-year financial statements.

## 2.01.05 Statement of changes in shareholders' equity

	Share capital	Reserves	Reserves for derivative instruments valued at fair value	Profit for the period	Shareholders' equity	Minority interest	Total
<b>Balance as at 31 December 2009</b>	<b>1.112.121</b>	<b>472.428</b>	<b>-12.995</b>	<b>71.052</b>	<b>1.642.606</b>	<b>58.125</b>	<b>1.700.731</b>
Profit for the period				62.573	62.573	6.590	69.163
<u>Other components of comprehensive income as at 30 June 2010:</u>							
change in the fair value of derivatives for the period			363		363	-378	-15
change in the fair value of derivatives for the period for companies measured at equity		-455			-455		-455
<b>Total comprehensive income for the period</b>		<b>-455</b>	<b>363</b>	<b>62.573</b>	<b>62.481</b>	<b>6.212</b>	<b>68.693</b>
change in treasury shares in portfolio	-560	-304			-864		-864
change in scope of consolidation		-870			-870	870	0
other movements		8.380	-6.346		2.034	-103	1.931
<u>Allocation of 2009 profit:</u>							
- dividends paid out		-39.410		-49.524	-88.934	-7.880	-96.814
- allocation to retained earnings		18.640		-18.640	0		0
- allocation to other reserves		2.888		-2.888	0		0
<b>Balance as at 30 June 2010</b>	<b>1.111.561</b>	<b>461.297</b>	<b>-18.978</b>	<b>62.573</b>	<b>1.616.453</b>	<b>57.224</b>	<b>1.673.677</b>

	Share Capital	Reserves	Reserves for derivative instruments valued at fair value	Profit for the period	Shareholders' equity	Minority interest	Total
<b>Balance as at 31 December 2010</b>	<b>1.109.074</b>	<b>513.618</b>	<b>-12.407</b>	<b>117.218</b>	<b>1.727.503</b>	<b>142.720</b>	<b>1.870.223</b>
Profit for the period				71.398	71.398	11.759	83.157
<u>Other components of comprehensive income as at 30 June 2011:</u>							
change in the fair value of derivatives for the period			4.681		4.681	730	5.411
change in the fair value of derivatives for the period for companies measured at equity		315			315		315
<b>Total comprehensive income for the period</b>		<b>315</b>	<b>4.681</b>	<b>71.398</b>	<b>76.394</b>	<b>12.489</b>	<b>88.883</b>
Change in treasury shares in portfolio	2	-90			-88		-88
reclassification of convertible bond equity component		4.894			4.894		4.894
change in scope of consolidation		26			26		26
other movements		103			103	-17	86
<u>Allocation of 2010 profit:</u>							
- dividends paid out				-99.879	-99.879	-18.147	-118.026
- allocation to other reserves		17.339		-17.339	0		0
<b>Balance as at 30 June 2011</b>	<b>1.109.076</b>	<b>536.205</b>	<b>-7.726</b>	<b>71.398</b>	<b>1.708.953</b>	<b>137.045</b>	<b>1.845.998</b>

## 2.02 Financial statements - Resolution 15519 of 2006 – Related parties

## 2.02.01 Income statement

thousands of Euro	Notes	1st half 2011	of which Related Parties						1st half 2010 restated	of which Related Parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
<b>Income Statement</b>															
Revenues	4	1.983.185	0	13.713	43.509	2.440	59.662	3,0	1.806.961	62	10.632	42.624	3.388	56.706	3,1
Other operating income	5	87.701	3	93	79	25	200	0,2	101.758	5	43	28	165	241	0,2
Use of raw materials and consumables (net of changes to raw materials inventories and stocks)	6	-1.122.021	0	-23.849	0	-16.744	-40.593	3,6	-1.036.447	-3.053				-3.053	0,3
Costs for services	7	-422.065	-10	-4.707	-2.603	-18.543	-25.863	6,1	-405.637	-2.963	-4.157	-4.071	-16.418	-27.609	6,8
Personnel costs	8	-189.662				-1.755	-1.755	0,9	-184.581				-1.412	-1.412	0,8
Amortisation, depreciation and allocations	9	-144.589							-138.663						
Other operating costs	10	-17.536	0	-45	-1.360	-553	-1.958	11,2	-18.821	-121		-857	-459	-1.437	7,6
Capitalised costs	11	24.357							50.279						
<b>Operating profit</b>		<b>199.370</b>	<b>-7</b>	<b>-14.795</b>	<b>39.625</b>	<b>-35.130</b>	<b>-10.307</b>		<b>174.849</b>	<b>-6.070</b>	<b>6.518</b>	<b>37.724</b>	<b>-14.736</b>	<b>23.436</b>	
Portion of profits (losses) pertaining to associated companies	12	4.723		4.723			4.723	100,0	4.337	4.337				4.337	100,0
Financial income	13	33.795		615		89	704	2,1	55.336	316			18	334	0,6
Financial charges	13	-91.972					0	0,0	-114.448					0	0,0
<b>Total financial operations</b>		<b>-53.454</b>	<b>0</b>	<b>5.338</b>	<b>0</b>	<b>89</b>	<b>5.427</b>		<b>-54.775</b>	<b>0</b>	<b>4.653</b>	<b>0</b>	<b>18</b>	<b>4.671</b>	
<b>Pre-tax profit</b>		<b>145.916</b>	<b>-7</b>	<b>-9.457</b>	<b>39.625</b>	<b>-35.041</b>	<b>-4.880</b>		<b>120.074</b>	<b>-6.070</b>	<b>11.171</b>	<b>37.724</b>	<b>-14.718</b>	<b>28.107</b>	
Taxes for the period	14	-62.759							-50.911						
<b>Net profit for the period</b>		<b>83.157</b>	<b>-7</b>	<b>-9.457</b>	<b>39.625</b>	<b>-35.041</b>	<b>-4.880</b>		<b>69.163</b>	<b>-6.070</b>	<b>11.171</b>	<b>37.724</b>	<b>-14.718</b>	<b>28.107</b>	
Attributable to:															
Shareholders of Parent Company		71.398							62.573						
Minority shareholders		11.759							6.590						
<b>Earnings per share</b>	14.1														
base		<b>0,064</b>							<b>0,056</b>						
diluted		<b>0,061</b>							<b>0,056</b>						

Key of headings of related parties columns:

- A Non-consolidated subsidiary companies
- B Jointly controlled associated companies
- C Related companies with significant influence
- D Other related parties

## 2.02.02 Balance sheet

		of which Related Parties								of which Related Parties							
thousands of Euro	Notes	30/06/11	A	B	C	D	Total	%	31/12/2010	A	B	C	D	Total	%		
<b>ASSETS</b>																	
<b>Non-current assets</b>																	
Tangible fixed assets	15	1.870.945							1.840.232								
Intangible fixed assets	16	1.746.247							1.728.498								
Goodwill and consolidation difference	17	377.744							377.579								
Equity investments and securities	18	138.151	5.801	98.943	0	33.080	137.824	99,8	135.344	100	101.851		33.093	135.044	99,8		
Financial assets	19	10.915	0	10.493	0	0	10.493	96,1	10.912		10.028			10.028	91,9		
Deferred tax assets	20	89.877							84.290								
Financial instruments - derivatives	21	26.629							40.071								
		<b>4.260.508</b>	<b>5.801</b>	<b>109.436</b>	<b>0</b>	<b>33.080</b>	<b>148.317</b>		<b>4.216.926</b>	<b>100</b>	<b>111.879</b>	<b>0</b>	<b>33.093</b>	<b>145.072</b>			
<b>Current assets</b>																	
Inventories	22	72.606							53.880								
Trade receivables	23	1.114.174	37	24.053	10.814	14.699	49.603	4,5	1.134.496	73	19.840	20.104	13.989	54.006	4,8		
Contract work in progress	24	18.365							17.228								
Financial assets	25	41.541		29.195		404	29.599	71,3	46.084		29.313			29.313	63,6		
Financial instruments - derivatives	21	21.608							12.796								
Other current assets	26	219.212		2.471	382	19.045	21.898	10,0	181.607	0	209	362	16.887	17.458	9,6		
Cash and cash equivalents	27	356.264							538.226								
		<b>1.843.770</b>	<b>37</b>	<b>55.719</b>	<b>11.196</b>	<b>34.148</b>	<b>101.100</b>		<b>1.984.317</b>	<b>73</b>	<b>49.362</b>	<b>20.466</b>	<b>30.876</b>	<b>100.777</b>			
<b>TOTAL ASSETS</b>		<b>6.104.278</b>	<b>5.838</b>	<b>165.155</b>	<b>11.196</b>	<b>67.228</b>	<b>249.417</b>		<b>6.201.243</b>	<b>173</b>	<b>161.241</b>	<b>20.466</b>	<b>63.969</b>	<b>245.849</b>			
		of which Related Parties								of which Related Parties							
thousands of Euro	Notes	30/06/11	A	B	C	D	Total	%	31/12/2010	A	B	C	D	Total	%		
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>																	
<b>Share capital and reserves</b>		28															
Share capital		1.115.014							1.115.014								
-Reserve for own shares at par value		-5.938							-5.940								
Reserves		537.339							514.662								
-Reserve for own shares exceeding par value		-3.195							-3.105								
Reserves for derivative instruments valued at fair value		-7.726							-12.407								
Retained earnings (losses)		2.061							2.061								
Profit (loss) for the period		71.398							117.218								
<b>Group shareholders' equity</b>		<b>1.708.953</b>								<b>1.727.503</b>							
Minority interest		137.045							142.720								
<b>Total shareholders' equity</b>		<b>1.845.998</b>								<b>1.870.223</b>							
<b>Non-current liabilities</b>																	
Loans - maturing beyond the next year	29	2.299.451							2.313.722								
Employee leaving indemnity and other benefits	30	94.094							95.643								
Provisions for risks and charges	31	219.675							210.968								
Deferred tax liabilities	32	77.992							76.143								
Financial leasing payables – maturing beyond the next year	33	7.499							8.882								
Financial instruments - derivatives	21	25.685							44.082								
		<b>2.724.396</b>								<b>2.749.440</b>							
<b>Current liabilities</b>																	
Banks and other borrowings - maturing within the next year	29	97.764							147.837								
Financial leasing payables – maturing beyond the next year	33	3.457							4.599								
Trade payables	34	894.273	56	18.088	8.393	24.645	51.182	5,7	1.061.003	128	15.010	5.570	23.152	43.860	4,1		
Income tax liabilities	35	240.817							124.502								
Other current liabilities	36	281.782		103	-22	703	784	0,3	230.050	0	98	-31	863	930	0,4		
Financial instruments - derivatives	21	15.791							13.589								
		<b>1.533.884</b>	<b>56</b>	<b>18.191</b>	<b>8.371</b>	<b>25.348</b>	<b>51.966</b>		<b>1.581.580</b>	<b>128</b>	<b>15.108</b>	<b>5.539</b>	<b>24.015</b>	<b>44.790</b>			
<b>Total liabilities</b>		<b>4.258.280</b>	<b>56</b>	<b>18.191</b>	<b>8.371</b>	<b>25.348</b>	<b>51.966</b>		<b>4.331.020</b>	<b>128</b>	<b>15.108</b>	<b>5.539</b>	<b>24.015</b>	<b>44.790</b>			
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>6.104.278</b>	<b>56</b>	<b>18.191</b>	<b>8.371</b>	<b>25.348</b>	<b>51.966</b>		<b>6.201.243</b>	<b>128</b>	<b>15.108</b>	<b>5.539</b>	<b>24.015</b>	<b>44.790</b>			

Key of headings of related parties columns:

- A Non-consolidated subsidiary companies  
 B Jointly controlled associated companies  
 C Related companies with significant influence  
 D Other related parties

## 2.02.03 Cash flow statement

thousands of Euro	30 June 2011	of which related parties
<b>Operations</b>		
<b>Cash flow</b>		
Net profit pertaining to Group and minority shareholders	83.157	
Depreciation and write downs of tangible fixed assets	61.237	
Amortisation and writedowns of intangible assets	50.816	
<b>Total cash flow</b>	<b>195.210</b>	
Profit (loss) of equity investments measured at equity	(2.344)	
(Gains) Losses on disposal of fixed assets	330	
Changes in prepaid and deferred taxation	(3.735)	
Employee leaving indemnities and other benefits:		
Provisions / (uses)	(1.549)	
Provisions for risks and charges:		
Provisions / (uses)	7.972	
<b>Total cash flow before changes in net working capital</b>	<b>195.884</b>	
<b>Working Capital</b>		
Change in trade receivables	19.544	4.403
Change in inventories	(19.863)	
Change in other current assets	(37.604)	(4.440)
Change in trade payables	(166.392)	7.321
Change in tax liabilities	116.067	
Change in other current liabilities	51.702	(146)
Change in financial instruments - derivatives	(6.843)	
<b>Change in working capital</b>	<b>(43.389)</b>	
<b>Change in financial instruments - non-current derivatives</b>	<b>689</b>	
<b>Liquidity generated by operations</b>	<b>153.184</b>	<b>a)</b>
<b>Investment activities</b>		
Disinvestment/(investment) in tangible fixed assets, net of net investments/disinvestments	(63.590)	
Disinvestment/(investment) in intangible fixed assets, net of net investments/disinvestments	(67.667)	
Goodwill	0	
Investments in equity investments net of disinvestments	(7.114)	(7.114)
(Increase)/decrease in other investments	2.490	(2.801)
Change in financial instruments - derivatives		
<b>Liquidity generated/(absorbed) by investment activities</b>	<b>(135.881)</b>	<b>b)</b>
<b>Financing activities</b>		
Medium/long-term loans	(24.463)	
Change in shareholders' equity accounts	(627)	
Change in shareholding	0	
Change in short-term bank indebtedness	(53.892)	
Dividends paid out	(118.026)	(26.285)
Change in financial leasing payables	(2.525)	
<b>Liquidity generated/(absorbed) by financing activities</b>	<b>(199.533)</b>	<b>c)</b>
		<b>(182.230)</b>
		<b>(a+b+c)</b>
<b>Change in net financial position</b>		
Cash and cash equivalents at the beginning of the period	538.226	
Contribution of cash from business combinations	268	
Cash and cash equivalents at the end of the period	356.264	
	<b>(182.230)</b>	

## 2.03 Explanatory notes

### 2.03.01 Consolidated explanatory notes

#### Accounting principles and valuation criteria

These abbreviated consolidated half-year financial statements as at 30 June 2011 have been prepared in application of Regulation (EC) No. 1606/2002 of 19 July 2002 in observance of the IAS/IFRS International Accounting Standards (hereinafter the IFRS) approved by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee – SIC and International Financial Reporting Interpretations Committee – IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

The same accounting criteria applied to the consolidated financial statements as at 31 December 2010 were adopted in the drawing up of these abbreviated consolidated half-year financial statements, prepared according to IAS 34 – Interim Financial Statements. For a more thorough description, please refer to the financial statements as at 31 December 2010, except for information given in section "Accounting principles, amendments and interpretations applicable as from 1 January 2011".

The figures in these abbreviated consolidated half-year financial statements are comparable with those of the previous period. In particular please note that the amounts reported in the statement of income at 30 June 2010 have been reclassified to reflect the representation of the works executed between companies operating within the Group to build systems and other works. The relevant schedules and notes give a detailed account of what is stated above. In the event of additional reclassifications, the notes commenting on the individual items provide all necessary information.

Use of estimates. Arrangement of the abbreviated consolidated half-year financial statements and related notes requires the use of estimates and valuations by the directors, with regard to the figures in the financial statements, 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. Information is provided below on the main areas characterised by valuations and assumptions and, specifically, on their nature and the basis on which they have been formulated, with indication of the reference book values.

Allocations to provisions for risks. These provisions were made by adopting the same procedures as previous periods and hence by referring to the updated reports of the legal counsel and the consultants following the disputes, as well as on the basis of developments in the related proceedings. Specifically, in the paragraph relating to provisions for risks, the assumptions used to estimate the provision for risks in INPS (Social Security) disputes are specified.

Revenues recognition. 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 reporting period. This allocation is based on estimates of the customer's daily consumption, based on the historic profile, adjusted to reflect weather conditions or other factors which might affect consumption under evaluation.

It should also be noted that these valuation procedures, especially those relating to the more complex valuations, such as the determination of any impairment losses on non-current assets, are generally only made definitely at the time the annual financial statements are prepared, except when there are indications of impairment requiring an immediate valuation of any impairment losses.

Income taxes are recognised based on the best estimate of the weighted average tax rate expected for the entire year, taking into account the 0.30% increase in the IRAP (Regional Business Tax), tax rate recently introduced by the "Tremonti fiscal measures".

In comparing individual items in the statement of financial position and the income statement, changes in the scope of consolidation as indicated in the relevant section should be taken into account.

### **Financial Statements**

The formats used are the same as those applied for the consolidated financial statements as at 31 December 2010. A decremental format has been used for the income statement, with individual items analysed by type. We believe that this type of disclosure, which is also used by our major competitors, is in line with international practice and the best representation of company results. 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. Moreover, referring 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 which highlight the most significant transactions with related parties, in order not to alter the overall clarity of the financial statements.

The statement of comprehensive income is presented in a separate document, as allowed by IAS 1 revised

### **Scope of consolidation**

These abbreviated consolidated half-year financial statements include the financial statements of the Parent Company, Hera SpA, and 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 that company's business activities.

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.

Non-current equity investments in large-scale associated companies are valued at equity. Those of an insignificant size are instead carried at cost. Non-consolidated subsidiaries and associated companies accounted for at equity are reported in note no. 18

Companies held exclusively for subsequent 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 using the proportional method whereby assets, liabilities, revenues and costs are recognised on a line-by-line basis pro rata to the Group's investment.

Changes to the scope of consolidation in the first half of 2011, compared with the consolidated financial statements as at 31 December 2010 are shown below.

### **Subsidiary companies**



Consolidated companies	No longer consolidated companies	Notes
	SIS Società Intercomunale di Servizi Spa	Resolution to wind-up the company

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

### Jointly controlled companies

Consolidated companies	No longer consolidated companies	Notes
Enomondo Srl		Proportionally consolidated

On 16 February 2011, Herambiente Spa purchased a further 10% of the share capital of Enomondo Srl from Caviro Società Cooperativa Agricola, thus increasing its equity investment in Enomondo Srl to 50%. The changes to the Articles of Association that occurred as a result of this acquisition have led to joint control by shareholders and consolidation using the proportional method. Until 31 December 2010, the company was accounted for using the equity method.

### Associated companies

New companies measured at equity	Companies no longer measured at equity	Notes
	Enomondo Srl	Proportionally consolidated
	Dyna Green Srl	Under liquidation as from 20.04.2011

On 20 April 2011 the shareholders' meeting of the company Dyne Green resolved to wind up the company.

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

**Seasonal effects on business**

Within the Group, the Water and Energy sectors are particularly affected by seasonality considering consumption peaks, respectively, in the summer and winter seasons. However, from an overall standpoint, taking into account the group business portfolio, half year results are not particularly affected by the above mentioned effect. Conversely, equity figures, as described in the following notes, highlight a decrease in trade payables at end of June, above all with respect to the timing of raw materials supply.

**Significant events after the end of the period and business outlook**

Information regarding the company's activity and significant events occurred after the end of the period are included in a special section of this half-year report (paragraph 1.11).

**Other information**

Please note that during the first half of 2011 there were no atypical or unusual transactions, as defined in Consob communication no. 6064293 of 28 July 2006.

These abbreviated consolidated half-year financial statements, included in the half-year financial report as at 30 June 2011, shall be submitted for the Board of Directors' approval on 25 August 2011.

**Accounting standards, amendments and interpretations applicable as from 1 January 2011**

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

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

Amendment to IFRS 1 - Limited exemption from comparative IFRS 7 disclosures for first-time adopters (Regulation 574/2010).

IAS 24 revised - Related Party Disclosures (Regulation 632/2010). The amendments simplify the definition of "related party", at the same time eliminating some inconsistencies and exempting public institutions from some related-party transaction disclosure requirements.

Amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement (Regulation 633/2010). The aim of the amendments to IFRIC 14 is to remove an unintended consequence of IFRIC 14 in cases where an entity subject to a minimum funding requirement makes an early payment of contributions where under certain circumstances the entity making such a prepayment would be required to recognise an expense. In the case where a defined benefit plan is subject to a minimum funding requirement the amendment to IFRIC 14 prescribes to treat this prepayment, like any other prepayment, as an asset.

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (Regulation 662/2010). The aim of this interpretation is to provide guidance on how a debtor should account for its equity instruments issued in full or partial settlement of a financial liability following renegotiation of the terms of the liability.

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

- IFRS 3 Improvement - Business Combinations - this amendment clarifies that non-controlling interests which do not entitle their holders to a proportionate share of the acquiree's net assets shall be measured at fair value or as required by the applicable accounting standards. The issue of share based payments which are replaced as part of a business combination is also further clarified, with specific guidance for their accounting treatment.
- IFRS 7 Improvement - Financial Instruments: additional disclosure: the amendment provides clarifications on the interaction between qualitative and quantitative disclosures with regard to the risks inherent in financial instruments. Furthermore the requirement for disclosure of past due financial assets that have been renegotiated or impaired has been eliminated.
- IAS 1 Improvement - Presentation of Financial Statements: the amendment requires that a reconciliation of the changes in the individual components of equity be presented in the notes or in the financial statements.
- IAS 34 Improvement - Interim Financial Reporting: this amendment contains clarifications about additional disclosures required for the preparation of the interim financial statements.

It is believed that the adoption of said amendments will not significantly affect the financial statements of the Group. During the first half of 2011 no accounting principles or interpretations issued by IASB or IFRIC were approved, whose application would be mandatory for the purposes of preparing the financial statements for the financial year commencing after 31 December 2011.

#### Accounting standards which are being adopted by the European Union

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

IFRS 9 – Financial Instruments, published by the IASB on 12 November 2009 and subsequently amended on 28 October 2010. With effect from 1 January 2013, this standard is the first part of a process taking place in phases for the replacement of IAS 39 and introduces new criteria for the classification of financial assets and liabilities and for the derecognition of financial assets.

Amendments to IFRS 7 – Financial instruments: Disclosures

Amendments to IAS 12 – Income taxes recoverability of a revalued non-depreciable asset

Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards.

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

- **IFRS 10** - "Consolidated Financial Statements", published by the IASB on 12 May 2011 and applicable as from 1 January 2013.
- **IFRS 11** - "Joint arrangements", published by the IASB on 12 May 2011 and applicable as from 1 January 2013.

- **IFRS 12** - "Disclosure of interests in other entities", issued by the IASB on 12 May 2011 and applicable as from 1 January 2013.
- **IFRS 13** - "Fair Value Measurement", issued by the IASB on 12 May 2011 and applicable as from 1 January 2013.
- **IFRS 27** revised - "Separate financial statements", issued by the IASB on 12 May 2011 and applicable as from 1 January 2013.
- **IFRS 28** revised - "Investments in associates and joint ventures", issued by the IASB on 12 May 2011 and applicable as from 1 January 2013.
- **IAS 1** - "Presentation of Financial Statements"; this amendment, applicable with effect from 1 January 2012, concerns the presentation of data contained in the statement of comprehensive income.
- **IAS 19** - "Employee benefits", applicable as from 1 January 2013.

### Summary of reclassifications

The following are the effects on the income statement at 30 June 2010 resulting from the representation of the works executed between companies operating within the Group to build systems and other works.

These reclassifications will be analysed in more detail in the notes that follow.

Income statement	1° half 2010 Published	1° half 2010 Restated	WTE reclassification	Reclassification Change in Inventories of work in progress semi-finished and finished products
Revenues	1,805,478	1,806,961		1,483
Change in inventories of work in progress, semi-finished and finished products	12,020	0	-10,537	-1,483
Service costs	-387,930	-405,637	-17,707	
Capitalised costs	22,035	50,279	28,244	
<b>Operating income</b>	<b>1,451,603</b>	<b>1,451,603</b>	<b>0</b>	<b>0</b>

## 4 Revenues

	1° half 2011	1° half 2010	Changes
Revenues from sales and services	1,981,915	1,805,478	176,437
Change in contract work in progress	1,155	1,600	-445
Changes in inventories of work in progress, semi-finished and finished products	115	-117	232
<b>Total</b>	<b>1,983,185</b>	<b>1,806,961</b>	<b>176,224</b>

For an analysis of sales trends by business sector, please see the Directors' Report and the note providing information by business area.

The following table shows the reclassification of the item "Change in Contract work in progress" for the first half of 2010, compared to published figures, as already analysed in the first paragraph.

	1° half 2010 published	Amount reclassified	1° half 2010 restated
Change in contract work in progress	12,137	-10,537	1,600
<b>Total</b>	<b>12,137</b>	<b>-10,537</b>	<b>1,600</b>

## 5 Other operating income

	1° half 2011	1° half 2010	Changes
Long term construction contracts	61,094	65,458	-4,364
Operating grants and grants for separate collection	7,007	6,975	32
White certificates	6,812	5,100	1,712
Use and reassessment of provisions	2,553	11,384	-8,831
Portion of capital grants	1,941	1,829	112
Costs reimbursed	1,547	1,484	63
Grey certificates	1,179	2,525	-1,346
Sale of materials and stocks to third parties	719	468	251
Insurance reimbursements	553	432	121
Leases	677	712	-35
Gains on disposal of assets	195	2,486	-2,291
Other revenues	3,424	2,905	519
<b>Total</b>	<b>87,701</b>	<b>101,758</b>	<b>-14,056</b>

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

"Long-term construction contracts" include revenues generated by the construction or improvement of infrastructure held under concession in compliance with accounting standard *IFRIC 12*; for further details thereof the reader should refer to the notes to the consolidated financial statements as at 31 December 2010.

In line with the previous period, "Operating grants and grants for separate waste collection" are mainly made up of grants made to the Parent company for volumes of packaging (cardboard, iron, plastic and glass) deriving from separate waste collection and sold to the Consortia of the Conai chain and for the collection of electric and electronic equipment transferred to the Raee, the Coordination Centre for the collection of waste from electrical and electronic equipment.

"White certificates" and "grey certificates" show respectively the revenues obtained from the Electricity sector equalisation fund after achievement of energy targets, with regard to white certificates, and from the Ministry for the Environment with regard to grey certificates mainly pertaining to the cogeneration plant in Casalegno. Specifically, with regard to this plant, Law Decree no. 72 of 20 May 2010, later converted into Law no. 111 of 19 July 2010, clearly established that plants that do not receive free allocation of permits are entitled to monetary repayment.

"Use and re-assessment of provisions" mainly include uses of provisions concerning labour, waste disposal, leachate and resource hour costs associated with the Group landfills. In the first half of 2010 this item included mainly the use of the provision for doubtful debts for Euro 8,000 thousand.

"Reimbursement of costs" consists primarily of repayments by companies or entities in connection with seconded personnel and recovery of costs from customers.

"Gains on disposal of assets" consist mainly of the sale of vehicles, containers and miscellaneous equipment. The value for the first half of 2010 includes capital gains from the sale of the property in Via Ranzani - Bologna.

## 6 Use of raw materials and consumables

	1° half 2011	1° half 2010	Changes
Electricity ready for sale	588,147	533,979	54,168
Methane ready for sale and LPG net of change in stock	485,274	451,336	33,938
Maintenance materials: handling and spare parts net of change in stock	25,190	23,855	1,335
Water	17,097	16,562	535
Electricity for industrial use	10,842	8,917	1,925
Chemical products	7,006	7,064	-58
Fuels and lubricants	6,869	6,129	740
Fuels for heat generation	2,959	1,297	1,662
Methane for industrial use	2,738	5,904	-3,166
Consumables and sundry	6,159	2,085	4,074
Income and charges from certificates measurement	-16,403	-7,905	-8,498
Income and charges from derivatives	-13,857	-12,776	-1,081
<b>Total</b>	<b>1,122,021</b>	<b>1,036,447</b>	<b>85,574</b>

For an analysis of sales trends by business sector, please see the Directors' Report and the note providing information by business area. With regard to item "income and charges on derivatives", reference is made to note 21 in the statement of financial position.

The item "Electricity ready for sale" also includes the costs of green, grey and white certificates amounting to Euro 23,937 thousand (Euro 13,582 thousand at 30 June 2010), and specifically:

- white certificates, Euro 9,376 thousand (Euro 2,955 thousand as at 30 June 2010);
- grey certificates, Euro 10,163 thousand (Euro 6,048 thousand as at 30 June 2010);
- green certificates, Euro 4,398 thousand (Euro 4,579 thousand as at 30 June 2010);

"Income and charges from certificates measurement " result from the measurement at fair value of certificates:

- green certificates, Euro 13,091 thousand (Euro 3,484 thousand as at 30 June 2010)
- grey certificates, Euro 3,312 thousand (Euro 4,421 thousand as at 30 June 2010)



## 7 Costs for services

	1° half 2011	1° half 2010	Changes
Charges for works and maintenance	113,049	142,427	-29,378
Energy transport and storage	96,943	63,921	33,022
Waste transportation, disposal and collection services	83,755	81,967	1,788
Fees paid to local authorities	34,396	35,142	-746
Legal, tax and organisation professional services	10,806	9,591	1,215
Rents and leases payable	10,795	8,445	2,350
IT and data processing services	8,725	7,147	1,578
Postal and telephone costs	7,806	7,796	10
Insurance costs	6,615	6,400	215
Technical services	6,331	6,063	268
Recruitment, training and other staff costs	6,067	5,317	750
Published notices, classified, advertising and litigation	4,561	3,137	1,424
Bank fees and other charges	3,800	3,730	70
Remuneration to Directors, Statutory Auditors and local committees	2,757	2,544	213
Cleaning and security costs	2,596	2,643	-47
Meter readings	2,259	2,657	-398
Laboratory analyses	2,190	1,671	519
Fees payable	2,042	1,903	139
Industrial utilities (water, methane, heat and electricity)	949	1,071	-122
Transportation	761	619	142
Other service costs	14,862	11,446	3,416
<b>Total</b>	<b>422,065</b>	<b>405,637</b>	<b>16,428</b>

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

"Charges for works and maintenance". This item includes costs relating to the construction or improvement of infrastructures held under concession reflecting compliance with Ifric 12 interpretation. In this regard, please refer to the notes to the financial statements as at 31 December 2010. The decrease from the previous year is mainly due to a reduction in investments which are further commented on in the Directors' report.

"Energy transport and storage": the increase is mainly attributable to higher volumes of electricity sold on third party grids.

"Waste transportation, disposal and collection services": the increase can be attributed to additional waste management services provided to some Municipalities. This increase in costs was followed by an increase in revenues which were included in the tariff (TIA).

"Fees paid to local authorities": the decrease is mainly due to the following items:

- lower fees paid to two municipalities in the Bologna area following the expiry of the relevant concession agreements, for Euro 1,332 thousand; these agreements were not renewed;
- additional one-off fees paid to the company Unica Reti for Euro 375 thousand;
- higher fees paid to Con.Ami for the gas lease agreement with the Municipality of Medicina, for Euro 225 thousand; this agreement was signed on 1 July 2010 following the repurchase of the grids sold in 2009.

"Rents and leases payable": the increase is mainly due to a renegotiation of the agreement for public lighting service and heat management with the municipality of Pesaro. This increase in costs was followed by an increase in revenues from sales and services.

"IT and data processing services": the increase is primarily due to higher costs for IT services for Euro 832 thousand and telecommunications (TLC) services for Euro 845 thousand.

"Published notices, classified, advertising and litigation": the increase is attributable to significant promotional activities carried out in the 1st half of 2011, ("World Water Day" and separate waste collection kits "Hera knocks on your door").

"Other service costs": the increase is primarily attributable to a significant strengthening of commercial activities for the sale of energy services.

The following table shows the reclassification of the item "Charges for works and maintenance" for the first half of 2010, compared to data previously published, as already analysed in the first paragraph:

	1° half 2010 published	Amount reclassified	1° half 2010 restated
Charges for works and maintenance	124,720	17,707	142,427
<b>Total</b>	<b>124,720</b>	<b>17,707</b>	<b>142,427</b>

## 8 Personnel costs

	1° half 2011	1° half 2010	Changes
Wages and salaries	133,754	128,453	5,301
Social security contributions	44,389	44,782	-393
Employee leaving indemnity and other benefits	9,093	654	8,439
Other costs	2,426	10,692	-8,266
<b>Total</b>	<b>189,662</b>	<b>184,581</b>	<b>5,081</b>

The increase in labour costs compared to the first half of 2010 is mainly due to changes in contractual dynamics.

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

	1° half 2011	1° half 2010	Changes
Managers	128	126	2
Middle Managers	339	328	11
Employees	3,346	3,249	97
Workers	2,707	2,809	-102
<b>Average number</b>	<b>6,520</b>	<b>6,512</b>	<b>8</b>

The total, average, per capita cost of labour in the first half of 2011 was Euro 29 thousand, a 2.6% increase over the same period in the previous year.

As at 30 June 2011, the effective number of employees was 6,530 units.

## 9 Amortisation, depreciation and provisions

	1° half 2011	1° half 2010	Changes
Depreciation of tangible fixed assets and amortisation of intangible fixed assets	112,053	113,020	-967
Provisions for doubtful debt	19,697	14,633	5,064
Provisions for risks and charges	12,839	11,010	1,829
<b>Total</b>	<b>144,589</b>	<b>138,663</b>	<b>5,926</b>

For further information on the items, please see comments on “tangible fixed assets”, “intangible assets”, “trade receivables” and “provisions for risks and charges” of the statement of financial position.

## 10 Other operating costs

	1° half 2011	1° half 2010	Changes
Special landfill levy	5,328	5,818	-490
Taxation other than income taxes	4,426	2,346	2,080
Membership fees and other fees	1,475	3,484	-2,009
State rentals	1,422	2,614	-1,192
Losses on disposal of assets	525	775	-250
Other minor charges	4,360	3,784	576
<b>Total</b>	<b>17,536</b>	<b>18,821</b>	<b>-1,285</b>

"Taxes other than income taxes" show an increase over the previous period mainly due to:

- payment of local property tax (ICI) for the incinerator of Ravenna and Rimini, for Euro 157 thousand;
- occupancy fees for public spaces and areas in relation to previous periods paid to the Municipality of Casalecchio di Reno, for Euro 412 thousand;

The change in item "Membership fees and other fees" compared to the previous period, mainly relates to the method adopted in the first half of 2010 by a Group subsidiary to account for gas distribution system charges (UG1, UG2 components, etc.). In this regard, it should be noted that these charges were also posted as revenues and therefore had no impact on the Group; in the 1st half of 2011 these system components were accounted for through items of the statement of financial position.

The table below shows the reclassification of items "State license fees" and "Taxes other than income taxes" of the 1 half of 2010, compared to published figures, with regard to costs for "occupancy fees for public spaces and areas," more appropriately classified as "taxes other than income taxes":

	1° half 2010 published	Amount reclassified	1° half 2010 restated
State rentals	2,614	-1,113	1,501
Taxation other than income taxes	2,346	1,113	3,459
<b>Total</b>	<b>4,960</b>	<b>0</b>	<b>4,960</b>

## 11 Capitalised costs

	1° half 2011	1° half 2010	Changes
Increases in fixed assets for internal works	24,357	50,279	-25,922
<b>Total</b>	<b>24,357</b>	<b>50,279</b>	<b>-25,922</b>

Increases for internal works in the first half of 2011 mainly include directly chargeable labour capitalised on works carried out, and directly chargeable financial charges and other charges, such as outbound inventory movements and motor car hours. Financial charges were calculated by applying a 3.81% interest rate.

The decrease from the previous period was due to a reduction in investments as well as a reduction in the works for the WTE construction for a Group company.

The following table shows the reclassification of the item "Capitalised costs" for the first half of 2010, compared to previously published data, as already analysed in the first paragraph:

	1° half 2010 published	Amount reclassified	1° half 2010 restated
Increases in fixed assets for internal works	22,035	28,244	50,279
<b>Total</b>	<b>22,035</b>	<b>28,244</b>	<b>50,279</b>

## 12 Portion of profits (losses) pertaining to associated companies

	1° half 2011	1° half 2010	Changes
Profits	5,009	6,173	-1,164
Losses	-286	-1,836	1,550
<b>Total</b>	<b>4,723</b>	<b>4,337</b>	<b>386</b>

The portions of “profits (losses) pertaining to associated companies” include the effects generated from measurement using the equity method. The decrease in the item "Profits" is mainly ascribable to the lower results of the associated company Set Spa compared to the previous year, which were recorded pro-quota. With regard to the item "Losses", the decrease is due to the extraordinary losses recorded by the associate Oikothén Scarl in the 1<sup>st</sup> half of 2010 which were recognised pro-quota.

## 13 Financial income and charges

	1° half 2011	1° half 2010	Changes
Income from measurement at fair value of financial liabilities	14,026	6,191	7,835
Interest rate and foreign exchange derivatives	13,898	46,631	-32,733
Banks	3,198	257	2,941
Customers	1,740	1,803	-63
Capital gains on equity investments and dividends from other companies	38	0	38
Other financial income	897	454	443
<b>Total financial income</b>	<b>33,797</b>	<b>55,336</b>	<b>-21,539</b>

	1° half 2011	1° half 2010	Changes
Bond loans	42,588	37,713	4,875
Interest rate and foreign exchange derivatives	30,681	15,043	15,638
Charges from measurement at fair value of financial liabilities	0	43,942	-43,942
Discounting of provisions and financial leases	7,379	7,188	191
Mortgages	5,420	5,471	-51
Bank current account overdrafts	1,441	1,317	124
Capital losses and write-downs of equity investment	230	0	230
Other financial charges	4,233	3,774	459
<b>Total financial charges</b>	<b>91,972</b>	<b>114,448</b>	<b>-22,476</b>

The change in financial operations is described, overall, in the Directors' Report.

For the items "Income and charges from the measurement at fair value of financial liabilities" and "Exchange rates and interest rates derivatives", please see note 21 of the statement of financial position.



The financial charges regarding "Bond loans" comprise:

- Euro 36,718 thousand in financial charges actually paid (Euro 28,461 thousand paid in the first half of 2010);
- Euro 5,870 thousand for charges resulting from the application of the amortised cost measurement (Euro 9,252 thousand in the first half of 2010). With regard to the method used, please note that in the recalculation, the maximum duration for the loans was assumed, and, therefore, it was assumed that the put options would not be exercised at the contractually agreed due dates throughout the duration of the loans.

The increase, compared to the previous year, is mainly due to the issue of a new convertible bonds for a nominal amount of Euro 140 million, effective from November 2010.

"Dividends and profits from trading," for Euro 38 thousand, relate to dividends received during the 1st half of 2011 from the company Ricicla Srl.

"Capital losses and write-downs of equity investments", consist of capital losses recorded following the completion of the liquidation of the companies Ingenia Srl and Consorzio Energia Servizi Bologna Srl, respectively, for Euro 64 thousand and 5 thousand and the write-down of the investment in the Company Intercomunale Servizi Spa placed under liquidation on 27 June 2011, for Euro 161 thousand.

As for the item "Other financial charges", it mainly includes the charges borne for the sale of receivables without recourse (Euro 3,641 thousand).

Item "Discounting of provisions and financial leases" is broken down as follows:

	1° half 2011	1° half 2010	Changes
Restoration of third party assets	3,479	3,362	117
Landfill post-closure provision	2,824	2,813	11
Employee leaving indemnity and other benefits	831	675	156
Finance leases	245	338	-93
<b>Total</b>	<b>7,379</b>	<b>7,188</b>	<b>191</b>

## 14 Income taxes

	1° half 2011	1° half 2010	Changes
Current, deferred and prepaid taxes	62,759	50,911	11,848
<b>Total</b>	<b>62,759</b>	<b>50,911</b>	<b>11,848</b>

The impact of income taxes on pre-tax profit is 43%, compared to 42.4% in the first half of 2010. The increase is attributable to the 0.30% increase in the IRAP (Regional business tax) tax rate, as provided for by Law Decree no. 38/2011, (applicable to the Parent company Hera SpA) and the lack of tax benefits associated with the "Tremonti Ter" fiscal measures, already included in the tax calculation at 30 June 2010.

As for the Robin Tax, and in particular the increase of 4 percentage points provided for by Law Decree no. 138 of 13 August 2011, please refer to the chapter on subsequent events included in the Directors' Report.

**Information on the "tax moratorium"**

In accordance with Law Decree no. 10 of 15 February 2007, subsequently converted into Law no. 46 of 6 April 2007, governing the terms for reimbursement of government aid declared illegitimate by the Ruling of the European Commission no. 2003/193 dated 5 June 2002, on 6 April 2007 Hera Spa, with respect to the position regarding the former Seabo Spa, was served the notices/orders issued by the Inland Revenue office responsible for the area, demanding the payment of a total amount of Euro 22,313 thousand for the tax periods 1997-1999 involved in the recovery.

The appeals submitted to the Provincial Tax Commission were rejected by means of rulings of 19 April 2008, except for the appeal relating to the 2007 tax period. In this case, the Commission accepted the deduction of tax withheld and of the tax credit carried over from previous years for Euro 3,738 thousand; therefore, in June 2008 payment was made totalling Euro 17,400 thousand.

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.

On 3 October 2008, appeals were filed against the above-mentioned rulings, which were dismissed, by means of rulings filed on 29 January 2010, by the Regional Tax Commission of Emilia Romagna, which, amending the rulings of first instance, rejected the deduction of tax withheld and of the tax credit carried forward from the before 2007 periods; therefore, on 27 October 2010 additional Euro 7,455 thousand were paid in this regard.

The petitions to the Supreme Court were presented on 29 April 2010.

Please also note that, under the terms of the agreements made between shareholders (and specifically reported in the IPO prospectus) at the time of the business combination giving rise to the creation of Hera Spa, local authorities undertook "to compensate Hera Spa for any cost, loss or damage sustained by Hera Spa in relation to mandatory regulatory measures revoking tax benefits enjoyed by the company and the companies taking part in the combination". Therefore, with regard to the recovery no costs have been accounted for, and on 30 June 2011, the remaining outstanding receivables relating to all payments made by Hera spa for the position concerning the former Seabo Spa, amounted to Euro 1,449 thousand as at the date of this half-year report.

**Law Decree no. 185/2008 and Law Decree no. 135/2009**

Art. 24 of Law Decree no. 185 of 29 November 2008, converted with amendments into Law no. 2 of 28 January 2009 contains provisions "in order to totally implement" the afore-mentioned decision of the commission of 5 June 2002. With regard to this provision, on 30 April 2009 the Regional Department of Emilia Romagna notified three assessment notices relating to the former Meta position for the 1997, 1998 and 1999 tax years, for which on 8 May 2009 the company paid Euro 4,823 thousand. On 7 July 2009, the company lodged appeals against the assessment notices at the Bologna provincial tax commission; at the hearing on 14 February 2011, following the unification with other tax assessments proceedings, pending before another section of the same Commission, which will be commented on hereunder, all proceedings were adjourned to a later date.

Article 24 of Law Decree no. 185 of 29 November 2008, was then amended by Article 19 of Law Decree no. 135 of 25 September 2009, which added paragraph 1 to article 24 above. On 2 October 2009, the Emilia Romagna Regional Department sent two further assessment notices for the former company Meta Spa, regarding the 1998 and 1999 tax periods, as a "supplement" to notices already sent on 30 April 2009, in order to cancel two deductions made and previously accepted according to the opinion, shared by the Attorney General, expressed on 28 April 2009 by the Presidency of the Council of Ministers on profits, which were reissued into the public circuit as a result of the distribution to public bodies shareholders, and the further portion of profits made in the electricity segment. The amounts requested totalled Euro 22,751 thousand.

On the same date, the Emilia Romagna Regional Department sent four assessment notices for the former company Seabo Spa, regarding the 1997-1999 tax periods, in order to adopt the remarks already expressed in the report of 17 October 2005. These remarks 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. 10 of 15 February 2007 granted the Inland Revenue Office powers of "simple settlement" of the tax returns submitted by the taxpayer. The amounts requested in this regard for the former Seabo totalled Euro 759 thousand.

The total amounts requested as a result of the proceeding provided for by Art. 19 of Law Decree no. 135/2009, amounted therefore to Euro 23,510 thousand, and were paid on 20 October 2009.

On 27 November 2009, the Company filed appeals to the Bologna provincial tax commission to obtain the cancellation of all assessment notices of 2 October 2009, regarding the positions of both former Seabo and former Meta; the public hearings thereof were held respectively on 26 January 2011 and 14 February 2011 and all proceedings were adjourned to a later date.

Except for the still-outstanding disputes, aimed at recovering the amounts already paid, the entire "tax moratorium" situation is to be considered concluded, as no future disbursements are expected which may have a financial impact on the Group's accounts

### Report on the assessment notices issued in 2010

Seven notices were issued to Hera Spa and Hera Comm on 19 November and 22 December 2010 in their capacity as beneficiary companies of the total spin-off of the company Hera Ferrara Srl effective as at 31 December 2009. Said notices for first and second assessment levels concerning IRES and IRAP followed the tax audit on the Ferrara local operating company for the 2005, 2006 and 2007 tax years, that came to an end on 16 September 2010 with the report of the Ferrara Tax Police Squad.

The irregularities found basically concerned a mere error that took place in the 2005 financial year in intercompany costs accounting between Hera Ferrara Srl and Hera Spa, which caused a double recording of the same cost amounting to about Euro 200 thousand. Nevertheless, after said error of double recording of the same cost was discovered in the following financial year 2006, it was corrected by recording an extraordinary income of the same amount, duly subject to taxation. It ensued that in force of the consolidated taxation system, the effect of the double deduction of the cost during the 2005 tax year was eliminated by the recording, and subsequent taxation, of the cost as extraordinary income. On 13 January 2011 the company proposed tax assessment settlements to the Emilia Romagna Regional Department, Large Taxpayers Office, pursuant to art. 6, paragraph 2, of Legislative Decree no. 218 of 1997, with a positive outcome for the company which had to pay the penalties alone reduced to one quarter.

Three assessment notices for IRES, IRAP and VAT concerning the 2005 tax period were issued to Hera Spa on 29 December 2010 following the tax audit on the 2005 tax year that was completed with the report dated 1 October 2010 drawn up by the Financial Police, Bologna Tax Police Squad. The report concerns an irregularity on inter-company services (the so called management expenses and concerning the use of the trademark) provided by Hera S.p.a. in its capacity as parent company of the Hera group, to the local operating subsidiary of Forlì-Cesena, Hera Forlì-Cesena Srl.

Although it found the cost split criteria initially established by the intercompany contracts legitimate, the Tax Authority questioned the subsequent reduction of the recharge percentages of the management expenses, generally called management fees, following a subsequent agreement that the parties entered into which adjusted the criteria initially envisaged. In the opinion of the Tax Authorities, said adjustment reducing fees due for the services provided by the holding company entailed a tax avoidance by Hera Spa since the lesser recharge for management fees to Sot of Forlì-Cesena resulted in said costs remaining charged to Hera Spa, which would have therefore "illegitimately deducted" them when calculating its IRES and IRAP tax base in the absence of the relevance principle. Likewise, 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 envisaged in the inter-company agreement; therefore, according to the Revenue Agency, also in this case, IRES, IRAP and VAT tax avoidance allegedly occurred.

In February 2011, the company proposed a tax settlement to the Emilia Romagna Regional Department, Large Taxpayers Office, pursuant to art. 6, paragraph 2, of Legislative Decree no. 218 of 1997, which had a negative outcome for the company.

Therefore, on 20 May 2011, the related appeals to the Supreme Court were submitted.

The Company decided it did not have to set aside any amount to the risk provision in relation to the assessment notices in question as it considered the alleged violations charged against the Company as groundless. This is also due to the circumstance that the companies involved adhered to the Group taxation system for the period in question pursuant to articles 117 et seq. of the Italian Income Tax Code, according to which the tax actually due to the Tax Authorities is calculated in the consolidated income tax return on the basis of the algebraic sum of the taxable incomes of the individual companies adhering to the system. It is therefore believed none of the individual companies can be charged for tax avoidance.

## 14.1 Earnings per share

	Year 2011 1° half	Year 2010 1° half
Group income (loss) of the period (Euro thousand):	71,398	62,573
Weighted average number of shares outstanding for the purposes of calculating earnings (loss) per share:		
- basic	1,109,771,408	1,111,896,904
- diluted	1,186,107,286	1,111,896,904
Earnings (loss) per share (in Euro)		
- basic	0.064	0.056
- diluted	0.061	0.056

The base earnings per share is calculated on the economic result attributable to holders of ordinary shares of the parent company. The diluted earnings per share takes into account the issue of the convertible bond per Note 29.

## 15 Tangible assets

	30-Jun-11	31-Dec-10	Changes
Land and buildings	372,611	368,693	3,918
Generic and specific plant and machinery	1,144,502	1,145,330	-828
Other moveable assets	112,163	114,631	-2,468
Work in progress and advance payments	241,669	211,578	30,091
<b>Total</b>	<b>1,870,945</b>	<b>1,840,232</b>	<b>30,713</b>

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

	Land and buildings	Plants and machinery	Other moveable assets	Work in progress and advance payments	Total tangible fixed assets
<b>Purchase cost</b>					
<b>Balance as at 31 12 2010</b>	438,972	1,754,232	351,161	211,578	2,755,943
Increases	807	8,447	7,111	47,609	63,974
Disinvestments	-	( 1,366)	( 3,940)	( 71) -	5,377
Changes in scope of consolidation	6,835	21,009	698	-	28,542
Other changes	1,137	8,024	2,514	( 17,447) -	5,772
<b>Balance as at 30 06 2011</b>	<b>447,751</b>	<b>1,790,346</b>	<b>357,544</b>	<b>241,669</b>	<b>2,837,310</b>
<b>Accumulated depreciation</b>					
<b>Balance as at 31 12 2010</b>	70,279	608,902	236,530	-	915,711
Depreciation for the year	4,726	43,358	13,177	-	61,261
Disinvestments	-	( 764)	( 3,754)	-	4,518
Changes in scope of consolidation	108	304	175	-	587
Other changes	27 -	5,956 -	747	-	6,676
<b>Balance as at 30 06 2011</b>	<b>75,140</b>	<b>645,844</b>	<b>245,381</b>	<b>-</b>	<b>966,365</b>
<b>Net value</b>					
<b>Balance as at 31 12 2010</b>	368,693	1,145,330	114,631	211,578	1,840,232
<b>Balance as at 30 06 2011</b>	<b>372,611</b>	<b>1,144,502</b>	<b>112,163</b>	<b>241,669</b>	<b>1,870,945</b>

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

"Land and buildings", totalling Euro 372,611 thousand, consist of Euro 286,922 thousand in buildings and Euro 85,689 thousand in land. With regard to the latter, they are mainly company-owned properties on which the majority of the sites and production plants of the Group stand. The increases comprise the extraordinary maintenance works carried out at the company headquarters in Bologna on Viale Berti Pichat and the construction of the walls of some drop-off points.

"Plants and machinery", totalling Euro 1,144,502 thousand (of which specific plant Euro 499,630 thousand, major specific plants Euro 540,204 and generic plants Euro 104,668 thousand), mainly consist of the distribution networks and plants regarding the businesses not falling under the concession system. They are mainly: district heating, electricity in the Modena area, waste disposal, waste treatment, purification and composting, material recovery and chemical-physical treatment, anaerobic digesters, and special waste treatment plants. The increase in the period reflects mainly the extension of the district heating and co-generation networks in some areas of Bologna, Forlì and Cesena, the construction and standardisation of the drop-off points, as well as expansion works on operating landfills. The decreases also include the disposal of electricity meters.

"Other moveable assets", equal to Euro 112,163 thousand (of which equipment Euro 73,068 thousand, electronic machines Euro 7,871 thousand, furniture Euro 4,417 thousand, motor vehicles Euro 25,975 thousand and motor cars Euro 832 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. Of the increases of the year, most noteworthy are the purchases of electronic machines as a result of the "E-gate" activities concerning the separate waste collection in the Rimini area (waste disposal bins and electronic keys to be more precise) and other equipment, whereas disposals mostly regarded waste disposal bins and motor cars, primarily referring to the waste management sector.

"Work in progress and advance payments", equal to Euro 241,669 thousand, mainly consist of the costs borne for developing district heating and electricity distribution in the Modena area, extraordinary maintenance work on structural properties and waste-to-energy plants still not completed as at 30 June 2011 (the 4<sup>th</sup> WTE line in Rimini, *revamping* of the 3<sup>rd</sup> WTE line in Modena). Other significant interventions under execution regard the new "Disidrat" sludge treatment plant in Ravenna, the expansion of the anaerobic digester in Spilamberto di Modena, the construction of the CIC waste recovery system in Modena, the upgrade of the sewage plant at the Ravenna west site, the upgrade of the sludge desiccation system at the Rimini waste-to-energy plant and the upgrade of the waste storage pit at the Ravenna CDR.

The amounts indicated under "Change in consolidation area" derive from the acquisition of joint control in the company Enomondo Srl and its consequent proportional consolidation. In particular, the value entered under "Plants and machinery" refers mainly to the Group's share of the biomass thermoelectric plant owned by the joint venture.

Please see the report on operations, Paragraph 1.03.01, for an analysis of investments in the period.



## 16 Intangible assets

	30-Jun-11	31-Dec-10	Changes
Industrial patent rights and know-how	30,043	30,385	-342
Licenses, trademarks and similar rights	59,106	80,777	-21,671
Public services under concession	1,425,726	1,416,811	8,915
Work in progress and advance payments for public services under concession	173,170	139,614	33,556
Work in progress and advance payments	33,151	33,828	-677
Others	25,051	27,083	-2,032
<b>Total</b>	<b>1,746,247</b>	<b>1,728,498</b>	<b>17,749</b>

The composition and changes in intangible assets are as follows:

	Industrial patent rights	Concessions, licenses, trademarks and similar rights	Public services under concession	Intangible assets in progress and advances on public services under concession	Investments in progress and advances	Others	Total intangible assets
<b>Acquisition cost</b>							
<b>Balance as at 31 12 2010</b>	165,669	238,716	1,849,943	139,614	33,828	71,462	2,499,232
Increases	1,510	99	11,428	49,639	5,383	2,433	70,492
Disinvestments	-	-	0	-	-	(4,570)	(4,570)
Changes in scope of consolidation	-	-	898	-	-	-	898
Other changes	6,062	(31,571)	46,813	(16,083)	(6,060)	646	(193)
<b>Balance as at 30 06 2011</b>	<b>173,241</b>	<b>207,244</b>	<b>1,909,082</b>	<b>173,170</b>	<b>33,151</b>	<b>69,971</b>	<b>2,565,859</b>
<b>Accumulated amortisation</b>							
<b>Balance as at 31 12 2010</b>	135,284	157,939	433,132	-	-	44,379	770,734
Depreciation for the year	7,914	5,911	34,631	-	-	2,361	50,817
Disinvestments	-	-	-	-	-	1,793	1,793
Changes in scope of consolidation	-	-	-	-	-	-	-
Other changes	-	15,712	15,593	-	-	27	146
<b>Balance as at 30 06 2011</b>	<b>143,198</b>	<b>148,138</b>	<b>483,356</b>	<b>-</b>	<b>-</b>	<b>44,920</b>	<b>819,612</b>
<b>Net value</b>							
<b>Balance as at 31 12 2010</b>	30,385	80,777	1,416,811	139,614	33,828	27,083	1,728,498
<b>Balance as at 30 06 2011</b>	<b>30,043</b>	<b>59,106</b>	<b>1,425,726</b>	<b>173,170</b>	<b>33,151</b>	<b>25,051</b>	<b>1,746,247</b>

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

“Industrial patents rights and know-how”, totalling Euro 30,043 thousand, mainly relates to costs incurred for the purchase and implementation of SAP R/3 ECC6 IT systems and related applications. These costs are amortised over five years.

“Licences, trademarks and similar rights”, amounting to Euro 59,106 thousand, mainly includes the value of the concessions held by the Parent Company Hera Spa in relation to the gas, water and purification plants. The decrease in this item is due to the transfer from “Licences, trademarks and similar rights” to “Public services under concession” of assets related to the purification services in the Municipalities of Bologna and Pianora as well as assets related to the gas service in the Municipality of Sasso Marconi, as provided under the related contracts on reaching the expiry dates of said concessions.

“Public services under concession”, equal to Euro 1,425,726 thousand, made up of the assets relating to the gas, water, purification, sewerage, and public lighting businesses throughout the entire territory managed by Hera, and the electricity distribution *business* in the Imola area only. The assets mainly relate to distribution grids and networks and plants. This item also includes costs for improvement to third party assets, receivables due from the asset-owning companies, as well as reclassifications of amounts in the item “Licences, trademarks and similar rights” following the expiry of the concession (the details of the municipalities and services is that provided above). The increase for “change in consolidation area”, amounting to Euro 898 thousand, is due to the transfer of the natural gas distribution service in the municipalities of Fiumalbo, Pievepelago and Riolunato by the CIMAF Consortium.

“Work in progress and advance payments for public services under concession”, amounting to Euro 173,170 thousand refer to the same assets discussed above, which had not yet been completed at 30 June 2011.

“Work in progress and advance payments”, equal to Euro 33,151 thousand, essentially comprise still incomplete IT projects.

“Other”, equal to Euro 25,051 thousand comprising mostly sundry long-term charges, expenses incurred for mapping, the Geographical Information System (GIS), use of networks and infrastructures for the passage and laying of optical fibre telecommunication networks. These also include the costs incurred for applications for AIA (Integrated Environmental Authorization) certification of the WTE plants and landfills. The decreases relate to indefeasible rights of use (IRU) of optical fibre networks.

## 17 Goodwill

	30-Jun-11	31-Dec-10	Changes
Goodwill	320,956	320,791	165
Goodwill from consolidation procedure	56,788	56,788	0
<b>Total</b>	<b>377,744</b>	<b>377,579</b>	<b>165</b>

The main values are as follows:

- residual goodwill from the 2002 integration resulting in the creation of Hera Spa, Euro 81,258 thousand;
- goodwill relating to the integration of Agea SpA in 2004, for Euro 41,659 thousand. Said goodwill represents the additional value of the purchase cost compared to the fair values of the Group's portion of assets and liabilities recorded. In particular, with regard to the fair value of Hera Spa shares issued following the increase in capital for the merger by incorporation of Agea spa, in accordance with IFRS 3 the share value was calculated as at the effective date control was taken of Agea Spa (1 January 2004);
- goodwill 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 fair value of Hera Spa shares issued following the increase in capital from the merger by incorporation of Meta Spa, this value was calculated as at the end of 2005, accepted as the effective date that control was taken of Meta Spa;
- goodwill relating to the merger of Geat Distribuzione Gas Spa into Hera Spa. This goodwill of Euro 11,670 thousand represents the excess purchase cost over and above the fair value of assets and liabilities recognised for the Group as at 1 January 2006 (the date at which effective control was taken by Hera Spa);
- goodwill relating to the merger of Sat Spa. This goodwill, equal to Euro 54,883 thousand, 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 fair value of the Hera Spa shares issued following the increase in capital from the merger by incorporation of Sat Spa, this value was determined referring to 1 January 2008, date at which the transaction was actually concluded.

The increase over the previous year is mainly due to the aforementioned transfer of the gas distribution service by the Cimaf Consortium.

The main “goodwill from consolidation procedure” arises from the following companies consolidated on a line by line basis:

- Marche Multiservizi Spa, Euro 20,790 thousand;
- Hera Comm Marche Srl, Euro 4,565 thousand;
- Medea Spa, Euro 3,069 thousand;
- Asa Spa, Euro 2,789 thousand;
- Hera Luce Srl, Euro 2,328 thousand;
- Gastecnica Galliera Srl, Euro 2,140 thousand;
- Nuova Geovis Spa, Euro 1,775 thousand.

The remaining goodwill and goodwill from consolidation procedure items refer to minor transactions.

## 18 Equity investments

	30-Jun-11	31-Dec-10	Changes
<b>Non-consolidated subsidiaries</b>			
Calor Più Italia Srl	6	6	0
Consorzio Energia Servizi Bologna	0	5	-5
Consorzio Frullo	4	4	0
Hera Servizi Cimiteriali Srl	20	20	0
Ingenia Srl	0	63	-63
Sadori Gas Srl	5,729	0	5,729
Solhar Alfonsine Srl	5	0	5
Solhar Bentivoglio Srl	5	0	5
Solhar Faenza Srl	5	0	5
Solhar Ferrara Srl	5	0	5
Solhar Modena Srl	5	0	5
Solhar Piangipane Srl	5	0	5
Solhar Ravenna Srl	5	0	5
Solhar Rimini Srl	5	0	5
<b>Total</b>	<b>5,799</b>	<b>98</b>	<b>5,701</b>
<b>Associated companies</b>			
Aimag Spa	37,334	35,992	1,342
Dyna Green Srl	0	35	-35
Enomondo Srl	0	5,592	-5,592
Feronia Srl	800	826	-26
Ghirlandina Solare Srl	51	20	31
Modena Network Spa	1,162	1,207	-45
Refri Srl	2,413	2,422	-9
Set Spa	35,940	34,972	968
Sgr Servizi Spa	15,884	15,232	652
Sei Spa	702	702	0
So.Sel Spa	467	475	-8
Tamarete Energia Srl	3,727	3,890	-163
Other minor equity investments	465	487	-22
<b>Total</b>	<b>98,945</b>	<b>101,852</b>	<b>-2,907</b>
<b>Other companies</b>			
Calenia Energia Spa	9,073	9,073	0
Energia Italiana Spa	13,233	13,233	0
Galsi Spa	10,524	10,524	0
Other minor companies	577	564	13
<b>Total</b>	<b>33,407</b>	<b>33,394</b>	<b>13</b>
<b>Total equity investments</b>	<b>138,151</b>	<b>135,344</b>	<b>2,807</b>

### Equity investments in non-consolidated subsidiary companies

The changes relative to 31 December 2010 pertain to:

- Sadori gas Srl; on 27 April 2011 the Group acquired 50% of the share capital of this company, which operates in the natural gas sale business in the provinces of Pesaro-Urbino, Ancona and L'Aquila. The equity investment, measured at cost, was merged by takeover into Hera Comm Marche Srl, with effect on 1 July 2011;
- The Consorzio Energia Servizi Bologna and Ingenia Srl, a company undergoing liquidation, were deleted by the cognisant offices of the register of companies respectively on 24 June 2011 and 29 June 2011;
- the companies Solhar Alfonsine Srl, Solhar Bentivoglio Srl, Solhar Faenza Srl, Solhar Ferrara Srl, Solhar Modena Srl, Solhar Piangipane Srl, Solhar Ravenna Srl and Solhar Rimini Srl, incorporated on 31 January 2011, which carry out integrated design and construction, development, operation and maintenance of plants for the production of renewable energy in Italy and abroad. These companies are measured at cost, because they are not yet operational. In any case, the income statement and balance sheet entries are not significant relative to the Group's consolidated figures.

### Equity investments in associated companies

The main differences compared to 31 December 2010 relate to:

- Enomondo Srl, company valued at equity as at 31 December 2010, which is now consolidated with the proportional method. Please refer to the comment on the transaction illustrated in the "Consolidation area" paragraph of these notes;
- Set Spa, Aimag Spa, and Sgr Servizi Spa – the changes reflect the acknowledgement of the pertaining portion of final profit/loss of the respective companies;
- Dyne Green Srl - on 20 April 2011 the Shareholders' Meeting voted to wind-up the company. The company, valued at equity until 31 December 2010, was deconsolidated and measured at cost.

## 19 Financial assets

	30-Jun-11	31-Dec-10	Changes
Loan receivables from associated and other companies	10,494	10,029	465
Receivables for mortgages to be collected and advanced commissions	112	574	-462
Fixed income securities	309	309	0
<b>Total</b>	<b>10,915</b>	<b>10,912</b>	<b>3</b>

“Loan receivables from associated and other companies”, comprises non-interest bearing loans or loans regulated at market rates, granted to the following companies:

	30-Jun-11	31-Dec-10	Changes
Set Spa	5,964	5,964	0
Sei Spa	3,268	2,828	440
Oikothén Scarl	277	277	0
Modena Network Spa	960	960	0
Dyna Green Srl	25	0	25
<b>Total</b>	<b>10,494</b>	<b>10,029</b>	<b>465</b>

In the 1<sup>st</sup> half of 2011, the following loans were disbursed:

- Sei Spa – two additional disbursements on 12 January 2011 and 26 June 2011, respectively of Euro 140 thousand and Euro 300 thousand;
- Dyna Green, Euro 25 thousand as non-interest bearing loan from shareholders.

## 20 Deferred tax assets

	30-Jun-11	31-Dec-10	Changes
Prepaid taxes	77,685	69,473	8,212
Receivables for substitute tax	4,617	4,888	-271
IAS/IFRS prepaid taxes	7,575	9,929	-2,354
<b>Total</b>	<b>89,877</b>	<b>84,290</b>	<b>5,587</b>

Prepaid taxes are generated from the temporary differences between balance sheet profit and taxable income, mainly on the taxed provision for doubtful receivables, taxed provisions for risks and charges, and statutory amortisation greater than amortisation subject to tax.

“Receivables for substitute tax” relate to the tax paid for the sheltering of the 2002 goodwill, which is an advance payment of current taxes.

As for IAS/IFRS prepaid taxes, their breakdown and comparison with the previous year are shown hereunder.

	30-Jun-11	31-Dec-10	Changes
IAS 39 Derivatives	5,197	7,323	-2,126
IAS 37 Restoration of third party assets and landfill post-closure	1,257	1,373	-116
IAS 19 Employee leaving indemnity and other employee benefits	949	972	-23
IAS 16 Fixed Assets	107	138	-31
IAS 38 Intangible Assets	38	100	-62
IAS 17 Financial Leases	18	13	5
IAS 32 Spin-off costs	9	10	-1
<b>Total</b>	<b>7,575</b>	<b>9,929</b>	<b>-2,354</b>

For better understanding, the following table shows the reclassification to “deferred tax assets” as at 31 December 2010, to highlight the “Receivable for substitute tax”.

	31 Dec. 2010 published	Amount reclassified	31 Dec. 2010 restated
Deferred tax assets	74,361	-4,888	69,473
Receivables for substitute tax	0	4,888	4,888
<b>Total</b>	<b>74,361</b>	<b>0</b>	<b>74,361</b>



## 21 Financial instruments – derivatives

Non-current Assets / Liabilities € / 000	Fair value hierarchy	Hedged underlying	30-giu-11			31-dic-10		
			Notional amount	Fair Value of Assets	Fair Value of Liabilities	Notional amount	Fair Value of Assets	Fair Value of Liabilities
Derivatives on exchange rates								
- Interest rate Swap	2	Loans	2.6 mln	1		14.2 mln	169	
- Interest rate Swap	2	Loans	881.3 mln		25,128	913.2 mln		42,817
- Interest rate Option	2	Loans	10.3 mln		557	18.8 mln		1,265
Derivatives on exchange rates (financial transactions)								
- Cross Currency Swap	2	Loans	20 bil JPY	26,628		20 bil JPY	39,902	
<b>Total</b>				<b>26,629</b>	<b>25,685</b>		<b>40,071</b>	<b>44,082</b>

Non-current Assets / Liabilities € / 000	Fair value hierarchy	Hedged underlying	30-Jun-11			31-Dec-10		
			Not. amount	Fair Value of Assets	Fair Value of Liabilities	Not. amount	Fair Value of Assets	Fair Value of Liabilities
Derivatives on exchange rates								
- Interest rate Swap	2	Loans	11.6 mln	60		11.5 mln	27	
- Interest rate Swap	2	Loans	12.8 mln		74	13.8 mln		71
- Interest rate Option	2	Loans	6.4 mln		262			
Derivatives on commodities								
- Swap	2	Crude oil	1,101,400 Bbl	5,267		516,650 Bbl	1,607	
- Swap	2	Commodities	71,700 Ton	3,503		59,900 Ton	2,959	
- Swap	2	Electricity Formula	3,955,182 MWh	11,978		3,037,342 MWh	7,916	
- Swap	2	Fuel Formula	66,000 MWh	358		22,080 MWh	118	
- Swap	2	Crude oil	162,300 Bbl		367	512,300 Bbl		389
- Swap	2	Commodity	34,900 Ton		831	13,200 Ton		765
- Swap	2	Electricity Formula	3,572,308 MWh		10,851	3,349,812 MWh		10,747
- Swap	2	Fuels Formula	43,920 MWh		70			
Derivatives on exchange rates (commercial transactions)								
- Swap	2	Exchange Rate	33.5 mln USD	442		6.0 mln USD	170	
- Swap	2	Exchange Rate	77 mln USD		3,336	50.5 mln USD		1,617
<b>Total</b>				<b>21,608</b>	<b>15,791</b>		<b>12,797</b>	<b>13,589</b>

Derivative financial instruments classified under non-current assets amount to Euro 26,629 thousand, (Euro 40,071 thousand as at 31 December 2010); Euro 1 thousand refer to interest rate derivatives and Euro 26,628 thousand refer to foreign exchange derivatives relating to loans. Derivative financial instruments classified under non-current liabilities amount to Euro 25,685 thousand, (Euro 44,082 thousand as at 31 December 2010), and all refer to interest rate derivatives.

With regard to interest rate derivatives as at 30 June 2011, the Group net exposure is negative by Euro 25,684 thousand, compared with a negative exposure of Euro 43,913 thousand as at 31 December 2010. The significantly positive change in fair value relative the previous year is due to the combination of several factors:

- realisation of cash flows, at the contractual maturity dates, associated to derivatives with negative fair value at 31 December 2010;
- reduction of the reference notional of the derivatives subscribed to hedge loans with an extant repayment plan;
- rise in the rate curve, with reference to the hedges of financial liabilities at floating rate, especially at medium term maturity dates.

Conversely, 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 30 June 2011 is positive by Euro 26,628 thousand, compared with a positive value, equal to Euro 39,902 thousand, as at 31 December 2010. The marked change in fair value is mainly due to the strengthening of the Euro compared to the Japanese Yen and, to a significantly lesser extent, to trends in the rate curve.

The financial instruments recorded under current assets and liabilities represent the derivative contracts expected to be realised within the following year. Derivative financial instruments classified under current assets amount to Euro 21,608 (Euro 12,797 thousand as at 31 December 2010); of these, Euro 60 thousand refer to derivatives on exchange rates, Euro 21,106 thousand to derivatives on commodities and Euro 442 thousand to derivatives on exchange rates relating to commercial transactions. Derivative financial instruments classified under current liabilities amount to Euro 15,791 (Euro 13,589 thousand as at 31 December 2010); of these, Euro 336 thousand refer to derivatives on exchange rates, Euro 12,119 thousand to derivatives on commodities and Euro 3,336 thousand to derivatives on exchange rates relating to commercial transactions.

At 30 June 2011, the net fair value of derivatives on commodities and of derivatives on exchange rates, for commercial operations, is positive and amounts to Euro 6,093 thousand, compared to a negative fair value of Euro 748 thousand as at 31 December 2010. The increase in the fair value during the period is due, in substantially equivalent parts, to increases in the prices of crude oil and electricity, on positions already existing at the end of the previous year, which are still open at 30 June 2011.

The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices; if there are no market prices, the net present value of future cash flows is used, using parameters observable on the market as references. The fair value of the commodity derivatives is calculated using input directly observable on the market. All derivative contracts entered by the Group are with leading institutional counterparties.

Interest rate and foreign exchange derivative instruments held as at 30 June 2011, subscribed in order to hedge loans, can be classed into the following two categories (figures in thousands of Euro):

Hedging derivatives on interest / exchange rates financial transactions)	Underlying assets	30-Jun-11					31-Dec-10		
		Notional amount	Fair Value of Assets	Fair Value of Liabilities	Income	Expenses	Notional amount	Fair Value of Assets	Fair Value of Liabilities
- Cash Flow Hedge	Loans	387.8 mln	0	15,348	40	5,946	410.7 mln	0	23,086
- Fair Value Hedge	Loans	649.8 mln	26,628	10,299	13,363	24,265	649.8 mln	39,902	20,308
- Non Hedge Accounting	Loans	37.2 mln	61	374	495	470	60.8 mln	196	759
<b>Total</b>			<b>26,689</b>	<b>26,021</b>	<b>13,898</b>	<b>30,681</b>		<b>40,098</b>	<b>44,153</b>

**Interest rate derivatives identified as cash flow hedges** show a residual notional amount of Euro 387.8 million (Euro 410.7 million as at 31 December 2010), against floating rate mortgage loans of the same amount.

Income and charges in hedge accounting associated with interest rate derivatives predominantly refer to cash flow effects, or to the recording of shares of future flows, which shall have a financial impact in the following period. As at 30 June 2011 the breakdown of net charges relating to derivatives classified as cash flow hedges, amounting to Euro 5,906 thousand, is as follows:

Cash Flow Hedge €/000	30-Jun-11 Income / (Charges))	30-Jun-10 Income / (Charges)
- Realised Cash Flow	-6,121	-10,879
- Accrued Interest	238	-51
- Ineffective portion	-23	-194
<b>Total</b>	<b>-5,906</b>	<b>-11,124</b>

The marked reduction in financial charges relative to the same period of the previous year (see Note 13 “Financial income and charges”) is mainly due to the trend (in the context of hedges entered into) in interest rates. In 2011, the growing trend of the Euribor reference rates continued, generating a positive effect within the context of the fixed rate hedges entered into. An additional factor that contributed, albeit marginally, to the decrease in net cash flows paid is represented by the progressive reduction in the notional amount of some derivatives associated to loans being repaid.

The degree of ineffectiveness of this class of interest rate derivative led to the recording of net charges totalling Euro 23 thousand in the income statement. All the hedging relationships between the aforementioned derivatives contracts and the related underlying liabilities are qualified as “Cash Flow Hedges” and involved the recording in the Group shareholders’ equity of a specific negative reserve, amounting to Euro 7,726 thousand, net of the related tax effect.

**Interest rate and foreign exchange derivatives identified as fair value hedges**, show a residual notional amount of Euro 649.8 million (unchanged relative to 31 December 2010), against loans of the same amount. In the case of loans denominated in foreign currency, the notional amount of the derivative expressed in Euro is the translation to the original exchange rate hedged. Specifically, the financial liabilities hedged comprise a bond loan in Japanese yen with a residual notional amount of JPY 20 billion and a ten-year fixed rate bond of Euro 500 million. These derivatives led to the recognition of financial income for Euro 13,363 thousand and financial charges for Euro 24,265 thousand Euro; simultaneously, a fair value assessment of the underlying loans was performed, recording financial income for Euro 14,026 thousand.

As at 30 June 2011 the breakdown of income and charges relating to derivatives classified as fair value hedges and the related underlying liabilities measured at fair value was as follows:

Fair Value Hedge €/000	30-Jun-11			30-Jun-10		
	Income	Charges	Total	Income	Charges	Total
- Valuation of derivatives	0	-14,026	-14,026	37,605	-1,310	36,295
- Accrued Interest	10,762	0	10,762	6,337	0	6,337
- Realised Cash Flow	2,601	-10,239	-7,638	2,352	-2,327	25
- Ineffective portion	0	0	0	0	0	0
<b>Total effect of deriv. on income statement</b>	<b>13,363</b>	<b>-24,265</b>	<b>-10,902</b>	<b>46,294</b>	<b>-3,637</b>	<b>42,657</b>

Underlyings €/000	30-Jun-11			30-Jun-10		
	Income	Charges	Total	Income	Charges	Total
<b>Valuation of underlyings</b>	<b>14,026</b>		<b>14,026</b>	<b>6,191</b>	<b>-43,942</b>	<b>-37,751</b>
<b>Total</b>	<b>14,026</b>	<b>0</b>	<b>14,026</b>	<b>6,191</b>	<b>-43,942</b>	<b>-37,751</b>

The reduction in net financial income associated with this type of hedge, relative to the same period of the previous year, reflects the changes in fair value of the financial instruments discussed above, specifically with reference to the rise in the rates curve and to the change in the fair value of derivatives on exchange rates, in addition to the recorded negative cash flows.

The remaining **interest rate derivatives not in the hedge accounting** have a notional residual value of Euro 37.3 million (Euro 60.8 million as at 31 December 2010); some of these contracts are the result of *mirroring* transactions carried out in previous years as part of a restructuring of the derivatives portfolio. The remaining contracts which, under the criteria prescribed by the international accounting standards, cannot be accounted for under hedge accounting, were however put in place for hedging purposes only.

As for incorporated derivatives, reference is made to note 30.

Commodity derivative instruments held as at 30 June 2011 can be classed into the following categories (figures in thousands of Euro):

Commodity / foreign exchange derivatives (commercial transactions)	Underlying	30-Jun-11				31-Dec-10		30-Jun-10			
		Fair Value of Assets	Fair Value of Liabilities	Income	Charges	Fair Value of Assets	Fair Value of Liabilities	Fair Value of Asset	Fair Value of Liabilities	Income	Charges
- Cash Flow Hedge	Electricity formulas	0	0	0	0	0	0	2,649	0	1,518	879
- Non Hedge Accounting	Transactions on Commodities	21,548	15,455	26,432	12,575	12,770	13,518	36,235	26,653	56,818	44,682
<b>Total</b>		<b>21,548</b>	<b>15,455</b>	<b>26,432</b>	<b>12,575</b>	<b>12,770</b>	<b>13,518</b>	<b>38,884</b>	<b>26,653</b>	<b>58,336</b>	<b>45,561</b>

Commodity derivatives recorded under hedge accounting were all closed as at 31 December 2010 and now new ones were entered into in the first half of 2011.

The commodity derivatives not recorded under hedge accounting also include contracts put in place substantially for hedging purposes, but which, on the basis of the strict requirements set forth by international accounting standards, cannot be formally classified under hedge accounting. In any event, these contracts generate income and charges referring to higher/lower purchase prices of raw materials and, as such, are recognised as operating costs.

On the whole, in the first half of 2011, the commodity derivatives generated Euro 26,432 thousand in income and Euro 12,575 thousand in charges, for a net gain to the income statement of Euro 13,857 thousand, compared to a net gain of Euro 12,775 thousand as at 31 December 2010. The change in the net effect on the income statement is a direct result of the change in their fair values, the reasons for which are illustrated above.

#### Interest rate risk and currency risk on financing transactions

The Group's financial requirements are met also by turning to outside resources in the form of debt. The cost of the various forms of borrowing can be affected by market interest rate fluctuations, with a consequent impact on the amount of the net financial charges. Equally, interest rate fluctuations also influence the market value of financial liabilities. In the case of loans denominated in foreign currency, the cost may also be affected by exchange rate fluctuations with an additional effect on net financial charges. To mitigate interest rate volatility risk and, at the same time, guarantee the correct balance between fixed rate indebtedness and variable rate indebtedness, the Group has stipulated derivatives on interest rates (Cash Flow Hedges and Fair Value Hedges) against part of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives (Fair Value Hedges) to fully hedge loans in foreign currency.

***Market risk and currency risk on commercial transactions***

In relation to the wholesale activities carried out by the subsidiary Hera Trading Srl, the Group must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas linked to the sale of said commodities, including therein fixed price contracts stipulated, as well as any exchange rate risk in the event that the *commodity* purchase/sale agreements are concluded in currencies other than the Euro (mainly the US dollar).

With reference to those risks, the Group objective is to lessen the risk of fluctuation in the forecast budget margins. The instruments used for handling price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, are carried out through swap agreements, aimed at pre-establishing the effects on the sales margins irrespective of the changes in the aforementioned market conditions.

Though these transactions are substantially put in place for hedging purposes, in order to realise all possible synergies and decrease operating costs, they are concretely implemented by de-structuring the indices included in the underlying contracts and re-aggregating 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 assets is lost, thereby making these transactions non-compliant with the requirements of IAS 39 for hedge accounting.

## 22 Inventories

	30-Jun-11	31-Dec-10	Changes
Raw materials and inventories	65,486	47,918	17,568
Semi-finished products	201	46	155
Finished products	678	744	-66
Advance payments	6,241	5,172	1,069
<b>Total</b>	<b>72,606</b>	<b>53,880</b>	<b>18,726</b>

Inventories, stated net of an obsolescence provision amounting to Euro 628 thousand, (euro 564 thousand as at 31 December 2010), mainly comprise gas stocks, spare parts and equipment used to maintain and operate the plants. The change, compared with 31 December 2010, is attributable to higher stocks of gas destined to the domestic market with the beginning of the heating season. "Advance payments", amounting to Euro 6,241 thousand, relates to advance payments on gas supply.

## 23 Trade receivables

	30-Jun-11	31-Dec-10	Changes
Trade receivables	717,022	611,348	105,674
Trade receivables for invoices to be issued	374,498	504,074	-129,576
Receivables from associated companies	22,654	19,074	3,580
<b>Total</b>	<b>1,114,174</b>	<b>1,134,496</b>	<b>-20,322</b>

Trade receivables as at 30 June 2011 amounted to Euro 1,114,174 thousand (Euro 1,134,496 thousand as at 31 December 2010) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 30 June 2011. The balances are stated net of the provisions for doubtful receivables amounting to Euro 91,146 thousand (Euro 77,294 thousand as at 31 December 2010) which is considered to be fair and prudent in relation to the estimated realisable value of said receivables.

The changes occurring in the provision during the year are provided below:

	31-Dec-10	Change in scope of consolidation	Allocations	Uses and other movements	30-Jun-11
Provisions for doubtful receivables	77,294	-	19,697	-5,845	91,146

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

The table below shows the reclassification from “Trade receivables for invoices to be issued” of 31 December 2010, relative to the published reports, to “Receivables from associated companies” for better comparison of the figure:

	31 Dec. 2010 published	Amount reclassified	31 Dec. 2010 restated
Trade receivables for invoices to be issued	504,365	-291	504,074
Receivables from associated companies	18,783	291	19,074
<b>Total</b>	<b>523,148</b>	<b>0</b>	<b>523,148</b>



**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 30 June 2011. Even if not standardised, there is a procedure for providing credit to customers that provides for individual evaluations to be made. These operations make it possible to reduce the concentration and exposure to credit risk posed by both business and private customers. Analyses are periodically made of the credit standings still open so as to single out any critical issues. Should individual positions turn out to be entirely or partially uncollectible, an adequate write-down is provided. With regard to the receivables that do not undergo individual write-downs, allocations are made to the provision for doubtful receivables, on the basis of historic analysis (in relation to the aging of the receivables, the type of recovery action undertaken and the *status* of the creditor).

**24 Contract work in progress**

	30-Jun-11	31-Dec-10	Changes
Contract work in progress	18,365	17,228	1,137
<b>Total</b>	<b>18,365</b>	<b>17,228</b>	<b>1,137</b>

Contract work in progress as at 30 June 2011 relates to long-term orders for plant works.

## 25 Financial assets

	30-Jun-11	31-Dec-10	Changes
Receivables for mortgages to be collected	741	1,098	-357
Financial receivables from associated companies	27,104	29,313	-2,209
Portfolio securities and financial policies	7,221	7,221	0
Receivables for loans given to others	6,475	8,452	-1,977
<b>Total</b>	<b>41,541</b>	<b>46,084</b>	<b>-4,543</b>

The composition and main changes with respect to 31 December 2010 are commented on below.

Item “Financial receivables from associated companies” comprises interest-bearing loans granted by the Parent Company to the following companies:

	30-Jun-11	31-Dec-10	Changes
Tamarete Energia Srl	25,074	23,736	1,338
Enomondo Srl	0	4,100	-4,100
Modena Network Spa	900	900	0
Ghirlandina Solare Srl	797	396	401
Other minor receivables	333	181	152
<b>Total</b>	<b>27,104</b>	<b>29,313</b>	<b>-2,361</b>

The following should be noted:

- the additional loans granted in the 1st half of 2011 to the companies Tamarete Energia Srl, Ghirlandina Solare Srl and Set Spa are included under “Other minor receivables”;
- the decrease in the loan granted to Enomondo Srl, due to the consolidation of the investee company with the proportional method (the remaining 50% of the loan is included under “Receivables for loans given to others”).

Item “Portfolio securities and financial policies” mainly includes bonds issued by Banca di Credito Cooperativo, amounting to Euro 4,150 thousand, and investment policies with banks, amounting to Euro 3,069 thousand.

“Receivables for loans given to others”. In particular, the following is noted:

- the closure of a credit position vis-à-vis customers for Euro 7,931 thousand;
- the loan granted to the third party shareholder Unieco, Euro 3,000 thousand;
- the reclassification from “Financial receivables from associated companies” of the loan granted to Enomondo Srl, Euro 2,050 thousand;
- an increase in “Other minor receivables” of Euro 903 thousand.

## 26 Other current assets

	30-Jun-11	31-Dec-10	Changes
Energy efficiency bonds and emissions trading	91,534	67,744	23,790
Security deposits	27,077	23,924	3,153
Deferred costs for employees	9,594	0	9,594
Equalisation Fund for the Electricity Sector	8,188	21,693	-13,505
Advances for direct taxes	6,665	3,813	2,852
Sundry tax receivables	6,511	7,316	-805
Contributions	5,609	5,694	-85
Advance to suppliers/employees	4,423	3,707	716
Receivables due from asset companies	4,211	4,880	-669
VAT, excise and surtaxes	3,477	2,300	1,177
Costs advanced for leasing and rentals	3,347	3,905	-558
Receivables for dividends	1,452	0	1,452
Receivables from municipalities for tax moratorium	1,449	2,029	-580
Insurance costs	1,417	5,494	-4,077
Receivables from social security institutions	290	677	-387
Other receivables	43,968	28,431	15,537
<b>Total</b>	<b>219,212</b>	<b>181,607</b>	<b>37,605</b>

The breakdown and changes in the main items are described compared with 31 December 2010.

“Energy efficiency bonds and emissions trading”, include:

- green certificates, Euro 52,059 thousand (Euro 39,058 thousand as at 31 December 2010);
- white certificates, Euro 22,290 thousand (Euro 15,478 thousand as at 31 December 2010);
- grey certificates, Euro 17,185 thousand (Euro 13,208 thousand as at 31 December 2010).

As regards green certificates, the Group accounted for the green certificates regarding the WTE of Ferrara, for a total amount accrued for the years 2008, 2009 and 2010 and 2011 equal to Euro 21,331 thousand, based on the provisions of Art. 1, paragraphs 1117 and 1118 of Law no. 296/2006 (2007 Finance act). On 10 March 2011, GSE (Energy Services Operator) gave official communication that the conditions were satisfied for obtaining 100% of said certificates.

In this table, the Administration recognises the incentives in favour of electricity power plants from renewable sources and sources assimilated to renewable sources, without making any distinction between organic and inorganic portion of waste, safeguarding the established right of plants, such as the one located in Ferrara, which, on the date of entry into effect of the finance act (1 January 2007), was compliant with all its terms, and in particular: a) signature of the special agreement with GSE b) almost completed plant and c) necessary authorisations.

“Security deposits”, comprising:

- the deposit made to Acosea Impianti Srl for Euro 12,000 thousand, paying interest at market rates;
- other minor deposits in favour of public institutions and companies, Euro 3,716 thousand (Euro 3,881 thousand as at 31 December 2010);
- deposits in favour of the Property Valuation Office, Euro 2,101 thousand (Euro 2,099 thousand as at 31 December 2010) to guarantee the payment of revenue tax collected from customers;
- deposit in favour of the GME, Euro 8,649 thousand, to guarantee the purchase of green certificates on the exchange (Euro 363 thousand as at 31 December 2010)
- deposit in favour of CASC Capacity Allocation Service Company EU SA, Euro 611 thousand, to guarantee the purchase of transport capacity on the Luxembourg electrical energy grid (payment made in the 1<sup>st</sup> half of 2011).

During the 1<sup>st</sup> half of 2011, the security deposit of Euro 5,944 thousand, allocated in December 2010 in favour of the GSE, was collected.

“Deferred costs for employees”, amounting to Euro 9,594 thousand, relate to the fourteenth pay period salary accrued as at 30 June 2011.

“Equalisation Fund for the Electricity sector”, amounting to Euro 8,188 thousand (Euro 21,693 thousand as at 31 December 2010). The decrease from the previous year pertains to the amount collected during the 1<sup>st</sup> half of 2011, in relation to the gas equalisation and to the Ug2 system component as well as to a timing offset in the timelines for invoicing to customers with respect to amounts charged by third party distributors. In this regard, please see Note 35 “Tax payables” under “Other tax payables”.

“Advances for direct taxes”, relating to the advances paid for IRES and IRAP in 2010 with respect to the debt accrued.

“Sundry tax receivables” mainly comprise tax credits on district heating. The decrease compared to the 31 December 2010 is mainly due to the offsetting of the 2010 tax credit. An authentic interpretation of art. 1, paragraph 53 of Law no. 244 of 24 December 2007, provided by Decree Law no. 5 of 10 February 2009, specifies that the annual limit of Euro 250,000 “does not apply to tax credits by way of reimbursement of advance contributions in the form of a discount on the sales price of a good or service”.

“Contributions”, comprising mainly receivables for grants disbursed by various Agencies, but yet to be collected.

"VAT, excise and additional taxes" consist of VAT credits, for Euro 1,503 thousand, and of excise and regional surtaxes of Euro 1,974 thousand. The change, compared with 31 December 2010, is due to an increase of Euro 1,907 thousand in receivables for excise and additional regional taxes (Euro 67 thousand as at 31 December 2010) and a decrease of Euro 730 thousand in receivables for value added tax (Euro 2,233 thousand as at 31 December 2010). These changes are to be related to changes shown in liabilities, in the item "Tax liabilities" - Note 35. To understand these changes, particularly with regards to excise duties and additional components, 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 can even be significant between one period and another. In particular, the increased volumes of gas and electricity invoiced in 2011 over 2010 brought about a considerable increase in the debt position.

"Receivables for dividends" refer to the receivable for 2010 dividends, not yet collected from the associated companies Service Imola Srl and Aimag Spa, respectively for Euro 100 and Euro 1,352 thousand.

With regard to "Receivables from municipalities for tax moratorium", reference is made to Note 14.

"Insurance costs", the coverage of insurance policies and warranty bonds refers to the period from 30 June 2010 to 30 June 2011 with payments in September of each year and consequent deferred charge at 31 December.

## 27 Cash and cash equivalents

As at 30 June 2011, cash and cash equivalents totalled Euro 356,264 thousand (Euro 538,226 thousand as at 31 December 2010) and include cash, cash equivalents, and bank cheques and drafts held in centralised and decentralised accounts for a total of Euro 150 thousand. They also include bank and financial institution deposits available for current transactions and post office accounts totalling Euro 356,114 thousand. To get a better grasp of the financial trends in 2010, please refer to the cash flow statement and the comments shown in Paragraph 1.06 of the report on operations.

## 28 Share capital and reserves

The statement of changes in shareholders' equity is shown in section 2.01.05 of these abbreviated half-year consolidated financial statements.

### Share capital

The share capital at 30 June 2011 was 1,115,013,754 Euro units, fully paid-up, and represented by 1,115,013,754 ordinary shares with a nominal value of Euro 1 each.

### Reserves for treasury shares

The "Reserve for treasury shares" has a negative value of Euro 5,938 thousand; it reflects the number of treasury shares in the portfolio as at 30 June 2011 and is considered a reduction of share capital. Items "Reserve for gains/losses on sale of treasury shares" and "Reserve for treasury shares exceeding par value" are recorded among the shareholders' equity reserves. for Euro 320 thousand and for a negative value of Euro 3,515 thousand, respectively. These reserves, established in compliance with the accounting standards of reference, reflect the treasury shares transactions carried out as at 30 June 2011. The change during the year generated gains amounting to Euro 367 thousand.

### Reserves

The item "Reserves", equal to Euro 537,339 thousand, includes the following reserves:

- "legal" for Euro 31,751 thousand,
- "extraordinary" for Euro 31,096 thousand,
- "revaluation" for Euro 4,356 thousand,
- "share premium reserve" for Euro 15,269 thousand,
- "capital account payments" for Euro 5,400 thousand,
- "retained earnings" for Euro 35,581 thousand,
- "share swap surplus" for Euro 42,408 thousand,
- "IFRS 3 reserve" for Euro 227,008 thousand, deriving from the integrations of Agea Spa, Meta Spa, Geat Distribuzione Gas Spa, Sat Spa, Agea Reti Srl, Con.Ami Spa and Area Assets Spa;
- "IAS/IFRS reserve" for EUR 143,473 thousand, generated after adoption of international accounting standards;
- "reserve for dividends received on treasury shares" for Euro 997 thousand.

### Cash Flow-Hedge Reserve

As at 30 June 2011, this reserve had a negative balance of Euro 7,726 thousand following changes determined by fair value valuation of reference derivatives.



## 29 Payables to banks and medium/long- and short-term loans

At 30 June 2011, medium/long-term financing stood at Euro 2,299,451 thousand (Euro 2,313,722 thousand as at 31 December 2010), mainly represented by mortgage loans and financing for Euro 500,994 thousand and bond loans for Euro 1,798,457 thousand.

Medium/long-term amounts due to banks also include loans subscribed by the subsidiary Fea Srl for a total of Euro 53,900 thousand. These loans are guaranteed by mortgages and special privileges for the banking pool underwriting the loan. Repayment, with final maturity on 30 June 2019, shall be in 6-monthly instalments, as established in the contract.

The table below shows the bonds and loans as at 30 June 2011, stated at their residual nominal value (millions of €), with an indication of the portion expiring within and after 5 years:

Type	Residual amount at 30/06/2011	Portion due within the yr	Portion due within 5 yrs	Portion due after 5 yr
Bond	1,250	0	500	750
Convertible bond	140	0	140	0
Puttable Bond/Loan	540	0	0	540
Amortizing	166	41	88	37
Amortising backed by collateral security	60	6	28	26
Bullet	180	0	180	0
<b>Total</b>	<b>2,336</b>	<b>47</b>	<b>937</b>	<b>1,352</b>

The main terms and conditions of the puttable bonds and loans are shown below:

Puttable bonds and loans		Duration (yrs)	Maturity	Nominal value	Coupon
<i>Convertible bond</i>	Luxembourg Stock Exchange	3	01/10/13	140	Fixed, annual
<i>Eurobond</i>	Luxembourg Stock Exchange	10	15/02/16	500	Fixed, annual
<i>Eurobond</i>	Luxembourg Stock Exchange	10	03/12/19	500	Fixed, annual
<i>Bond (ex put bond)</i>		13	17/11/20	100	Fixed, half-yearly
<i>Put Loan</i>	Put exercisable every 2 yrs from 2010	13	22/11/20	70	For the first 3 years, 3 month Euribor minus 45 cents. For the following 10 yrs, a fixed 4.41% rate plus the 2 year credit spread.
<i>Put Loan</i>	Put exercisable every 2 yrs from 2010	13	06/12/20	70	For the first 3 years, 3 month Euribor minus 46 cents. For the following 10 yrs, a fixed 4.44% rate plus the 2 year credit spread.
<i>Bond</i>	Cross Currency Swap 150 €mIn	15	05/08/24	20000 JPY	Fixed, half-yearly
<i>Put Bond (partly paid)</i>	Put exercisable every 5 years from 2011	23	10/10/31	200	For the first 3 years, a fixed rate of 4.20%. For the following 20 years, a fixed rate of 4.65% plus the 5 year credit spread.
<i>Put Bond</i>	Put exercisable every 2 years from 2012	27	08/08/34	200	Until 2012, 3 month Euribor minus 45 cents. From 2012 to 2016, a fixed rate of 3.15% plus the 2 year credit spread. From 2016 to maturity, a fixed rate of 4.85% plus the 2 year credit spread.

The loans in place as at said date do not provide for financial debt covenants, apart from the corporate rating limit by only one Rating Agency that is lower than “Investment Grade” level (BBB-).

As at 30 June 2011, short term loans totalled Euro 97,764 thousand (Euro 147,837 thousand as at 31 December 2010) and include payables to banks and other lenders.

### Liquidity risk

Liquidity risk consists of the impossibility to cope with the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs. Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done with the centralised management of incoming and outgoing flows (centralised treasury service); in the perspective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.

Current cash, cash equivalents, and credit facilities, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. In particular, as at 30 June 2011, there are unused credit lines totalling more than Euro 964 million.

### 30 Employee leaving indemnity and other employee benefits

This includes provision 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 methods and updating future liabilities at the date of the balance sheet. 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 employees hired on the basis of a Federgasacqua employment contract prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employees hired on the basis of a Federgasacqua contract prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly to settle payments made to eligible retirees. In both cases, recalculations have been made using the same actuarial methods implemented for the employee leaving indemnities. The item "tariff reduction provision" was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

The table below shows the changes in the above provisions during the year.

	31-Dec-10	Provisions		Uses and other	Changes in the scope	30-Jun-11
		Provisions	financial charges	movements	of consolidation	
Employee leaving indemnity prov.	87,657	259	738	-2,551		86,103
Tariff reduction provision	3,340	234	43	-199		3,418
Premugas provision	2,384	192	29	-219		2,386
Gas discount	2,262	49	22	-146		2,187
<b>Total</b>	<b>95,643</b>	<b>734</b>	<b>832</b>	<b>-3,115</b>	<b>0</b>	<b>94,094</b>

The item "Uses and other movements" mainly includes the amounts paid to employees.

## 31 Provisions for risks and charges

	31-Dec-10	Provisions		Uses and other movements	Changes in the scope of consolidation	30-Jun-11
		Provisions	Financial charges			
Provision for restoration of third party assets	81,332	3,683	3,479	-225	-	88,269
Landfill closure and post-closure costs provision	95,028	1,974	2,824	-4,214	-	95,612
Provision for staff disputes and legal costs	20,711	3,215	-	-2,384	-	21,542
Other provisions for risks and charges	13,897	4,059	-	-3,704	-	14,252
<b>Total</b>	<b>210,968</b>	<b>12,931</b>	<b>6,303-</b>	<b>10,527</b>	<b>-</b>	<b>219,675</b>

The **provision for the restoration of third party assets**, equal to Euro 88.269 thousand, includes the provisions made in relation to the legal and contractual restrictions encumbering the Hera Spa and Group companies in their capacity as leaseholders of the distribution networks owned by the asset companies. The allocations are made on the basis of amortisation rates provided for the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. In observance of the matters laid down by IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (as a rule on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The **landfill closure and post-closure costs provision**, equal to Euro 95,612 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 4,214 thousand, as follows:

- “uses” for Euro 4,950 thousand, of which Euro 2,372 thousand booked as a contra entry to “other revenues” (please refer to Note 5 of the income statement),
- “other movements”, relating to a Euro 736 thousand increase in the provision due to the change in the closure and post-closure costs estimated during the updating of the appraisals of certain landfills;

The **provision for staff disputes and legal costs** amounting to Euro 21,542 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees.

The provision also includes Euro 9,788 thousand relating to ongoing litigation with INPS over the payment of contributions on social security benefits (CIG, CIGS, mobility) and on the reduction of contribution rates for family allowances (CUAF) and for the maternity contribution with regard to employees governed by the electricity sector collective labour agreement in the Modena area.

In relation to the contributions on CIG, CIGS and mobility, the Hera Group deems that said contribution is not due, not only based on legal rules but also on the fundamental consideration that these social shock absorbers are effectively unusable since the Group runs essential services, which must be constantly insured.

By contrast, INPS believes that the transformation into a joint-stock company and the transfer to private parties of even just a portion of the share capital, support the belief that the contributory obligation is enforceable.

With its message no. 18089 of 10 July 2007, INPS ordered that, according to the principles stated in circular no. 63/2005, the contribution obligation for CIG, CIGS and mobility was to go into effect on the very date the circular was issued, i.e. May 2005. This is in compliance with the Council of State opinion expressed (opinion no. 65 of 8 February 2006 referring to Enel Spa) regarding the non-retroactivity of the contribution obligations referred to in the circular. Actually, despite the fact that the literal tone of the message seems to undoubtedly regard the industrial companies of the public institutions (former municipal enterprises) as well, INPS - in latching on to circular 63/2005 - maintained that the message takes on its area of application, thereby referring only to Enel Spa, and asserts this in court. On 5 February 2008, the Ministry of Labour intervened with a message addressed to the INPS General Management. It stated that the conclusions the Council of State reached regarding the non-retroactivity prior to May 2005 of the contribution obligation for CIG, CIGS and Mobility by necessity are general and unequivocal in order to protect the unavoidable principle of "par condicio" amongst market operators. Therefore, they also apply to the industrial companies of the public institutions (which the Hera Group also is part of).

The Group's claim that it was not obliged to pay CIG and CIGS contributions was accepted in 2004 by order of the Court of Genoa, but was later overturned by the Court of Appeal in November 2005. In December 2006 the Ravenna Labour Court upheld two petitions for Hera Ravenna Srl and Hera Spa and declared the contributions for involuntary unemployment, CIG, CIGS and mobility to be not due, unlike what INPS claimed. This ruling was also overturned on appeal, but at the current state of play, the grounds are still not known. Hera will appeal the ruling before the Supreme Court.

Following a declaratory action brought in 2000 by Amir Spa, Hera Spa submitted an appeal to the Supreme Court, which was concluded with ruling 14847/09 rejecting the appeal for CIG contributions, and referring the case to the court of appeal for Mobility contribution. The Supreme Court may therefore review the position, with effects also on first instance proceedings. At the very least, it should confirm the waiver of contributions to the redundancy fund (CIG) prior to May 2005, according to the specific opinion of the Council of State.

In addition, it should also be noted that INPS shall not file any new claims regarding CIG, CIGS, or Mobility following the new classification in the Service sector, from 2010, of nearly all the Group companies (the contribution in question shall only apply to the Industrial sector).

Regarding the contribution for family allowances (Cuaf) and the maternity contribution, this type of litigation only concerns INPDAP personnel regulated by the electricity sector collective labour agreement, and is based on the interpretation of Article 41 of Law no. 488/1999 (2000 Finance Act). In particular, this contribution relates to the area of Modena only, as it results from the former Meta Spa. Following consultation at the time with the Modena INPS Positions Management Office, the former Meta Spa applied reduced rates starting in 2001, at the same time it requested reimbursement of the greater contributions it had paid in, but which were not due, regarding financial year 2000 (this reimbursement was actually made between 2001 and 2002).

As of November 2003, however, INPS served notices requesting payment of the contributions at the full rate, completely amending the interpretative position previously adopted, deeming that the reduction of the CUAF and maternity rates owed by the electricity sector was not applicable to workers enrolled with INPDAP. Meanwhile, this reduction was applied without objection in the case of Enel Spa Group companies. With regard to contributions for family allowances (CUAF) and maternity, the differential that service companies have had to pay for personnel registered with INPDAP until 31 December 2008 was equal to a total of 4.29% more than what has to be paid for INPS personnel. As of 1 January 2009, the maternity rates have become equal; however, a 3.72% difference in the CUAF rate continues to exist.

This higher rate penalises the "former municipal enterprises" severely by comparison with other market operators. On several occasions, Confservizi has brought this lack of contribution harmonisation, which is a consequence of Law no. 335/1995, to the attention of the Ministry of Labour, which in turn consulted the Council of State. The Council deemed a special legislative initiative necessary (Circular no. 88 of 31 May 2004), which rules out the possibility of an administrative solution. Confservizi's efforts to push through this legislative initiative have been unsuccessful to date.

Finally, a note on the evolution of the regulatory framework for unemployment and sickness contributions. Art. 20 of Law Decree no. 112/2008 has forfeited any past INPS claims relating to Unemployment and Sickness contribution. The portion of contributions contained in these filings for such purposes is no longer considered a risk. In addition, there may be no new INPS claims as all Hera Group companies have regularly paid the Sickness contribution since 2005 and the Unemployment contribution since 2009.

In view of the information reported above, an allocation of Euro 9,788 thousand was made to the aforementioned provision, which takes into account the liabilities deriving from the forms received so far and currently suspended, amounting to approximately Euro 22,2 million. This amount refers to the contributions contained in the forms and referring to CIG, CIGS Mobility, CUAF and Maternity, excluding however the portion referring to Unemployment and Sickness contributions for the above reasons. This fund, determined on the basis of a prudential criterion, is deemed to be appropriate, in view of both the likely development of the litigation and the opinions of the appointed legal advisors.

The other **provisions for risks and charges**, amounting to Euro 14,252 thousand, comprise allocations made against sundry risks. The main items are summarised below:

- Euro 2,518 thousand for the “MIS quota, charges for electrical service continuity and equal distribution”;
- Euro 2,167 thousand in spending on restoration of goods reverting freely, relating to the water supply system of the river Rosola, held under concession and other provisions for risks of very modest amounts connected with environmental problems;
- Euro 835 thousand relates to the provision made in relation to customer compensation for water service leaks;
- Euro 428 thousand, relating to the "Valle Savio fund", established to cover the costs of the works for the community adjacent to the Busca landfill, in the municipality of Cesena, as required by the concession contract;
- Euro 1,472 thousand provision for the cost of disposal of waste stored at Group plants;
- Euro 1,392 thousand in allocations for future expenses relating to the landfill;
- Euro 2,212 thousand relates to the possible effects of Italian Authority for Electricity and Natural Gas resolution no. 89/08 (ec79/07), which creates an obligation on the part of companies selling gas, of a financial payout to final customers under OTB (base tariff option) for the period referred to in the first half of 2006. The residual amount, as at 30 June 2011, corresponds to the most prudential scenario in relation to the amount which may be paid to final customers. No changes have occurred in this amount during the six-month period.

## 32 Deferred tax liabilities

	30-Jun-11	31-Dec-10	Changes
Deferred tax liabilities	3,734	6,022	-2,288
Other IAS/IFRS deferred tax liabilities	74,258	70,121	4,137
<b>Total</b>	<b>77,992</b>	<b>76,143</b>	<b>1,849</b>

Deferred tax liabilities are generated by temporary differences between the balance sheet profit and taxable income.

Deferred tax payables generated by IAS/IFRS effects are reported separately and shown below.

	30-Jun-11	31-Dec-10	Changes
las 38 Intangible Assets	73	47	26
las 37 Third party asset restoration and landfill post-closure	22,444	23,461	-1,017
las 16 Fixed assets	37,400	36,551	849
las 17 Financial leases	4,005	4,024	-19
las 19 Employee leaving indemnity and other benefits	5,546	5,441	105
las 39 Derivatives	4,790	597	4,193
<b>Total</b>	<b>74,258</b>	<b>70,121</b>	<b>4,137</b>



### 33 Financial leasing payables

	30-Jun-11	31-Dec-10	Changes
Financial leasing payables	10,956	13,481	-2,525
<b>Total</b>	<b>10,956</b>	<b>13,481</b>	<b>-2,525</b>

This item represents the recording of payables arising from the accounting of leasing transactions using the financial method. The decrease from the previous year is due to the payment of lease fees accrued during the period.

The balance as at 30 June 2011 is shown below, broken down between the short-term and long-term portions.

	residual amount	short-term portion	long-term portion
Financial leasing payables	10,956	3,457	7,499
<b>Total</b>	<b>10,956</b>	<b>3,457</b>	<b>7,499</b>

## 34 Trade payables

	30-Jun-11	31-Dec-10	Changes
Payables to suppliers for invoices to be received	469,769	508,603	-38,834
Payables to suppliers	398,239	527,667	-129,428
Payables for advances received	16,958	14,477	2,481
Payables to associated companies	9,251	10,128	-877
Payables to non-consolidated subsidiaries	56	128	-72
<b>Total</b>	<b>894,273</b>	<b>1,061,003</b>	<b>-166,730</b>

Payables to suppliers, entirely commercial in nature and inclusive of sums set aside for invoices due, came in at Euro 868,008 at 30 June 2011, compared with Euro 1,036,270 thousand as at 31 December 2010. The decline was mainly due to fluctuations caused by seasonal factors in purchases of raw materials.

“Payables for advances received” relate to advances received in relation to tender contracts for environmental reclamation and gas supply.

The key amounts owed to associated companies, again for commercial reasons, are itemised below:

	30-Jun-11	31-Dec-10	Changes
Set Spa	3,618	5,591	-1,973
So.Sel Spa	1,834	2,096	-262
Estense Global Service Soc. Cons. a r.l.	1,316	540	776
Modena Network Spa	1,289	799	490
Service Imola Srl	1,102	995	107
Aimag Spa	66	89	-23
Adriatica Acque Srl	28	20	8
SGR Spa	-2	-2	0
<b>Total</b>	<b>9,251</b>	<b>10,128</b>	<b>-877</b>

The table below shows the reclassification carried out on “Payables to suppliers for invoices to be received” as of 31 December 2010, compared to the figures reported under “Payables to associated companies” and “Payables to non-consolidated subsidiaries” for the sake of better comparison:

	31 Dec. 2010 published	Amount reclassified	31 Dec. 2010 restated
Payables to suppliers for invoices to be received	513,683	-5,080	508,603
Payables to associated companies	5,095	5,033	10,128
Payables to non-consolidated subsidiaries	81	47	128
<b>Total</b>	<b>518,859</b>	<b>0</b>	<b>518,859</b>

## 35 Tax liabilities

	30-Jun-11	31-Dec-10	Changes
Income tax due	79,259	13,682	65,577
Excise and additional tax charges	64,266	44,013	20,253
Value Added Tax	46,366	11,075	35,291
Substitute tax	25,605	25,434	171
Withholding taxes to employees	9,233	10,340	-1,107
Sewage fees	573	570	3
Other tax liabilities	15,515	19,388	-3,873
<b>Total</b>	<b>240,817</b>	<b>124,502</b>	<b>116,314</b>

The most significant changes that have occurred since last year are noted below:

As regards "Income tax due", the increase compared to 31 December 2010 is attributable to the setting aside of IRES and IRAP taxes on the income generated during the period.

"Excise and additional tax charges" and "Value Added Tax" increased considerably compared to 31 December 2010. For an explanation please see Note 26 of the assets under "Other current assets", and particularly the mechanism that governs the financial relations with the tax authority.

"Substitute tax": the payable refers to the tax sheltering carried out in 2010 through payment of a substitute tax calculated on the higher values recorded as a result of extraordinary transactions, pursuant to Article 176, paragraph 2-ter of the Consolidation Act on Income Taxes. The increase over the previous period is due to the pro-rata consolidation of Enomondo Srl, which company has sheltered the higher values recorded for plant transferred from Caviro Società Cooperativa Agricola).

## 36 Other current liabilities

	30 June 11	31 Dec 10	Changes
Security deposits	71,288	61,652	9,636
Contributions for plant	62,802	64,130	-1,328
Personnel	29,471	26,442	3,029
Electrical Services Compensation Fund	28,550	5,587	22,963
Payables to social security and welfare institutions	27,226	22,215	5,011
Payables to shareholders for dividends	9,618	5,894	3,724
Contract work for studies/design/consulting	4,416	4,804	-388
Payables due to municipalities for environmental disruption and establishment of securities	3,564	5,572	-2,008
Insurance and deductibles	2,890	2,911	-21
Energy efficiency bonds and emission trading	2,539	3,143	-604
Customers	1,676	1,354	322
Directors, Statutory Auditors and Committees for the Territory	219	180	39
Other liabilities	37,523	26,166	11,357
<b>Total</b>	<b>281,782</b>	<b>230,050</b>	<b>51,732</b>

Comments are provided below on the most significant items and the associated changes as at 31 December 2010:

“Security deposits” reflect the sums paid by customers for gas, electricity, and water administration agreements. The increase compared to 31 December 2010 is almost entirely attributable to the acquisition of new customers.

“Capital grants” refer to investments in the water supply and environment sector. This item will decrease in future periods in proportion to the amount of depreciation calculated on the assets referred.

The item “Personnel” relates to holidays accrued but not yet taken as at 30 June 2011, productivity bonus and accrued salaries recorded.

“Electrical Services Compensation Fund (CCSE)”. The significant increase from 31 December 2010 is mainly attributable to gas system components accrued during the half-year period to be paid to CCSE.

“Payables to social security and welfare institutions” relate to contributions due to these institutions for the month of June. The increase from 31 December 2010 is predominantly due to the portions of wages accrued but not yet paid.

"Payables to shareholders for dividends" refer to the Parent Company Hera Spa (Euro 1,288 thousand) and to the subsidiary Fea Srl (Euro 8,330 thousand).

"Energy efficiency bonds and emission trading" as of 30 June 2011 refers entirely to grey certificates (Euro 3,053 thousand for grey certificates and Euro 90 thousand for green certificates as at 31 December 2010). This record reflects the obligation to return the certificates to the competent authorities in accordance with applicable regulations. It should be noted that the requirement to return the grey certificates has been fulfilled for 2010.

## IFRS 8

## Income Statement - June 2011

	Gas	Electricity	Water Cycle	Environment	Other Services	Structure	Total	Consolidated Fin. Statements
Direct revenues	715.6	716.4	269.9	318.2	36.7	14.0	2,070.9	2,070.9
Intra-cycle revenues	16.3	25.1	3.5	33.4	11.4	4.2	93.9	
<b>Total direct revenues</b>	<b>731.9</b>	<b>741.5</b>	<b>273.4</b>	<b>351.6</b>	<b>48.2</b>	<b>18.2</b>	<b>2,164.8</b>	<b>2,070.9</b>
Indirect revenues	3.2	1.3	2.0	11.6	0.2	-18.2	0.0	
<b>Total revenues</b>	<b>735.0</b>	<b>742.8</b>	<b>275.4</b>	<b>363.2</b>	<b>48.3</b>	<b>0.0</b>	<b>2,164.8</b>	<b>2,070.9</b>
<b>EBITDA</b>	<b>120.6</b>	<b>42.2</b>	<b>67.5</b>	<b>105.2</b>	<b>8.4</b>	<b>0.0</b>	<b>344.0</b>	<b>344.0</b>
Direct Deprec., Amort. and Prov.	24.4	17.1	31.9	46.6	8.2	16.5	144.6	144.6
indirect Deprec., Amort. and Prov.	4.0	2.3	4.7	4.9	0.6	-16.5	0.0	
<b>Total Deprec., Amort. and Prov.</b>	<b>28.3</b>	<b>19.4</b>	<b>36.6</b>	<b>51.5</b>	<b>8.8</b>	<b>0.0</b>	<b>144.6</b>	<b>144.6</b>
<b>EBIT</b>	<b>92.3</b>	<b>22.9</b>	<b>30.9</b>	<b>53</b>	<b>-0.3</b>	<b>0.0</b>	<b>199.4</b>	<b>199.4</b>

## Income Statement - June 2010

	Gas	Electricity	Water Cycle	Environment	Other Services	Structure	Total	Consolidated Fin. Statements
Direct revenues	652.1	623.0	266.5	301.8	37.5	27.9	1,908.7	1,908.7
Intra-cycle revenues	27.1	26.9	3.7	2.9	11.2	5.2	102.1	
<b>Total direct revenues</b>	<b>67.2</b>	<b>649.9</b>	<b>270.1</b>	<b>329.7</b>	<b>48.7</b>	<b>33.2</b>	<b>2,010.8</b>	<b>1,908.7</b>
Indirect revenues	10.9	3.8	7.0	10.6	0.8	-33.2	0.0	
<b>Total revenues</b>	<b>690.1</b>	<b>653.8</b>	<b>277.1</b>	<b>340.3</b>	<b>49.5</b>	<b>0.0</b>	<b>2,010.8</b>	<b>1,908.7</b>
<b>EBITDA</b>	<b>109.3</b>	<b>31.8</b>	<b>67.5</b>	<b>97.1</b>	<b>7.8</b>	<b>0.0</b>	<b>313.5</b>	<b>313.5</b>
Direct Deprec., Amort. and Prov.	29.8	12.3	29.6	43.6	8.6	14.7	138.7	138.7
indirect Deprec., Amort. and Prov.	3.6	2.1	4.2	4.3	0.5	-14.7	0.0	
<b>Total Deprec., Amort. and Prov.</b>	<b>33.4</b>	<b>14.4</b>	<b>33.8</b>	<b>47.9</b>	<b>9.2</b>	<b>0.0</b>	<b>138.7</b>	<b>138.7</b>
<b>EBIT</b>	<b>75.9</b>	<b>17.4</b>	<b>33.7</b>	<b>49.2</b>	<b>-1.3</b>	<b>0.0</b>	<b>174.9</b>	<b>174.9</b>

**Balance Sheet – June 2011**

	Net Working Capital	Net fixed assets	Reserves	Shareholders' Equity	Net financial position	Consolidated Fin. Statements
<b>Total Assets</b>	<b>1,434.0</b>	<b>4,223.0</b>	<b>0.0</b>	<b>0.0</b>	<b>447.3</b>	<b>6,104.3</b>
Financial assets and cash and cash equivalents					447.3	447.3
Tax assets	25.4	89.9				115.3
Non-allocated Group assets		323.2				323.2
<b>Business Sector Assets</b>	<b>1,408.6</b>	<b>3,809.9</b>	<b>0.0</b>	<b>0.00</b>	<b>0.0</b>	<b>5,218.5</b>
- of which:						
GAS	458.6	905.3				1,363.9
Electricity	439.5	530.7				970.1
Water Cycle	193.3	1,093.66				1,286.9
Environment	272.8	1,147.1				1,419.9
Other services	44.5	133.2				177.7
<b>Total Liabilities</b>	<b>1,432.7</b>	<b>15.4</b>	<b>391.8</b>	<b>1,846.0</b>	<b>2,418.5</b>	<b>6,104.3</b>
Financial liabilities and loans					2,418.5	2,418.5
Tax liabilities	241.1		78.0			319.1
Non-allocated Group liabilities		15.4	1.9	1,846.0		1,863.2
<b>Business sector liabilities</b>	<b>1,191.5</b>	<b>0.0</b>	<b>311.9</b>	<b>0.0</b>	<b>0.0</b>	<b>1,503.44</b>
- of which:						
GAS	310.4		76.2			386.6
Electricity	330.8		15.9			346.7
Water Cycle	193.3		65.2			258.5
Environment	311.2		148.1			459.3
Other services	45.9		6.4			52.3
<b>Total</b>	<b>1.3</b>	<b>4,207.6</b>	<b>-391.8</b>	<b>-1,846.0</b>	<b>-1,971.1</b>	<b>0,0</b>

**Balance Sheet - December 2010**

	Net Working Capital	Net fixed assets	Reserves	Shareholders' Equity	Net Financial Position	Consolidated Fin. Statements
<b>Total Assets</b>	<b>1,400.0</b>	<b>4,186.4</b>	<b>0.0</b>	<b>0.0</b>	<b>614.8</b>	<b>6,201.2</b>
Financial assets and cash and cash equivalents					614.8	614.8
Tax assets	30.7	84.3				115.0
Non-allocated Group assets		338.4				338.4
<b>Total Liabilities</b>	<b>1,369.3</b>	<b>3,763.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5,133.0</b>
- of which:						
GAS	447.9	895.6				1,343.5
Electricity	428.6	526.7				955.2
Water cycle	196.1	1,075.1				1,271.2
Environment	247.6	1,129.5				1,377.0
Other services	49.1	137.0				186.0
<b>Total Liabilities</b>	<b>1,429.1</b>	<b>44.1</b>	<b>382.8</b>	<b>1,870.2</b>	<b>2,475.0</b>	<b>6,201.2</b>
Financial liabilities and loans					2,475.0	2,475.0
Tax liabilities	124.5		76.1			200.6
Non-allocated Group liabilities		44.1	1.8	1,870.2		1,916.2
<b>Business sector liabilities</b>	<b>1,304.6</b>	<b>0.0</b>	<b>304.8</b>	<b>0.0</b>	<b>0.0</b>	<b>1,609.4</b>
-of which:						
GAS	422.0		72.1			494.2
Electricity	356.0		14.9			370.9
Water cycle	192.9		63.5			256.4
Environment	290.0		147.6			437.6
Other services	43.7		6.6			50.3
<b>Total</b>	<b>-29.1</b>	<b>4,142.3</b>	<b>-382.8</b>	<b>-1,870.2</b>	<b>-1,860.2</b>	<b>0.0</b>



## 2.03.02 Explanatory notes for related parties

### Management of the services

The Hera Group, through Parent Company Hera Spa, holds concessions of local public services of economic interest (distribution of natural gas via local gas pipelines, integrated water service and waste management services, including sweeping, collection, transport and waste recovery and disposal) in a large amount of its territory of competence and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini). The electricity distribution service has been carried out in the Imola district, in the municipality of Modena and in the municipalities of the province of Modena acquired from the previous operator (Enel Distribuzione).

Other utilities (district heating systems, heat management and public lighting) are provided under market conditions, i.e. through special agreements with local authorities. Through special agreements with local authorities, Hera Spa is responsible for the waste treatment and disposal service, excluded from the regulatory activity carried out by the environmental authorities (AATO), but subject to control by the Regional Authority for water services and urban waste management.

The AATO are responsible, under regional and national legislation governing the sector, for controlling and regulating tariffs for integrated water and urban cleaning services, which were formerly managed by the concession-granting municipal authorities. However, these authorities are represented at meetings of the AATO. In observance of the provisions of said regional law and related national legislation (specifically article 113 of the Consolidated Local Authority Act and the sector regulations regarding appointing services on an exclusive basis), the Hera Group entered into special agreements with the AATOs, which establish the coming into effect of the technical and tariff planning.

### Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree no. 164/2000 (Letta Decree, implementing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the Directors' Report. Hera Spa has longer residual terms than those set out for managing entities that have promoted partial privatisations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing.

The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. The gas distribution tariffs are set in accordance with the regulations in force and with the deliberations adopted from time to time by the Italian Authority for Electrical Energy and Natural Gas. The territory in which Hera carries out the gas distribution services consists of "tariff areas" in which a distribution tariff is uniformly applied to the various categories of customers.

In relation to the electricity area, the contracts (with thirty-year duration and renewable pursuant to the legislation in force) relate to the distribution of energy, including management of the distribution network, operation of the plants, carrying out of ordinary and extraordinary maintenance and planning and identification of the development interventions. A suspension or expiry of the concession may be ordered by the authority regulating the sector if the concession holder is found to be inadequate or to be in breach of regulations in force, in such a way as to prejudice provision of the electricity distribution service in a serious and far-reaching manner.

The concession holder is obliged to apply to consumers the tariffs set by regulations in force and resolutions adopted by the Italian Authority for Electricity and Natural Gas. The regulatory tariffs in force at the time of the approval of the Abbreviated Consolidated Half-Year Financial Statements to which this report is attached are resolution no. 348/2007 and subsequent amendments and additions. ("Supplementary text of measures for the supply of transmission, distribution and measurement of electrical energy for the regulatory period 2008-2011 and of measures for economic conditions governing the supply of connection services"), which replaced the previous system of tariff options with a single national distribution tariff.

### Water sector

Hera manages the integrated water supply service under agreements with the AATOs of varying duration (usually twenty years), for aqueduct, sewage and purification services. The management of the aqueduct service includes the public services of collection, purifying, distribution and sale of drinking water for civil and industrial use; the sewage and purification services include the management of the networks and sewage and purification plants.

The Agreements also provide for 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 municipal territory involving the obligation of the Municipality not to grant to third parties usage of the subsoil of its property and of the state aqueducts without the prior consent of the company.

The agreements also regulate other aspects of the relationship, such as forms of service management and reciprocal obligations for the parties, mainly regarding charges for ordinary and extraordinary maintenance works on the networks and plant necessary for the provision of the services. The agreements are accompanied by technical and economic disciplinary measures regulating the service, the compulsory quality and operating standards and the tariff framework. The tariffs, fixed annually (on the basis of economic agreements covering periods of several years) in accordance with law, are set by the AATOs.

The local authorities awarding the concession give the manager the right to use the network and plant for the provision of integrated water supplies (and this may be free of charge). In the majority of the cases concerning the areas managed by Hera, the local authorities have conferred the ownership of networks and plants to special asset companies.

At the end of the concession, Hera is obliged to return the goods used to provide the service to the asset companies, or to the local authorities. Any works carried out to upgrade or expand the networks must be compensated at the end of concession with the payment of the residual value of the assets in question.

Hera's relations with users are regulated by sector laws and by the provisions set out by the regional councils and environmental agencies. The duties of the operator towards service quality and resources and the users' rights are illustrated in the specific Service Charters proposed by the operator and approved by the Agencies.

As for the results of the referendums held on 12 and 13 June 2011 reference is made to the paragraph on the Director's Report of 1.03.02

### Waste management sector

Hera performs the service of municipal waste management. The purpose of agreements with the AATOs is the exclusive management of municipal waste services (waste collection, waste transport, road cleaning and waste recovery and disposal, etc.).

The agreements regulate aspects of the relationship such as the methods of managing the services as well as reciprocal obligations between the parties. The agreements are accompanied by technical and economic disciplinary measures regulating, in detail, the technical component of services provided and quality standards.

The amount payable to the operator for the services performed is defined annually (on the basis of multiannual economic agreements) in accordance with Italian Presidential Decree No. 158/1999, where the tariff is instituted.

For the running of waste treatment plants, the Hera Group must obtain authorisations from the authorities of the Italian provinces.

### Management of the networks, plants and equipment

The infrastructure required for the provision of services whose management has been assigned to Hera, including local gas pipelines and aqueduct and sewage systems, are partly owned by Hera and partly owned by third parties (municipalities or asset companies owned by local authorities).

In particular, the asset companies are the owners of assets instrumental in the management of services following the direct contribution of assets by the Municipalities (generally Hera shareholders) or following the assignment to the same of "assets" constituting business units which took place, in almost all cases, at the time of business combinations involving companies in the Emilia-Romagna region with Seabo Spa (then Hera Spa).

In the case of assets owned by Local Entities and asset companies, relations between the service operator and the owners are governed by service assignment agreements or business unit lease contracts, and on a residual basis, industry legislation.

As regards the economic aspect, business unit lease contracts fix the amount due from the operator to the owners for the use of networks and plants. On the basis of these contracts Hera must carry out, at its own expense, ordinary and extraordinary maintenance as well as the expansion of the networks, as provided for in the investment plans agreed with the asset companies and, where relevant, by the area plans defined by the AATOs.

Upon expiry of the lease contracts, provision is made for the return of the business units to the owner in return for the payment to the operator of the corresponding compensation/equalisation, as a general rule, at the Net book value or Residual industrial value of the associated assets.

**Group A. Related parties, non-consolidated subsidiary companies:**

Calorpiù Italia scarl in liquidation  
Hera Servizi Cimiteriali Srl  
Consorzio Frullo in liquidation  
Sadori gas Srl  
Solhar Alfonsine Srl  
Solhar Bentivoglio Srl  
Solhar Faenza Srl  
Solhar Ferrara Srl  
Solhar Modena Srl  
Solhar Piangipane Srl  
Solhar Ravenna Srl  
Solhar Rimini Srl

**Group B. Related parties, associated and jointly-controlled companies:**

Italcic Srl  
Modena Network Spa  
Aimag Spa  
Natura Srl  
Tamarete Energia Srl  
Adriatica Acque Srl  
Estense Global Service Soc.Cons.a r.l.  
So.Sel Spa  
Oikothén ScrI  
Service Imola Srl  
Set Spa  
Refri Srl  
Sgr Servizi Spa  
Dyna Green Srl  
Feronia Srl  
Sei Spa  
Ghirlandina Solare Srl  
VNG Verbundnetz Gas AktG Gesellschaft\*  
C.a.v.i.r.o. soc.coop.agr.\*

**Group C. Related parties with significant influence:**

Municipality of Bologna  
Municipality of Modena

**Group D. Other related parties:**

Aspes Spa  
Megas Net Spa  
Acosea Reti  
Calenia Energia Spa  
Wimaxer Spa

Sassuolo Gestioni Patrimoniali Srl  
Con.Ami  
Formigine Patrimonio Srl  
Romagna Acque Spa  
Serramazzoni Patrimonio Srl  
Unica Reti - Assets  
Maranello Patrimonio Srl  
Azimut - Assets  
Fiorano Gestioni Patrimoniali Srl  
Amir - Assets  
Area - Assets  
Team - Assets  
Sis - Assets  
Energia Italiana Spa  
Galsi Spa  
Ambiente Arancione Cooperatief U.A.

*\* The figures in the statements represent 50% of the amount the Hera Group companies declared with respect to the consolidated joint-control companies FlamEnergy Trading GmbH and Enomondo Srl.*

## 2.04 Net financial indebtedness

## 2.04.01 Consolidated net financial indebtedness

(millions of Euro)		30-Jun-11	31-Dec-10
<b>a</b>	<b>Cash and cash equivalents</b>	<b>356,3</b>	<b>538,2</b>
<b>b</b>	<b>Other current financial receivables</b>	<b>51,2</b>	<b>44,3</b>
	Current bank indebtedness	-23,4	-58,4
	Current portion of bank indebtedness	-63,2	-71,1
	Other current loans	-8,9	-16,6
	Financial leasing payables – maturing within the next year	-3,4	-4,6
<b>c</b>	<b>Current financial indebtedness</b>	<b>-98,9</b>	<b>-150,7</b>
<b>d=a+b+c</b>	<b>Net current financial indebtedness</b>	<b>308,6</b>	<b>431,8</b>
<b>e</b>	<b>Non-current financial receivables</b>	<b>10,8</b>	<b>10,3</b>
	Non-current bank indebtedness	-292,0	-345,8
	Bonds issued	-1.768,1	-1.787,3
	Other non-current loans	-222,9	-160,4
	Financial leasing payables – maturing beyond the next year	-7,5	-8,8
<b>f</b>	<b>Non-current financial indebtedness</b>	<b>-2.290,5</b>	<b>-2.302,3</b>
<b>g=e+f</b>	<b>Net non-current financial indebtedness</b>	<b>-2.279,7</b>	<b>-2.292,0</b>
<b>h=d+g</b>	<b>Net Financial Indebtedness</b>	<b>-1.971,1</b>	<b>-1.860,2</b>

## 2.04.02 Net financial indebtedness Resolution 15519 of 2006

(millions of €)	30-Jun-11	of which related parties				31-Dec-10	of which related parties			
		A	B	C	D		A	B	C	D
<b>a</b> Cash and cash equivalents	356,3					538,2				
<b>b</b> Other current financial receivables	51,2					44,3				
<i>of which related parties</i>		28,6			12,0		29,3			
Current bank indebtedness	-23,4					-58,4				
Current portion of bank indebtedness	-63,2					-71,1				
Other current financial loans	-8,9					-16,6				
Financial leasing payables – maturing within the next year	-3,4					-4,6				
<b>c</b> Current financial indebtedness	-98,9					-150,7				
<b>d=a+b+c</b> Net current financial indebtedness	308,6	28,6			12,0	431,8	29,3			
<b>e</b> Non-current financial receivables	10,8					10,3				
<i>of which related parties</i>		10,5					10,0			
Non-current bank indebtedness	-292,0					-345,8				
Bonds issued	-1.768,1					-1.787,3				
Other non-current financial loans	-222,9					-160,4				
Financial leasing payables – maturing beyond the next year	-7,5					-8,8				
<b>f</b> Non-current financial indebtedness	-2.290,5					-2.302,3				
<b>g=e+f</b> Net non-current financial indebtedness	-2.279,7	10,5				-2.292,0	10,0			
<i>of which related parties</i>										
<b>h=d+g</b> Net Financial Indebtedness	-1.971,1					-1.860,2				
<i>of which related parties</i>		39,1			12,0		39,3			

## 2.05 Equity investments: list of consolidated companies

### Subsidiaries

Name	Registered office	Share capital	Percentage held		Total interest
			direct	indirect	
<b>Parent Company: Hera Spa</b>	<b>Bologna</b>	<b>1.115.013.754</b>			
Acantho Spa	Imola (Bo)	22.500.000	79,94%		79,94%
Acque Srl	Pesaro	102.700		40,64%	40,64%
Akron Spa	Imola (Bo)	1.152.940		43,13%	43,13%
ASA Scpa	Castelmaggiore (Bo)	1.820.000		38,25%	38,25%
Consorzio Akhea Fondo Consortile	Bologna	200.000		59,38%	59,38%
Eris Srl	Ravenna	300.000		51,00%	51,00%
Famula On-line Spa	Bologna	4.364.030	100,00%		100,00%
Frullo Energia Ambiente Srl	Bologna	17.139.100		38,25%	38,25%
Gal.A. Spa	Bologna	300.000		45,00%	45,00%
HeraAmbiente Spa	Bologna	271.148.000	75,00%		75,00%
Hera Comm Srl	Imola (Bo)	53.136.987	100,00%		100,00%
Hera Comm Marche Srl	Urbino (Pu)	1.458.332		76,26%	76,26%
Hera Comm Mediterranea Srl	Carinara (Ce)	250.000		50,01%	50,01%
Hera Energie Srl	Bologna	926.000		51,00%	51,00%
Hera Energie Rinnovabili Spa	Bologna	1.832.000	100,00%		100,00%
Hera Luce Srl	San Mauro Pascoli (Fc)	1.000.000	89,58%		89,58%
Hera Servizi Funerari Srl	Bologna	10.000	100,00%		100,00%
Herasocrem Srl	Bologna	1.480.500	51,00%		51,00%
Hera Trading Srl	Imola (Bo)	22.600.000	100,00%		100,00%
Marche Multiservizi Spa	Pesaro	13.450.012	40,64%		40,64%
Medea Spa	Sassari	4.500.000	100,00%		100,00%
MMS Ecologica Srl	Pesaro	95.000		40,64%	40,64%
Naturambiente Srl	Pesaro	50.000		40,64%	40,64%
Nuova Geovis Spa	Sant'Agata Bolognese (Bo)	2.205.000		38,25%	38,25%
Romagna Compost Srl	Cesena (Fc)	3.560.002		45,00%	45,00%
Sinergia Srl	Forlì (Ce)	579.600		59,00%	59,00%
Sotris Spa	Ravenna	2.340.000	5,00%	52,50%	57,50%
Uniflotte Srl	Bologna	2.254.177	97,00%		97,00%



## Jointly controlled companies

Name	Registered office	Share capital	Percentage held		Total interest
			direct	indirect	
Enomondo Srl	Faenza (Ra)	14.000.000		37,50%	37,50%
FlameEnergy Trading Gmbh	Vienna	3.000.000		50,00%	50,00%

## Associated companies

Name	Registered office	Share capital	Percentage held		Total interest
			direct	indirect	
Adriatica Acque Srl	Rimini	89.033		25,44%	25,44%
Aimag Spa*	Mirandola (Mo)	78.027.681	25,00%		25,00%
Estense Global Service Soc.Cons.arl	Ferrara	10.000		23,00%	23,00%
Feronia Srl	Finale Emilia (Mo)	2.430.000		30,00%	30,00%
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%
Oikothén Scarl	Siracusa	1.101.730	46,10%		46,10%
Refri Srl	Reggio Emilia	6.800.000		15,00%	15,00%
Service Imola Srl	Borgo Tossignano (Bo)	10.000	40,00%		40,00%
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 share capital is composed of € 67,577,681 of ordinary shares and € 10,450,000 of related shares

## 2.07 Statement pursuant to Article 154-bis of Legislative Decree no. 58/98

1 - The undersigned Mr Maurizio Chiarini in his capacity as Managing Director, and Mr Luca Moroni in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, 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 preparing the abbreviated half-year financial statements during the first half-year of 2011.

2 – We further declare that:

2.1 - the abbreviated half-year financial statements:

- a. were prepared in compliance with the applicable International Accounting Principles 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 truthful and accurate representation of the balance sheet and income statement of the issuer and of all its consolidated companies.

2.2 - The interim report on operations comprises a reliable analysis of the significant events that took place in the first six months of the year and their impact on the abbreviated half-year financial statements, and describes the main risks and uncertainties in the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on the significant transactions with related parties.

Bologna, 25 August 2011

Managing Director

Maurizio Chiarini

Manager in charge of preparing  
the corporate accounting statements

Luca Moroni

## 2.08 Independent auditing firm


**AUDITORS' REPORT ON THE REVIEW OF CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010**

To the Shareholders of  
Hera SpA

- 1 We have reviewed the consolidated condensed interim financial statements of Hera SpA and subsidiaries (hereinafter also "Hera Group") as at 30 June 2011 and for the six month period then ended, comprising the statement of financial position, the income statement and the statement of comprehensive income, the statements of changes in shareholders' equity and cash flows and the related selected explanatory notes. Hera SpA's Directors are responsible for the preparation of the consolidated condensed interim financial statements in accordance with the international accounting standard (IAS 34) applicable to interim financial reporting, as adopted by the European Union. Our responsibility is to issue this report based on our review.
  - 2 Our work was conducted in accordance with the criteria for a review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with Resolution no. 10867 of 31 July 1997. The review consisted principally of inquiries of company personnel about the information reported in the consolidated condensed interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the above mentioned consolidated financial statements. The review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual consolidated financial statements, we do not express a professional audit opinion on the consolidated condensed interim financial statements.
- Regarding the amounts of the consolidated financial statements of the prior year and the consolidated condensed interim financial statements of the prior year presented for comparative purposes, reference should be made to our reports dated 7 April 2011 and dated 27 August 2010, respectively.
- 3 Based on our review, nothing has come to our attention that causes us to believe that the consolidated condensed interim financial statements of Hera Group as at 30 June 2011 and for the six month then ended have not been prepared, in all material respects, in accordance with the international accounting standard (IAS 34) applicable to interim financial reporting, as adopted by the European Union.

Bologna, 25 August 2011

PricewaterhouseCoopers SpA

Signed by  
Edoardo Orlandoni  
(Partner)

*This report has been translated into the English language solely for the convenience of international readers.*

**PricewaterhouseCoopers SpA**

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