



Hera Group consolidated annual report

as at 31st December 2010

includes financial statements
describing performances,
results and key indicators.

***Hera Group - Consolidated and Parent Company Financial Statements
as at 31 December 2010***

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0 introduction

Letter to the shareholders

Dear Shareholders,

Today, we submit the Group financial statements for the year 2010 for your approval. These financial statements close a three-year office during which, for the most part, the Group's business was carried out at the same time as the international economic crisis that heavily impacted activities in all production sectors.

Despite this, Hera was able to stay the course for development and consolidation that it had set for itself, which involved reaching its growth (Euro 1186 million of investment in the three-year period) and EBITDA targets (Euro 154 million in the years 2008-2010).

More in particular, referring to the most recent financial year, the economic results were particularly positive with the contribution of various business areas and the notable contribution of the energy business, posting a 7.3% overall growth in EBIT, an increase of Euro 40 million compared to the previous year.

The well established model chosen by the Group, which also led to an improvement in financial strength indicators, allowed us to respond adequately to the diversified impact that the crisis had on individual areas.

Significant growth was also achieved at the level of business volumes. Furthermore, the particularly significant expansion of the customer base in deregulated and highly competitive sectors should also be highlighted.

No changes were made to the corporate perimeter during the year, so growth is due to commercial expansion and cost containment deriving from organisational synergies. In addition, new growth opportunities are expected from extraordinary transactions already taking place this year.

The organisational processes launched at the end of 2009 in relation to the Territorial Operating Structures and the establishment of Herambiente were consolidated, and also witnessed the entry into the share capital of an international partner who will share development initiatives in this sector.

As in the past, these results provided an important effect to our stakeholders, since for the first time the results exceeded Euro 1 billion in terms of added value, of which 80% remained in our territory, and after today's approval it will be possible to provide our shareholders with increasing profitability (+12.5% per share).

The quality of service, which remains the focus of our company, is once again confirmed by a significantly high level of customer satisfaction. This is also reflected in the technical service indicators contained in the sustainability report submitted today, which evidences, in a transparent manner, the company's positioning as a solid operator capable of combining economic objectives with a constant attention to the social-environmental sustainability of its actions.

Now, as for the entire sector, the company expects important future developments, both due to a phase of growing and more extensive competition, in regulated sectors as well, and as a result of the decisions that shareholders will be called to make regarding choices deriving from changes in the legal framework of reference.

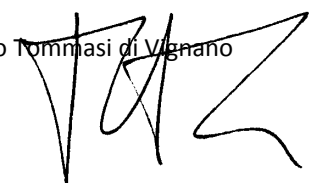
I believe that, notwithstanding the complex scenario that awaits us, we can safely say that the Group has reached a level of visibility and appreciation that will allow it to continue to grow while maintaining its primary focus on the community.

For this reason, it seems appropriate to thank everyone who works in the Group and, on the occasion of the end of this term of office, to thank the Board of Directors and the Board of Statutory Auditors.

Bologna, 29 April 2011

The Chairman
of the Board of Directors

Tomaso Tommasi di Vignano



Hera's Mission

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

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

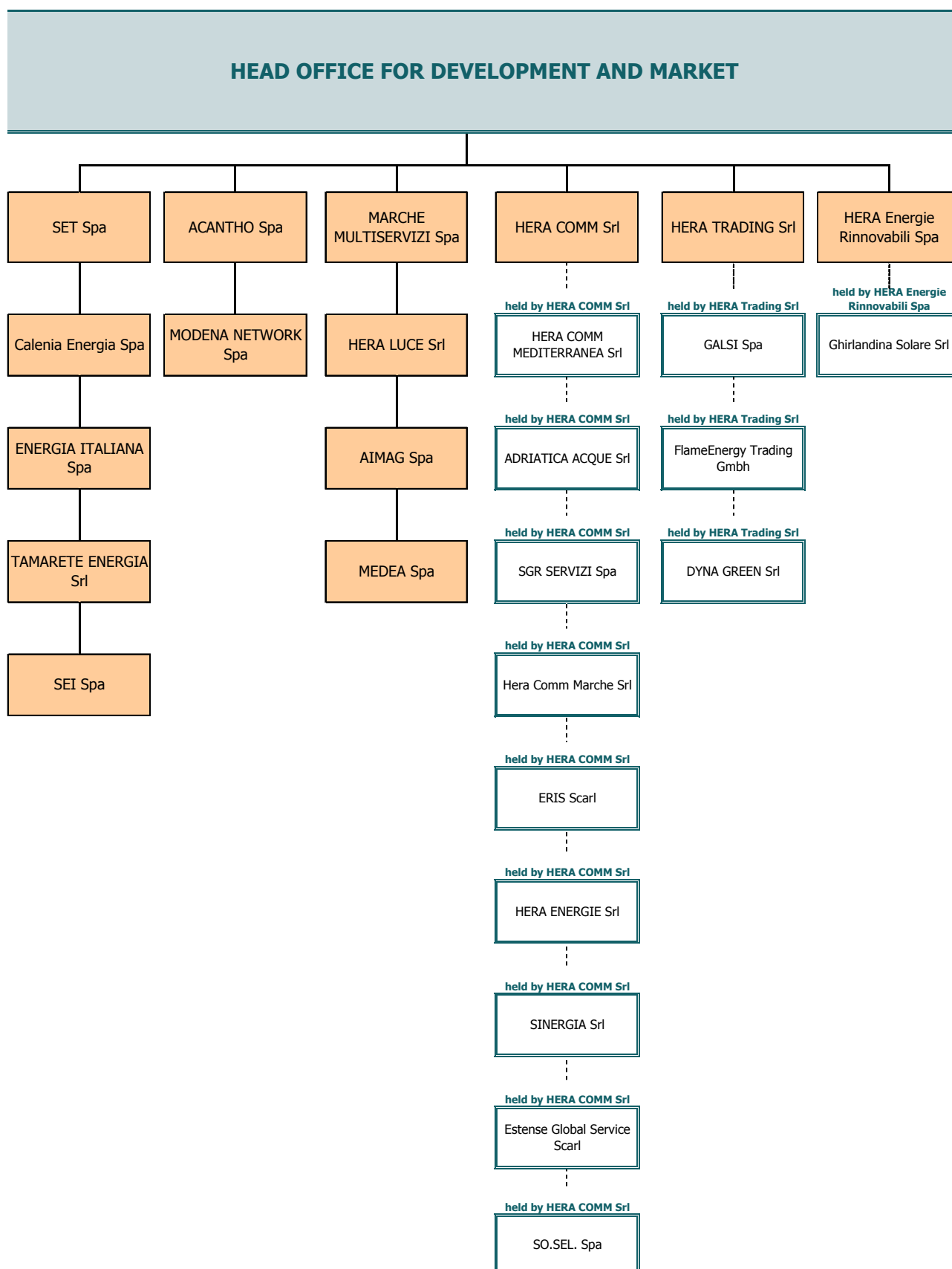


Administrative and auditing boards

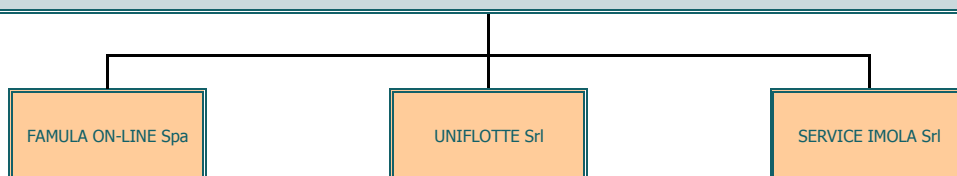
Board of Directors	
Chairman	Tomaso Tommasi di Vignano
Vice-Chairman	Giorgio Razzoli
Chief Executive Officer	Maurizio Chiarini
Director	Mara Bernardini
Director	Filippo Brandolini
Director	Luigi Castagna
Director	Mauro Cavallini
Director	Piero Collina
Director	Pier Giuseppe Dolcini
Director	Ferruccio Giovanelli
Director	Lanfranco Maggioli
Director	Alberto Marri
Director	Daniele Montroni
Director	Roberto Sacchetti
Director	Francesco Sutti
Director	Bruno Tani
Director	Paolo Trombetti
Director	Stefano Zolea
Board of Statutory Auditors	
Chairman	Sergio Santi
Standing Auditor	Fernando Lolli
Standing Auditor	Antonio Venturini
Internal Control Committee	
Chairman	Giorgio Razzoli
Member	Lanfranco Maggioli
Member	Daniele Montroni
Member	Stefano Zolea
Remuneration Committee	
Chairman	Giorgio Razzoli
Member	Mara Bernardini
Member	Piero Collina
Member	Paolo Trombetti
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice-Chairman	Giorgio Razzoli
Member	Maurizio Chiarini
Ethics Committee	
Chairman	Giorgio Razzoli
Member	Filippo Bocchi
Member	Mario Viviani*
Independent auditing firm	
	PricewaterhouseCoopers

* In office from 27/01/2010

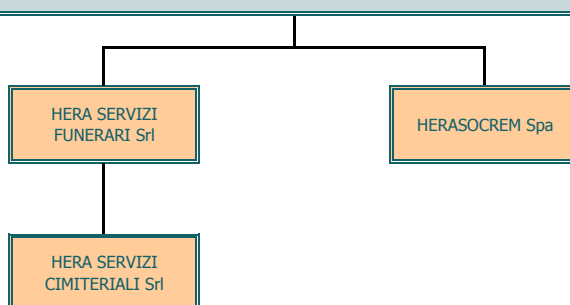
Structure of the Group - Parent Company HERA Spa - Share capital € 1,115,013,754



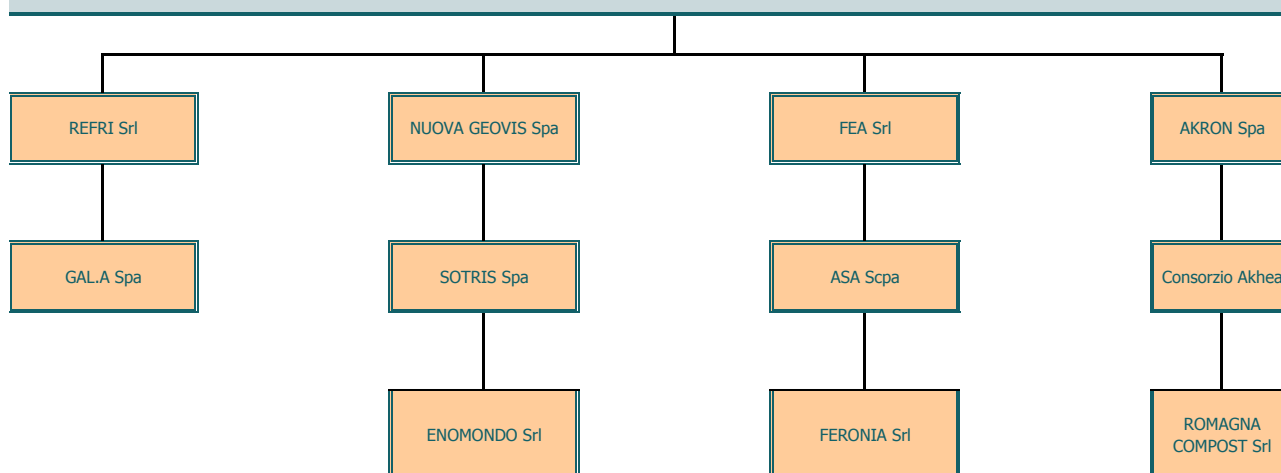
HEAD OFFICE SERVICES AND INFORMATION SYSTEMS



HEAD OFFICE FOR OPERATIONS

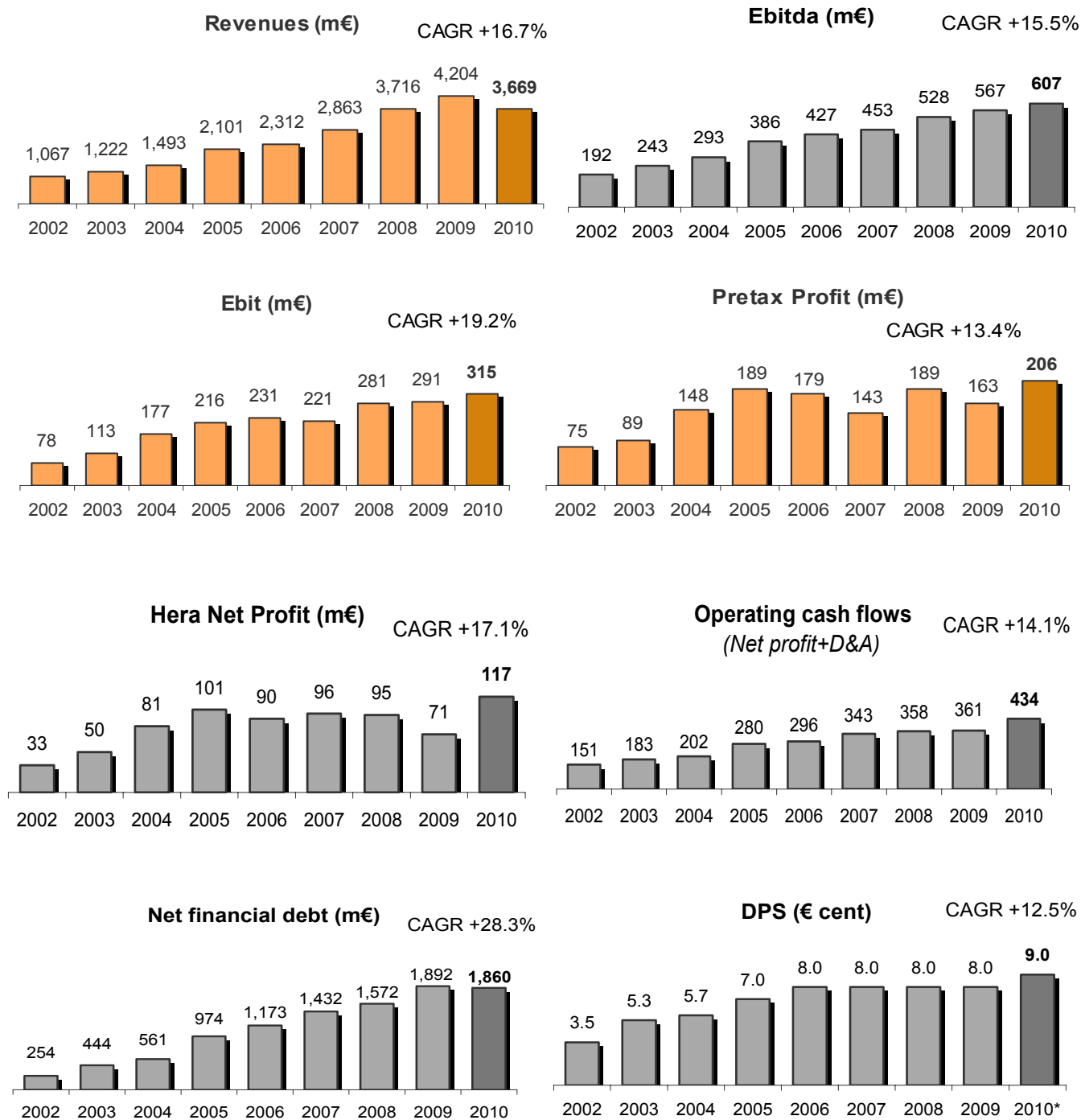


HERAMBIENTE Spa



The equity investments held in Modena Formazione Srl, Democenter - SIPE Scarl, Oikothen Scarl and Centuria-Rit Scarl are expected to be disposed of. Companies in liquidation: Acef Srl, Ingenia Srl and Italcic Scarl

Highlights



* To be approved by the Shareholders' Meeting of April 2011

Strategic approach

Hera's strategic objective is to create value in the medium and long term, by competing autonomously and **effectively on deregulated markets and efficiently managing the primary regulated services in order to fulfil the requirements of its stakeholders.**

Within an environment of progressive deregulation which is dominated by large scale operators, these objectives have translated into a **predisposition for growth** in all our core businesses, through internal as well as external lines and using the leverage of the competitive advantages and synergies that ensue from the integration process. The realisation of these objectives has first of all allowed strong consolidation of the Hera perimeter which was then followed by rapid expansion.

The mergers that succeeded one another since 2002 were pursued on the basis of an industrial integration strategy, with centralisation of certain management functions in order to take advantage of efficiency potential and benefit from economies of scale. These strategies have never lost their focus on maintaining operating control of all local reference territories so as to preserve the proximity to customers and the strong links with the territory, both being the elements which have traditionally represented Hera's true competitive advantage.

The strategic focus on core activities has resulted in **streamlining the asset portfolio**, with disposal of the smaller businesses and **corporate rationalisation** which ended up with a more streamlined corporate organisation chart, in line with the new unbundling rational of the sector.

Taking advantage of economies of scale has resulted in cost reduction and continually increasing efficiency of the operations. A single business policy with a centralised development and investment plan, upgrading of the group information system and the creation of an organisation model under an industrial holding company, are the main elements that ensured the improvement of the network management, together with customers, operating procedures and human resources management in every operating unit.

The external expansion strategy led to the acquisition of 25% of AIMAG's share capital (AIMAG is a multi-utility operating in Modena and Mantova provinces) in 2009, and to the conclusion of a memorandum of understanding with ACAM, a multi-utility active in La Spezia province, in 2010. The latter transaction could lead to the possible acquisition of a significant ACAM minority share in 2011, as well as a possible subsequent complete integration in 2012 which can be achieved only if the company implements the agreed-upon industrial and financial restructuring process.

As far as energy activities are concerned, the development strategies aim to consolidate the relevant position in the gas industry within the territory of reference by improving the customer care and by expanding the offer to customers with the addition of electricity services (cross selling with the dual fuel offer) in line with European trends. The action in defence of the existing customer base which also aims to achieve growth in the surrounding territories led to a continuous growth of Group results and also confirmed its market position at a local level and the achievement of a significant role throughout the Country.

The development of the electricity supply brought a considerable increase of market share, also in areas not previously supplied with gas services. In 2010, despite the Italian slow economic recovery and increased competition, electricity customers increased by 14.1% (from 335 a 383 thousands) and volumes by approximately 0,7 TWh (from 7 to 7,7 TWh). The rapid expansion of electricity sales (+4,6 TWh in only 5 years) was supported by a balanced strategy of upstream development, which aims at ensuring the necessary coverage from own resources while maintaining a low risk profile, in line with Group policies. With a minority presence in specific joint ventures in the generation activity, together with an indirect investment of 5.5% in Tirreno Power, the construction of an 80 MW cogeneration plant and other projects in renewable resources area, the Group ensured coverage of sales equal to approximately 50%. In addition to own sources, a wide diversification of suppliers and market trading activity ensure “flexible” total coverage of sales. This strategic approach has shielded the Group from operating risks and allowed to take advantage from the Italian market overcapacity conditions due to the recent economic crisis.

In the waste disposal market, of which Hera is a national leader, the Group strategy focused on strengthening plant structures in order to support the expansion in the market. In 2010 the multi-year plan for the updating of the plants was completed. It resulted in the construction of 5 new waste-to-energy plants for unsorted waste, one for hazardous special waste, the expansion of the capacity of landfills and the development of technologically advanced plants to recycle and extraction from waste to energy. This asset base belonging to Hera represents a symbol of excellence, not only in the reference territory, but also insofar as environmental sustainability and the production of electricity from waste is concerned. Furthermore, the expertise gained in the management and construction of waste to energy plants is a particularly significant advantage in a country where many regions must adapt their waste disposal administration to stringent European directives.

In the regulated businesses, Hera has adopted an efficiency and plant development strategy that brought the Group to one of the first places insofar in efficiency and quality of services. This was made possible through improved efficiency and remote control. In fact, about 40 thousand kilometres of water, natural gas and district heating networks managed by the Group are controlled through a single technologically advanced centre, thereby rendering the processes less costly and more efficient. Furthermore, thanks to the mergers with other surrounding multi-utility companies, in these sectors Hera has achieved significant critical mass and continuous, uniform presence in the territory of reference, covering a large part of the Emilia-Romagna region and the northern portion of the Marche region. These conditions place the Group in a strong position from which to participate in the imminent auctions for the distribution of gas.

The completion of the large plants, the efficiency levels reached and the strong development of all the markets engaged in free competition, allowed the Hera Group to consolidate in a few years a plant capacity that solidifies its current market positions and the prospects for further development throughout all its core businesses. With reference to economic and financial results, in 2010 the signs of this strategic framework that resulted in further improvement in the economic results and financial profile were evident. This underpins the forecasted increase in dividends and the returns to investors in the future, despite the lingering of the economic difficulties in Italy.

The 2010-2014 business plan which was presented in October 2010, proposes the continuation of the aforementioned strategies and, on the basis of the solid performance reached, provides for increases in the economic and financial results achieved to date. The expectations are based on the rationalisation processes already implemented, the deployed plants and the pursuit of expansion strategies in deregulated markets. Cash generation of the initiatives for organic growth will make it possible to sustain further development of the plants, improve financial soundness and maintain a policy of increasing dividends over time.

The external expansion strategies remain a priority according to the usual logic of expanding in the “multi-business” sector in surrounding territories and the “mono-business” initiatives for the deregulated market activities in Italy. To support these actions for development, in 2010 Hera increased the Group’s financial flexibility through the placement of a convertible bond worth Euro 140 million.

Business Sectors

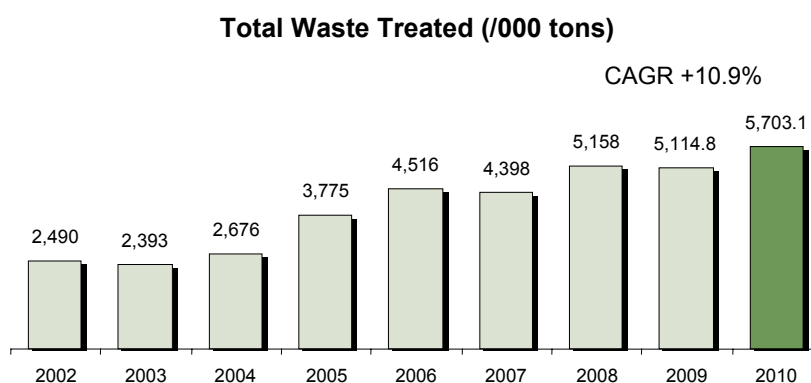
Hera maintains balance between its regulated activities (integrated water service, collection and disposal of urban waste, distribution of methane gas, electricity and district heating) and its deregulated activities (sales of methane gas and electricity, special waste disposal and public lighting) in terms of contribution to the EBITDA.

The low risk profile associated with this balanced multi-business approach has become a particularly important element over these last few years of macro-economic crisis, despite which Hera maintained uninterrupted growth of its consolidated EBITDA.

Hera leads the national market in the waste business, by quantity of collected and disposed waste. These waste collection activities are carried out basing on long term concessions.

The recent law, defined by rule of law 23bis del D.L. 25/06/2008 n. 112 and further changes (law 20th November 2009, n. 266) states that the present concessions, effective since the 1st October 2003 and related to listed Companies, can be carried out until the original expiration date, which were registered on concession documents, only if privatization operations are carried out by reducing local municipalities capital by a no more than 40% share within 30th June 2013 and no more than 30%, within 31st December 2015. If the capital reduction can't be achieved within the fixed deadlines, the concessions will expire in advance, as per lawmaker indications. Gains covering all the collecting and disposal cycle expenses are yearly established in accordance with local Authorities and consistently with the national and regional law.

Over the last eight years, the list of plant infrastructures has grown to 77 plants, capable of covering the entire range of possible waste treatments and recoveries. These plants represent the excellence of the Group on a domestic scale and have allowed it to expand the volume of its activities considerably.

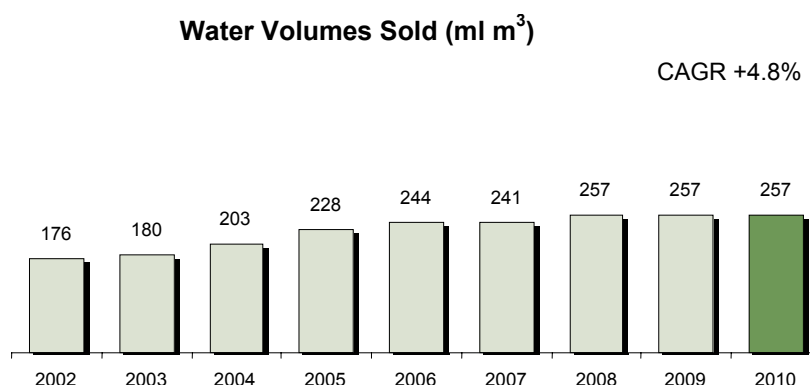


The Group is one of the main operators in Italy that generates electricity from waste; Hera in fact has exceeded 530 GWh in 2010 and is the only company that has managed to build and put 5 new WTE plants into operation in Italy over the last few years. This implementation has brought the installed capacity to over 100 megawatt and 1 million tonnes/year.

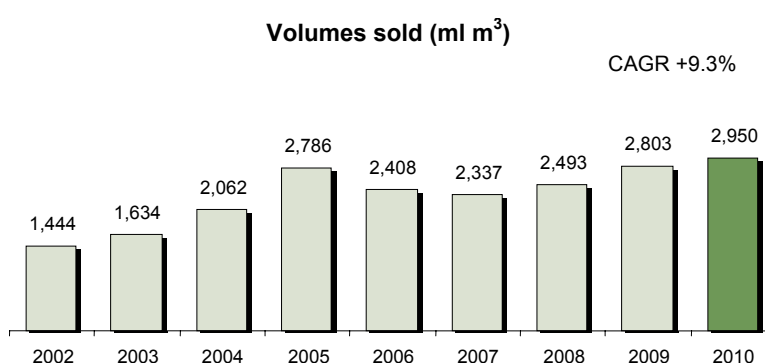
With respect to the lack of infrastructure in the Italian waste treatment sector, which ended up with the waste emergencies in Campania and Sicily, calls for tenders have been put in place to build new WTE plants in some regions of Italy. Herambiente is already preparing for participation in some calls for tenders in order to gain a foothold in this expanding market.

The Hera Group is the second largest 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 performing this service in seven provinces in Emilia Romagna and in the Northern area of Marche, in accordance with long-term concessions (2022 on the average: even for water service concession see also above mentioned rule of law 23bis del D.L. 25/06/2008 n. 112 and further changes). The tariffs for 2008-2012 have already been agreed with local authorities.

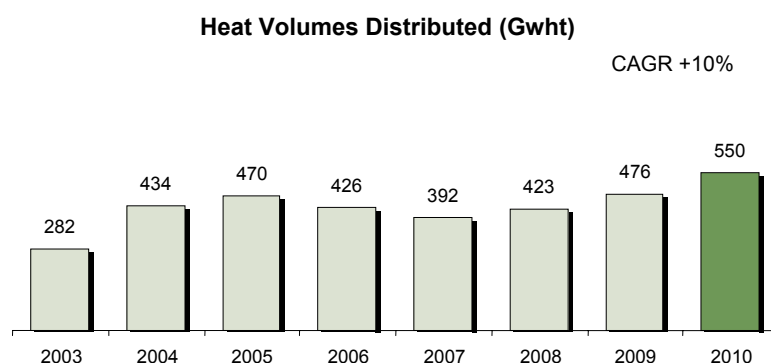
Increased efficiency in the management of more than 26,000 kilometres of water networks, economies of scale in purchasing and adjustment of tariffs to meet legal requirements were the key factors behind the growth achieved in 2010, given the contribution of volumes sold.



Hera has an almost complete coverage of the reference area in the **gas sector**. It is the largest of the Italian companies and the fourth on a national level in terms of volumes distributed. With over 1.1 million customers, Hera sells over 2.9 billion cubic metres of gas per year.

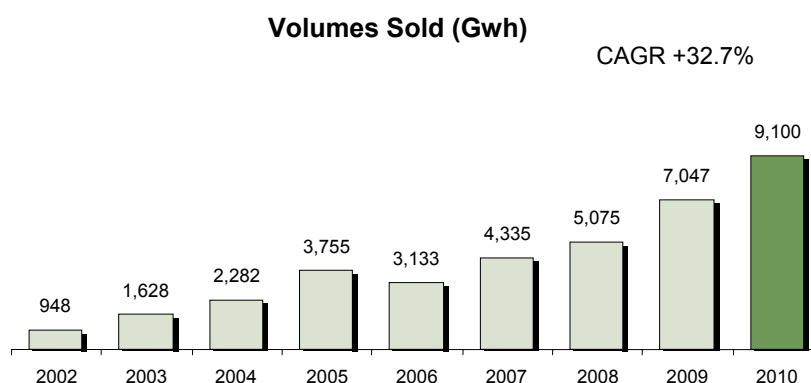


Through the TAG gas pipeline, the Group has a direct transportation capacity from abroad for about 450 million m³, to which is added a capacity of one billion m³ per year already contracted through the Galsi project, a gas pipeline between Italy and Algeria in which Hera holds a 10% stake. Furthermore, the sales volumes for the district heating activity have increased thanks to the implemented generation capacities and above all the deployment of the 80 MW Imola co-generation plan.



The conservative procurement policy based on the diversification of sources and flexible contracts, in addition to the trading activity on commodity markets, have allowed us to benefit from the negative market trend in regard to gas prices during 2010.

Since its establishment, Hera has pursued a “dual fuel” sales strategy, allowing it to develop the **electricity market** at sustained growth rates in various ways, both through cross-selling to existing customers, and through expansion of new markets. Hera is one of the 8 leading Italian operators, and also one of the companies with the highest growth rates.



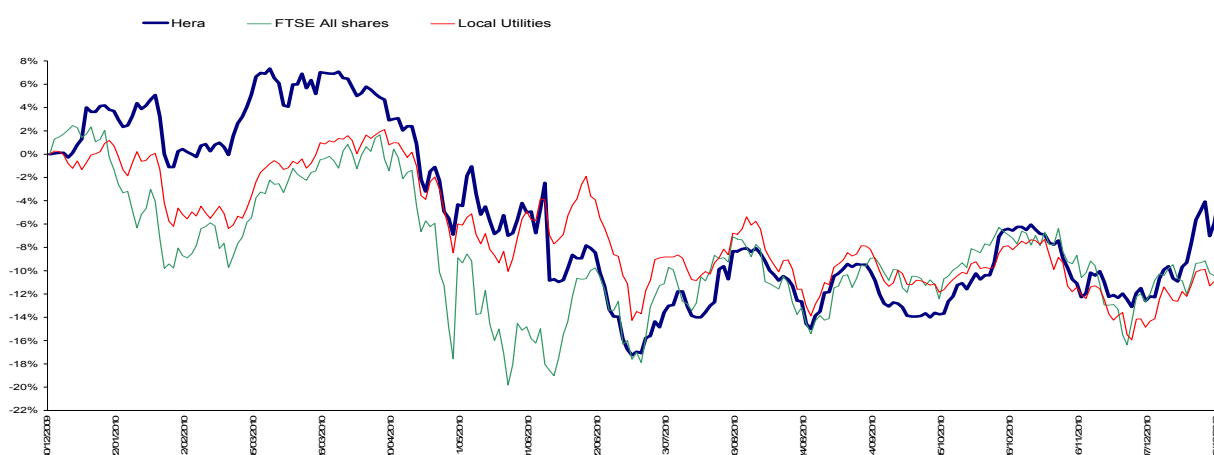
The market expansion in electricity industry was accompanied by a concurrent conservative development of the electricity generation activity. This strategy of partial coverage of the demand with “own” sources, together with the

enhancement of the trading capacity allowed the necessary flexibility to properly manage the market situation of oversupply and strong pressure on generation margins, incurred on the domestic market.

Share performance

The worldwide economic crisis which began in mid 2008 and continued for most of 2009 had serious impact on global financial markets even in 2010, causing a strong sense of insecurity among operators. The markets were even more affected by the concern about the sovereign debt of certain European countries which reached levels considered excessive at the beginning of 2010. The joint action taken by EU institutions, together with rigorous economic policies applied by the European countries in question, restored confidence in the system and, in the second part of the year, the market initially stabilised and then recovered, although with a contained upwards trend.

In this scenario, the Italian utility stocks followed the market's negative performance, though posting a slightly better performance compared to the Italian All Share index. The FTSE Italia All Share index closed 2010 down by -11.5% from the beginning of the year, while the Italian Local Utilities index closed at -10.5%. In 2010, Hera share countered the trend by posting an official price of Euro 1.558 in the last trading session of the year, thereby posting a negative performance for the year of only -3.9%.



The average level of daily trades was approximately 1.5 million shares, for an amount in line with 2009, of about Euro 2.3 million.

The Hera share is listed on the Milan Stock Exchange under All Shares and is included in several indices: in fact, it has been part of the Kempen SNS Smaller Europe SRI Index for years; in 2008 it was also added to the ECPI Ethical Index Euro. In 2009, it was added to the ECPI Ethical Index EMU, which is composed of 150 companies with sustainability features that are in line with the ECPI SRI methodology and listed on the financial-monetary market within the European Union.

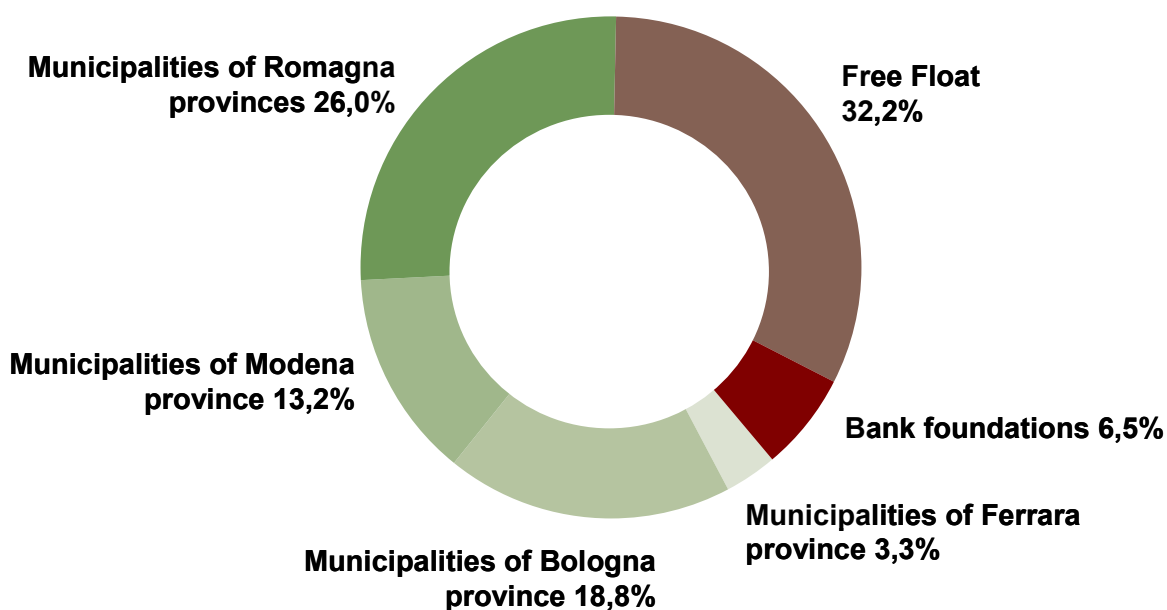
15 independent analysts regularly cover the Hera Group's shares, half of which are international: Axia, Alpha Value, Banca Akros, Banca IMI, Banca Leonardo, Centrobanca, Cheuvreux, Deutsche Bank, Equita, Intermonte, Kepler, Mediobanca, Merrill Lynch, Unicredit. The latter began the coverage in January 2011 and, with the analysts of Banca IMI, Banca Leonardo, Kepler and Deutsche Bank, includes Hera among the best investment opportunities for 2011. At the end of 2010, Hera was rated positively by analysts, with 14 Buy/Outperform recommendations and only 1 Hold. The average target price over 12-18 months expressed by the valuations of the analysts is Euro 1.97 per share (which implies a potential increase of the Hera stock of +25% compared to the market price of 1,558 Euro signed at the end of 2010).

The Group's financial structure is assessed by the two leading international specialised ratings agencies: Standard & Poor's and Moody's. On 22 July 2009, Standard & Poor's reduced its rating of Hera from A2 with stable outlook to BBB+ with stable outlook due to its long term debt, while Moody's changed its credit rating of Hera, giving it a rating of A3 (from A2) with a stable outlook (from a previous negative outlook).

2010 results significantly improve the financial ratio evaluated by rating agencies.

D/Ebitda move to 3 times (from 3.3x) and D/Equity bettered down to below 1 (from 1.1x).

Following a number of mergers by incorporation, the share capital reached 1,115,013,754 ordinary shares and remained stable in 2010. These mergers resulted in Hera's shareholding structure being unique in the Italian sector, with a shareholding spread among more than 187 public institutional shareholders from the reference area that hold a total stake of 62% (51% of which is bound by a shareholder agreement since inception). There are also over 400 Italian and foreign professional investors and over 21,000 private shareholders.



Since 2006, Hera has adopted a plan to buy back treasury shares up to a maximum of 15 million shares for a total of Euro 60 million. The purpose is to finance a possible opportunity to integrate small companies and to normalize any abnormal fluctuations in the list price compared to domestic comparables. The Shareholders' Meeting of 28 April 2010 renewed the treasury share purchase plan for another 18 months, up to a total amount of Euro 60 million. Hera held around 6 million treasury shares in its portfolio as at 31 December 2009.

The Group's main mean of communication is undoubtedly the institutional website www.gruppohera.it. During 2010, the section dedicated to shareholders/financial intermediaries (the "Investor Relations" section) underwent a continuous process of improving on-line financial communication by increasing interactive tools, timely updates and publication **in real time** of price sensitive announcements and corporate documents. For the second year in a row, Hera earned the second place in the Webranking 2010, the corporate websites award of the 150 Italian listed leading companies, established by Hallvarsson & Halvarsson.

In 2010, Hera had 295 meetings with investors, in line with 2009, and over 170 contacts through conference calls and video conferences (web casting). The intensity of the relation and the transparency in communication was improved further in response to the growing sense of uncertainty of the stakeholders at this time of deep systemic uncertainty.



1 directors' report

1.01 Introduction

For the eighth year in a row, in 2010 the Hera Group achieved positive results with the most significant organic growth since its establishment.

This figure becomes even more significant when examined in conjunction with the general macro-economic environment. Despite the modest recovery of 2010, the global situation compared to the pre-crisis period seems to be still one of deficit. In Italy, industrial output levels were positive at 5.5% (compared to a drop of approximately 17.5% in 2009). The GDP grew by 1.2% (compared to a decrease of 5.0% in 2009), exports increased by 15.7% (compared to -22.5% in 2009) and imports increased by over 22% (compared to -17.8% in 2009). The demand for energy services was also up; the demand for gas increased from 4.8%, assisted also by the colder weather (compared to -8% in 2009), while demand for electricity increased at a slower rate, to reach 1.8% (compared to -6.7% in 2009). In this context, Hera continued to pursue its strategies for development of its plants, external expansion, expansion on deregulated markets and general streamlining.

The growth strategy on deregulated markets led to a considerable increase in **electricity** sales in 2010, with sales volumes increasing by 10% compared to 2009, to approximately 7,7TWh. This result confirms the performance in 2009 (+2TWh) which enabled Hera to be included among the 10 electricity companies with the greatest rate and speed of growth in the Middle East, Europe and Africa in the Platts classification. The increase in sales in 2010 was achieved through a sales development policy that led to an expansion of the customer base from 335,000 to over 382,000. The increase in sales was achieved through cross-selling to existing customers and the expansion in new markets that are geographically close to the reference areas of Emilia Romagna and Northern part of Marche region.

The Hera Group has been able to use its efficient sales force and after sales service as leverage with which to gain the loyalty of existing customers while promoting efficient cross selling activity. In 2010, the Group won the bid to provide electricity for the 2011-2014 period to protected customers in Lombardy, Tuscany, Lazio, Abruzzo, Molise and Puglia, thereby conquering new shares in this market where Hera has been active since 2009. Sales were evenly distributed among small to medium sized business customers and domestic customers, maintaining a final customer base with a good range of diversity.

On the **gas market** also, sales in 2010 increased slightly compared to the levels reached in 2009 (volumes up by +4% over about 1.1 million customers, in line with the change in demand. These results benefited from the cold winter season, the success in expanding the market and the maintenance of the market shares thanks to the sales activity aimed at ensuring customer loyalty. The profitability of the gas area has significantly increased thanks to procurement policies, which made it possible to benefit from the drop in gas prices on the commodity market in Europe, due to the fall in demand and to the new LNG capacity on stream.

The **urban and industrial waste disposal market**, where Hera is the leader in Italy, experienced a growth of volumes, despite the negative results of the 2nd quarter of the year and the operational results thanks to the increase in WTE treatments and other new plants started up. These results can be better appreciated if seen in light of the Italian macro-economic 2010 scenario..

The plant development strategy, aimed at vertically integrating the activities, was pursued, including by the construction of new waste treatment and district heating plants, improving the expertise gained over the years to their construction and management. In addition to deploying the plants constructed in 2009, another 2 new plants were launched in 2010. The last of the large waste to energy plants development plan, i.e., the Rimini WTE, was started up in the middle of the year and furthermore a new thermoelectric biomass plant, held in a joint venture with an industrial partner in the reference territory, entered into operation in Faenza.

The **concession managed activities for the distribution of energy, collection of urban waste and integrated water services** which represent 50% of the Group's EBITDA contributed to the growth in 2010, thanks also to the tariff adjustments still processing in order to reach the guaranteed returns and the new tariff systems. In particular, for the distribution of gas, domestic authorities have defined a level of revenues based on a more congruous value of capital invested, while for water and urban waste collection services the tariffs established are in line with the agreements reached with Local Authorities. The rationalisation actions undertaken in 2010 continued to contribute to the growth in annual results: in particular through the development scheme of the remote control and grid maintenance activities.

The 2010 results were not affected by the **development strategy along external lines** which, at the end of the year, resulted in the conclusion of the memorandum of understanding with ACAM.

To support these actions for development, in 2010 Hera increased the Group's financial flexibility by opening the shareholding of Herambiente to a financial partner with whom Hera will share the expansion of the business and which purchased 25% stake, against a consideration of Euro 125 million. The financial partner is Ambiente Arancione, a joint venture holding Eiser Global and APG (see also section 1.02). This transaction also implied a capital gain of Euro 50 million and resulted in greater capitalisation of the Group, together with a reduction of the net financial debt. The performance of the year, which also produced a positive cash generation, therefore closes with strengthened financial indices; a debt to equity ratio reduced below 1 and a ratio of D/Ebitda down to approximately 3. Furthermore, at the end of 2010, a convertible bond maturing in 2013 was issued of Euro 140 million, which ensures additional immediate liquidity and support for growth along external lines and which, if converted, will allow for improvement of the financial indices in the future.

The accounts for the year show increased operational results in all business areas, despite a conservative policy regarding additional provisions and amortisation/depreciation as against investments made as part of the development plan. The net profit after minority interest, which is almost double compared to last year, even not taking into account the mentioned capital gain of about Euro 50 million.

The 2010 accounts solidly confirm the expectations of the five year business plan which was announced to the financial markets in October and the strategic choices pursued over the last few years. In light of the solidity of the economic and financial performance of the Group, the Board of Directors has decided to propose to the shareholders' meeting a dividend of Euro 0.09 per share, up by 12.5% compared to last year.

1.02 Corporate events in 2010

2010 was characterised by continued rationalisation of the Group's structure, which led to the sale or liquidation of 2 investee companies, 4 acquisitions of equity investments, 3 mergers by incorporation and 2 corporate transformations.

The main mergers for rationalisation purposes and M&A that took place during the year, the most significant of which relates to Herambiente Spa, are listed below.

Herambiente Spa

As at 9 December 2010, the transferral of 25% of the transfer of the share capital of Herambiente Spa to Ambiente Arancione Cooperatief U.A., a subsidiary company of Eiser Global Infrastructure Fund, was concluded.

Eiser, a major European infrastructure fund, has considerable experience in the waste management segment, as it acquired in 2007 an equity investment in Cory Environmental, a company that operates in the UK market which is constructing a waste-to-energy plant in London, among other things.

Eiser's addition to Herambiente SpA's shareholding structure, which has a medium/long term investment focus, contributes to reinforcing Herambiente's leadership in the environmental and waste disposal sectors.

Hera Comm Marche Srl / Aspes Gas Srl

Effective 1 January 2010, Aspes Gas Srl, wholly owned by Marche Multiservizi Spa, was merged by incorporation in Hera Comm Marche Srl, wholly owned by Hera Comm Srl, the purpose of both of the latter companies being the sale of natural gas and electricity to end customers.

Hera Comm Marche Srl's share capital rose to Euro 1,458,332 as a result of the aforementioned merger.

Following this transaction, 48% of the share capital of the company was held by Hera Comm S.r.l and the remaining 52% by Marche Multiservizi Spa

Subsequently, on 2 February 2010, 12% of the share capital of Hera Comm Marche Srl was sold by Marche Multiservizi Spa to Hera Comm Srl. Following this transaction, 60% of the share capital of Hera Comm Marche Srl is held by Hera Comm Srl and the remaining 40% by Marche Multiservizi Spa.

Acef Srl

On 8 April 2010 the Shareholders' Meeting of Acef Srl, a company that provides services related to the generation, sale and distribution of electricity, thermal energy and gas, resolved on the voluntary winding-up of the company, which is currently in the liquidation phase.

Isgas Energit Multiutilities Scarl

On 10 June 2010 Hera Spa transferred to Mediterranea Energia Ambiente Spa its entire equity investment – equal to 5% of the share capital - in Isgas Energit Multiutilities Scarl, a company operating in the sector of public service concessions of gas production and distribution.

As a result of this transaction, Hera Spa exited the shareholder structure of Isgas Energit Multiutilities Scarl.

Agea Reti Srl

Effective 15 July 2010, the merger by incorporation of Agea Reti Srl, a company managing gas networks in the area of the province of Ferrara, into Hera Spa was completed.

This transaction caused no changes in the share capital of Hera Spa, inasmuch as Agea Reti Srl was already wholly owned by Hera.

ASA Scpa

On 22 July 2010, effective 27 July 2010, the extraordinary shareholders' meeting of ASA, a subsidiary of Herambiente Spa which operates in the environmental sector, resolved to transform the company from an Spa to an Scpa.

Satcom Spa / Acantho Spa

Effective 1 September 2010 the merger by incorporation of Satcom Spa into Acantho Spa, a company 62.5% owned by Hera Spa and operating in the telecommunications sector, was concluded.

Enomondo Srl

On 16 December 2010, with effect from 31 December 2010, Herambiente Spa purchased from Caviro Società Cooperativa Agricola 40% of the share capital of Enomondo Srl, a business that operates in the waste to energy sector. On 16 February 2011, Herambiente Spa purchased from Caviro Società Cooperativa Agricola a further 10% of the share capital of Enomondo Srl, thus increasing its ownership in this company to 50%.

Other transactions

Other transactions also involving Hera Group companies were carried out during 2010:

Ghirlandina Solare Srl

On 19 July 2010, Hera Energie Rinnovabili Spa, a company controlled by Hera Spa, C.P.L. Concordia Soc. Coop. and Ing. Ferrari Spa established Ghirlandina Solare Srl, a company that is active in the design, realization, management and ordinary and extraordinary maintenance of ground mounted photovoltaic systems, of which they hold 33%, 34% and 33% of the share capital respectively.

Hera Servizi Cimiteriali Srl

On 22 December 2010, Hera SpA established Hera Servizi Cimiteriali Srl, a company that provides cemeterial services, of which it holds 100% of the share capital.

1.03 Hera Group Performance as at 31 December 2010

Consolidated summary results of the Hera Group:

(millions of €)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	% Change
Revenues	4,204.2		3,668.6		-12.7%
EBITDA	567.3	13.5%	607.3	16.6%	+7.1%
EBIT	291.3	6.9%	315.4	8.6%	+8.3%
Net profit	85.0	2.0%	142.1	3.9%	+67.2%

1.03.01 Financial and economic results

The 2010 economic results of the Hera Group are improved over the 2009 results as already seen in previous quarters.

Even the main quantitative indicators are up compared to the previous year, especially the increase in volumes of gas and electricity sold and distributed and district heating distributed, as well as the increase in waste collected and disposed.

At the end of 2009, the Group completed the following reorganisation processes of the company structure:

- the establishment of Herambiente S.p.A., focused on the business of waste disposal and treatment, through the transfer of all trade activities and plants;
- the spin-off of the Territorial Operating Companies (TOC) in favour of the Parent Company Hera S.p.A. and, as for customer management activities, to the subsidiary Hera Comm.

The Consolidated Income statement implements application of the interpretation of accounting standard IFRIC 12 "Service concession arrangements" which changed the accounting methods for corporate affairs with respect to the companies that operate in sectors regulated by specific concessions (please refer to the explanatory notes of the financial statements for more information). At an accounts level, the effect of applying this standard, which did not result in any changes to the results, is the representation of the investments made in assets under licence, limited to the network services, on the income statement. Therefore the other operating revenues are higher by Euro 135.2 million for 2010 and by Euro 151.9 million for 2009, capitalised costs are lower by Euro 35.4 million in 2010 and Euro 39.0 million in 2009 and operating service costs for services, materials and other operating expenses are higher by Euro 99.8 million in 2010 and Euro 112.9 million in 2009.

Apart from the above, the 2009 accounts were reclassified in order to improve representation of the construction of plants and other facilities between the companies operating within the Group; specifically, the costs for services and capitalised costs were increased by the same amount.

The economic results for 2009 and 2010 are shown in the following table:

Income Statement (millions of €)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	Abs. Change	% Change
Revenues	4,204.2	0.0%	3,668.6	0.0%	-535.6	-12.7%
Change in inv. of fin. prod. and work in prog.	(2.9)	-0.1%	(1.7)	0.0%	-1.2	-41.8%
Other operating income	234.7	5.6%	210.4	5.7%	-24.3	-10.4%
Raw materials and consumables	(2,777.6)	-66.1%	(2,140.5)	-58.3%	-637.1	-22.9%
Service costs	(765.3)	-18.2%	(810.7)	-22.1%	+45.4	+5.9%
Other operating costs	(37.7)	-0.9%	(38.8)	-1.1%	+1.1	+2.9%
Personnel costs	(352.0)	-8.4%	(361.9)	-9.9%	+9.9	+2.8%
Capitalised costs	63.9	1.5%	81.9	2.2%	+18.0	+28.2%
EBITDA	567.3	13.5%	607.3	16.6%	+40.0	+7.1%
Deprec. and amort. and allowances	(276.0)	-6.6%	(291.9)	-8.0%	+15.9	+5.8%
EBIT	291.3	6.9%	315.4	8.6%	+24.1	+8.3%
Financial operations	(113.4)	-2.7%	(109.8)	-3.0%	-3.6	-3.2%
Other non-operating costs	(15.3)	-0.4%	-	0.0%	-15.3	-99.9%
Pre-tax profit	162.6	3.9%	205.6	5.6%	+43.0	+26.4%
Taxes for the year	(77.6)	-1.8%	(63.6)	-1.7%	-14.0	-18.0%
Net profit for the year	85.0	2.0%	142.1	3.9%	+57.1	+67.2%

* The 2009 figures were reclassified due to application of the IFRIC 12 standards

The EBITDA increased from Euro 567.3 million in 2009 to Euro 607.3 million in 2010, +7.1%; the EBIT from Euro 291.3 million to 315.4 million, +8.3%; pre-tax profit increased by 26.4%, from Euro 162.6 million to 205.6 million, net profit from Euro 85.0 million to 142.1 in 2010, +67.2%.

The decrease in electricity trading activities and the fall in the price of the raw material component on the methane gas sales, related to oil price trends, is the main reason behind the drop in Revenues, which fell from Euro 4,204.2 million in 2009 to 3,668.6 million in 2010. These effects are partly offset by the higher volumes sold in the energy areas and disposed of in the waste management area.

Other operating income, equal to Euro 210.4 million, fell compared to the same period of the previous year by Euro 24.3 million, mainly due to the effects of the IFRIC 12 reclassification, which had a Euro 151.9 million impact in 2009 and an impact of Euro 135.2 million in 2010; if this reclassification had not been made, other operating income would have been down by Euro 7.5 million, equal to 9.1%.

The decrease in Costs of raw materials and consumables, equal to Euro 637.1 million compared to the previous year, is linked to the above-mentioned energy dynamics.

Other operating costs (Services costs were up by Euro 45.4 million and Other operating costs increased by Euro 1.1 million), saw a total increase of Euro 46.5 million (+5.8%). Both the application of the IFRIC 12 standard, which fell by about Euro 22.0 million, and the effect of the accounting reclassification on construction of the plants between the group companies had an effect on this item, which results in increased service costs of Euro 12.8 million between 2009 and 2010. The net increase of other operating costs is therefore equal to Euro 55.8 million between 2009 and 2010. About half of this increase is due to the higher costs of electricity transport related to the higher volumes sold, and the other half is due to the increased level of work to build plants and facilities.

Personnel costs rose from Euro 352.0 million in 2009 to Euro 361.9 million in 2010 (+2.8%). The increase is mainly due to the development of contractual dynamics.

The increase in capitalised costs, which went from Euro 63.9 million to 82.9 million is related to the accounting reclassification of work done on the plants between the Group companies for Euro +21.1 million and Euro +3.6 million due to the effect of applying the IFRIC 12 standard; there is therefore an actual fall in capitalised costs of Euro -6.7 million (-8.4%).

The consolidated Group EBITDA for 2010 is up, increasing from Euro 567.3 million as at 31 December 2009 to Euro 607.3 million (+7.1%), thanks to the profit made in the main Group business areas: note the higher volumes of sold and distributed in the energy area, along with higher profits, the increased rates to cover the higher level of services supplied in the water service, and the higher volumes handled and contribution of the new plants in the waste management area.

Amortisation, Depreciation and Allowances increased by 5.8%, from Euro 276.0 million in 2009 to Euro 291.9 million in 2010. The increase is mainly due to the greater allocations to the bad debt provision and, for the rest, to the entry into operation of new plants which offset the effect of the reduction of the amortisation/depreciation rates. The useful life of the energy cycle goods (gas, electricity and district heating) was reviewed during 2010, with the help of an expert report made by an external consultancy company, and in accordance with what was requested by the reference accounting standards. In most cases, the average life was lengthened, with a resulting drop in the depreciation rate of the plants in question; achieving greater standardisation in the rates used. Please refer to the explanatory notes of the financial statements for further details.

The year 2010 therefore shows an EBIT of Euro 315.4 million, up by 8.3% compared to 2009.

The Financial Operations stood at Euro 109.8 million in December 2010 compared to Euro 113.4 million in 2009. There were higher costs due to the following main dynamics, not including the extraordinary effect related to the interest payable on the "state aid" amounts returned of Euro 12.3 million in 2009:

- Decrease due to the average indebtedness for about Euro 1.6 million.
- Increase due to a higher long-term debt portion on the total indebtedness of about Euro 9.8 million.

The total cost of the financial operations also reflects a Euro 0.4 million increase due to the change in profits from associated companies, dividends and the IAS effects.

It should be also noted that on 31 December 2009, the Group discounted a further Euro 15.3 million connected with the tax moratorium on the item "other non-operating costs".

In light of the above, the Pre-tax Profit rose from Euro 162.6 million in 2009 to Euro 205.6 million in 2010, an increase of 26.4%, equal to Euro 43.0 million.

Taxes fell from Euro 77.6 million to 63.6 million and take account of non-recurring benefits of Euro 25.0 million. Specifically, the assets acquired by the parent company, Hera S.p.A. due to transfer of the Area Asset and Con.Ami assets and due to the merger by incorporation of Hera Reti Modena, were recorded for an additional statutory value of Euro 160.8 million. This "additional value" which was not recognised on a tax basis, was redeemed in 2010 through application of the substitute tax pursuant to article 176, paragraph 2 – ter of the FCA, for Euro 25.5 million, with resulting recording on the income statement of the deferred taxes due originally recorded to offset the non-deductibility of these additional values. The operation therefore permitted a positive, non-recurring component of Euro 25 million to be recorded to the income statement. The final tax rate amounted to 30.9%.

Net Profit as at 31 December 2010 therefore stands at Euro 142.1 million, up 67.2% compared to Euro 85.0 million in the same period in 2009.

Analysis of the Group's balance sheet:

The following table illustrates the performance of the Group's net capital employed and the sources of financing as at 31 December 2010 with respect to the situation at the previous year-end.

Capital employed and sources of financing (millions of €)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	Abs. Change	% Change
Net fixed assets	3,986.8	111.0%	4,142.3	111.0%	155.5	3.9%
Net working capital	25.8	0.7%	(29.1)	-0.8%	(54.9)	-213.1%
(Provisions)	(420.0)	-11.7%	(382.8)	-10.3%	37.2	-8.9%
Net capital employed	3,592.5	100.0%	3,730.4	100.0%	137.9	3.8%
Shareholders' equity	1,700.7	47.3%	1,870.2	50.1%	169.5	10.0%
Long-term financial debts	2,143.7	59.7%	2,292.1	61.4%	148.4	6.9%
Net short-term position	(251.9)	-7.0%	(431.9)	-11.6%	(180.0)	71.4%
Net financial position	1,891.8	52.7%	1,860.2	49.9%	(31.6)	-1.7%
Total sources of financing	3,592.5	100.0%	3,730.4	100.0%	137.9	3.8%

The net capital employed in 2010 increased by 3.8%, passing from Euro 3,592.5 million to Euro 3,730.4 million due to the significant investment plan.

With regard to net fixed assets, which as at 31 December 2010 amounted to Euro 4,142.3 million, against 3,986.8 in December 2009, indicating an increase in tangible and intangible assets.

Provisions at the end of 2010 amounted to Euro 382.8 million against Euro 420.0 million in December 2009. The reduction is mainly due to using the provision for deferred taxes, partially offset by an increase in the provisions for various risks.

The net working capital is down from Euro 25.8 million as at 31 December 2009 to Euro -29.1 million as at 31 December 2010. The reduction is mainly to do with the higher debt due for both the tax on consumables and the substitute tax allocated in connection with the sheltering operation previously stated.

The shareholders' equity rose from Euro 1,700.7 million in 2009 to 1,870.2 million in 2010, with the debt to equity ratio improving significantly, falling from 111.2% in 2009 to 99.5% in 2010.

Analysis of the Group net financial position:

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

(in millions of €)		31-Dec-10	% Inc.	31-Dec-09	% Inc.	Abs. Ch.	% Change
a	Cash	538.2		350.3	0.0%		+0.0%
b	Other current financial receivables	44.3		20.7	0.0%		+0.0%
	Current bank liabilities	-58.4		-22.5	0.0%		+0.0%
	Current portion of bank indebtedness	-71.1		-75.1	0.0%		+0.0%
	Other current financial liabilities	-16.6		-14.3	0.0%		+0.0%
	Financial leasing payables – maturing within the next year	-4.6		-7.1	0.0%		+0.0%
c	Current financial indebtedness	-150.7		-119.1	0.0%		+0.0%
d=a+b+c	Net current financial indebtedness	431.8	-13.3%	251.9	-13.3%	(179.9)	-71.4%
e	Non-current financial receivables	10.3		10.1	0.0%		+0.0%
	Non-current bank liabilities	-345.8		-394.0	0.0%		+0.0%
	Bonds issued	-1,787.3		-1,631.5	0.0%		+0.0%
	Other non-current financial liabilities	-160.4		-118.9	0.0%		+0.0%
	Financial leasing payables – maturing beyond the next year	-8.8		-9.4	0.0%		+0.0%
g	Non-current financial indebtedness	-2,302.3		-2,153.8	0.0%		+0.0%
h=e+f+g	Net non-current financial indebtedness	-2,292.0	113.3%	-2,143.7	113.3%	148.3	+6.9%
i=d+h	Net financial indebtedness	-1,860.2	100.0%	-1,891.8	100.0%	(31.6)	-1.7%

The net financial position fell from Euro 1,891.8 million as at 31 December 2009 to Euro 1,860.2 million as at 31 December 2010. This improvement is due to the generation of a positive, pre-dividend cash flow and the transfer of 25% of Hera Ambiente SpA (about Euro 125 million) which more than offset the outlay from the distribution of Euro 96.8 million in dividends.

About Euro 345.8 million was invested during 2010.

An indebtedness mainly comprising medium/long term debt covering over 95% of total indebtedness, is confirmed, dully offsetting the Group's equity structure characterized by a high fixed assets value.

Hera S.p.A.'s long-term rating issued by Moody's is "A3" and Standard & Poor's rating is "BBB+", both with a stable outlook.

Investments

The Group's tangible and intangible investments totalled Euro 345.8 million, compared to Euro 392.5 million in the same period of the previous year. In the same period, financial investments were also made for Euro 8.1 million. These investments refer to the increased potential in the energy sectors through equity investments in new plants such as construction of the Galsi pipeline and the biomass combustion plant of Enomondo. In 2010, facilities, networks and telematic equipment for a total value of Euro 12 million were disposed of in cost-cutting measures.

The table below lists the investments, including the assets disposed of, for the period broken down by business sector:

Total Investment (mln €)	31-Dec-09	31-Dec-10	Var. Ass.	Var. %
Gas area	64.1	48.8	-15.3	-23.9%
Electricity area	37.9	39.0	+1.1	+2.9%
Integrated water cycle area	105.4	94.2	-11.2	-10.6%
Waste management area	119.1	98.7	-20.4	-17.1%
Other services area	12.0	13.3	+1.3	+10.8%
Central structure	54.0	51.8	-2.2	-4.1%
Total operating investments	392.5	345.8	-46.7	-11.9%
Total financial investments	36.8	8.1	-28.7	-78.0%
Total	429.3	353.9	-75.4	-17.6%

N.B. The 2009 investments were reclassified in order to more clearly represent the plant construction and other facilities between companies operating within the Group.

Investments in the **Gas** area went down on the whole, compared to the same period of the previous year, mainly due to the lower requests for extension interventions of the District Heating network. Investments relating to the GAS service in the area in question regarded network expansion, enhancement and upgrading of networks and plant systems. District heating service investments concerned extension work to the service, mainly in the areas of Bologna (Euro 3.4 million), Imola (Euro 4.6 million), Forlì Cesena (Euro 7.5 million), and Ferrara (Euro 1.8 million) whereas Heat Management service investments concerned structural work on thermal plants operated by companies of the Group. Others investments related to the acquisition of long-term rights of way on foreign pipelines to transport raw material.

Investments in the **Electricity area**, mainly including extension of the service and extraordinary maintenance of plants and distribution networks in the territories of Modena and Imola and the network service support, are up in relation to development of new electricity production plants from renewable sources, including the photovoltaic plant built near the Bologna freight terminal (2 MW). The mass replacement of current meters with electronic meters in order to comply with the substitution plan resolved by AEEG is significant (Euro 5.0 million), and in line with the same period of the previous year. The investments in plants producing electricity and heat (CCGT) refer to the construction of the co-generation plant in Imola, now at the definitive start-up phase, whilst co-generation investments are aimed at the construction of new facilities at the local companies.

Electricity (mln €)	31-Dec-09	31-Dec-10	Var. Ass.	Var. %
Territory	19.0	27.0	+8.0	+42.1%
CCGT Imola	13.6	7.3	-6.3	-46.3%
Industrial cogeneration	5.3	4.7	-0.6	-11.3%
Total Electricity	37.9	39.0	+1.1	+2.9%

With regard to the **Integrated Water Cycle**, there was an overall reduction of operations compared to the same period of the previous year due to the significant streamlining of the activities. They mainly regard expansion, enhancement and upgrading of networks and plant systems, and regulatory adjustment, in particular with regard to sewer systems.

Integrated Water Cycle (millions of €)	31-Dec-09	31-Dec-10	Change	% Change
Aqueduct system	54.2	50.0	-4.2	-7.7%
Purification system	20.1	19.2	-0.9	-4.5%
Sewage system	31.1	24.9	-6.2	-19.9%
Total Integrated Water Cycle	105.4	94.2	-11.2	-10.6%

With regard to **Waste Management**, it is in line with the previous year with respect to the maintenance and upgrade of the existing facilities in the area. Regarding investments in waste-to-energy plants (WTE), interventions were aimed at completing expansion of the Modena plant and creating the Rimini plant, since the waste-to-energy plants in Ferrara and Forlì are already complete and operational.

waste management (mln €)	31-Dec-09	31-Dec-10	Var. Ass.	Var. %
Existing plants	49.2	49.6	+0.4	+0.8%
New plants:				
WTE Canal Bianco (FE)	0.1	0.0	-0.1	-100.0%
WTE Modena	31.6	17.8	-13.8	-43.7%
WTE Forlì	13.0	0.7	-12.3	-94.6%
WTE Rimini	25.2	30.6	+5.4	+21.4%
Total Waste management	119.1	98.7	-20.4	-17.1%

With respect to the **Other Services** area, there has been an increase in investments in telecommunications with respect to the extension of the optic fibre network, including in city areas, in new customer access connections for new customers, and in modernising the Data Centre. Investments in the Public Lighting service are down compared to 2009; investments in cemetery services are included under the item Other.

Other services (mln €)	31-Dec-09	31-Dec-10	Var. Ass.	Var. %
TLC	8.1	10.4	+2.3	+28.4%
Public Lighting and Traffic lights	3.1	2.1	-1.0	-32.3%
Other	0.8	0.9	+0.1	+12.5%
Total Other Services	12.0	13.3	+1.3	+10.8%

There was an overall decrease, in comparison to the previous year, in investments within the Central Structure due to the completion of the restructuring of company information systems and the rationalization of the operating fleet. Operations were up slightly due to the maintenance of the Group real estate assets. Completion of laboratories and other minor investments related to the territorial operational structures are included in the item other investments.

Central structure (mln €)	31-Dec-09	31-Dec-10	Var. Ass.	Var. %
Buildings	20.9	24.1	+3.2	+15.3%
Information systems	15.5	14.7	-0.8	-5.2%
Vehicle fleet	10.0	9.4	-0.6	-6.0%
Other investments	7.6	3.5	-4.1	-53.9%
Total Central Structure	54.0	51.8	-2.2	-4.1%

1.03.02 Regulatory framework and regulated revenues

1. Reference scenario: energy and environment

The new European directives impose increasingly challenging objectives on the Member States with respect to the promotion of energy from renewable sources and energy efficiency in order to limit dependence on fossil fuels and the greenhouse gas emissions. In order to comply with national obligations as set out in the national renewable energy action plan (PAN), the Government approved two important provisions with significant impacts on the Hera Group.

1. **Legislative decree no. 56 of 29 March 2010**, amending decree no. 115 of 30 May 2008, implementing directive 2006/32/EC regarding **energy end-use efficiency** and energy services. The provision raises the maximum threshold of power defining an Efficient User System (EUS) from 10 to 20 electric megawatt hours, characterised by the presence of both a plant for consumption by one end consumer only and an electricity production plant, powered by renewable sources, or a high yield cogeneration plant. The new decree limits definition of the EUS to private connections, without the obligation for third parties to connect to the electricity network. The Italian Authority for Electricity and Natural Gas (AEEG) must regulate the EUSs to ensure that the transmission and distribution tariffs, and the despatching and general system charges covering expenses will be exclusively applied to the electricity taken from the connection point.
2. The legislative decree implements the Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 (Government Act no. 302), approved definitively by the Council of Ministers on 3 March 2011 after approval in Joint Conference and the Parliamentary Commissions, and reforms the entire **regulatory structure supporting renewable sources**.
 - The negotiable green certificate system is replaced by a **differential system** in accordance with the power of the plant. Plants with power of less than 5 Megawatts will have a **feed-in-tariff** for the energy produced, differentiated by source and power class. Plants with power of more than 5 Megawatt will have the right to an incentive that will be assigned through a descending price **bidding mechanism** managed by the Electricity Services Operator (GSE). The procedures for implementing the new incentive mechanisms will be governed by the upcoming ministerial decrees within 6 months of approving the definitive text of the Legislative Decree by the Council of Ministers.
 - The **portion of electricity from renewable sources** that the producers and importers of energy must put into the national electricity grid, in accordance with legislative decree no. 99 of 16 March 1999, will be progressively reduced starting from the value assigned in 2012, until cancellation in 2015. The GSE will be responsible for collecting the green certificates for the excess production with respect to the obligatory amounts, for the years from 2011 to 2015, at a price equal to 78% of the value expressed by table 3 of Law 244/07 (reference price equal to Euro 180/MWh less average annual PUN).
 - As regards the plants that enter into operation by 31 December 2012, the all-inclusive tariffs and reference values of the green certificates will be frozen at the values established by 2008 Finance Bill, and the certificate multiplication factors will also remain fixed at the values provided under this provision and the 2007 Finance Bill.

- The decree also governs **energy efficiency**, defining two significant macro-instruments: review of the system promoting small scale energy saving activities that will be carried out after 31 December 2012 and the **support for the white certificates offer**. The ENEA (national agency for new technology, energy and sustainable economic development) will draft fifteen new standardised schedules for the quantification of energy savings in certain specific sectors, a reduction of the time-frames to obtain the certificates, extension of the saving validity times for more capital intensive projects and a single interface for the issue of white certificates (which will be the GSE).
- An increase in the compensation of the invested capital for modernising the networks in accordance with the "intelligent network" concept will be provided to promote the infrastructural development within the scope of **electricity distribution**. A fund has been established with the Equalisation Fund for the Electricity sector to support the **creation of the district heating networks**, funded by an amount applied to methane gas consumption and equal to 0.05 eurocents per standard cubic metre, paid for by the end consumers.
- In order to increase the number of **biomethane** production plants, new regulations will be established by the AEEG in order to define the technical and economic conditions for the allocation of the connection service of these plants to the natural gas distribution networks.

Note also, with respect to renewable sources, the directive of the Minister of Economic Development to realise the commitment taken on by the Government in converting the "energy law decree" 2010, no. 105, into law no. 129 of 13 August 2010 (Order of Business no. G/2266-B/1/10). The directive aims at clearly and definitively recognising the **vested incentive rights** of the plants that went into operation in 2007 in accordance with Law no. 296, article 1, paragraphs 1117 and 1118 of 27 December 2006; if necessary the Energy Service Manager will be authorised to quickly identify the plants entitled to the incentive law previously in force, and to therefore give, following the necessary agreements.

The Ministers in charge and the State-Regional Conference approved, but have not yet published, the main element of reform in the bidding mechanism for the **gas distribution** service provided under the Letta decree, known as the "Areas decree". The call for tenders for the service will no longer be carried out by the Municipalities, but by groups of Municipalities in areas, for a total of 177 (a higher number than that suggested by the AEEG studies and initially proposed by the Government). Completing the frame of reference of the area tenders, decrees are expected regarding the prompt definition of the municipalities that make up the individual areas, and the issue of two decrees regarding establishment of the tender rules (also approved by the Joint Conference) and the employment protection measures for the outgoing and incoming managers.

Finally, with respect to the economically significant **local public services**, the regulation pursuant to article 23-bis of law decree no. 112 of 25 June 2008, converted with amendments by Law no. 133 of 6 August 2008, as amended, was published by Presidential Decree no. 168 of 7 September 2010, implementing the pro-competition reform of local services.

2. Regulations

The term of office of the AEEG who had entered office in 2003 terminated in 2010 and the new Board was appointed, comprising five members as provided under the Marzano law. The delay in appointing the new Board, for which the qualified majority vote of the Parliamentary Commissions called on to express the agreement of the Members chosen by the Government was required, resulted in the need to extend the term of office of the outgoing Board, which remained in office for the final part of 2010 to carry out the "current administration" functions.

The newest regulatory developments in 2010 occurred **in the gas sector**:

- by resolution ARG/gas 7/10, the Authority defined a method used to estimate natural gas consumption following ascertained malfunction of metering units, effectively completing the regulatory process started by resolution ARG/gas 51/08 regarding the inspection of gas metering units upon request by end consumers
- the procedure, initiated by resolution ARG/gas 47/10, to estimate the final prices for protected customers using a method aimed at giving more weight to market developments, characterised by excess supply and a short-term liquidity increase, was completed. The calculation formula of the component to cover the procurement costs of the raw materials (QE) was modified by the ARG/gas 89/10 resolution, which actually reduced, starting from 1 October 2010, the previous level of the permitted component value by 7.5%. As with the other precedents, the provision was challenged by the operators; in the meantime, the Regional Court cancelled the previously existing regulation (resolution 79/07) of the final protected prices. The continued dispute and intervention on this matter by the EU (which approved precedence being given to the criteria of reasonableness, proportionality and the provisional character of the legitimate interventions made on the protected consumer prices) would suggest that a complete review of the approach should be made, both in terms of possibly restricting the field of protection (with the establishment of a regulated market as for the electricity sector), and in terms of the reference price fixing mechanisms, which are difficult to calculate in the fully deregulated market.
- An important consultation was initiated (DCO 25/10) on the overall reform of the gas system, aimed at developing the wholesale and retail gas market, starting by introduction of a balancing system based on market criteria; similarly, the DCO 45/10 and 46/10 consultations have been initiated, containing proposals regarding how the balancing market will operate, and the resulting and necessary reform of the settlement system, with a redefinition of the times and attributions of responsibility to distributors and transporters.

The main news in the **electricity sector** can be summarised as follows:

- resolution ARG/elt 13/10 regarding the communication standards between distributors and sellers of electricity for the services regarding the commercial quality regulated by the Consolidated Electric Quality Act, provides that, from 1 October 2010, distributors with more than 100,000 end consumers will be equipped with a modern communication instrument (known as the web portal) to manage the commercial services requested by the sellers
- by resolution ARG/elt 52/10 and ARG/elt 66/10, required by legal provision 99/09 (provisions regarding energy and competition) the Authority implemented the reorganisation of the internal user grids (the RIUs identified by the Authorities also include those of Herambiente regarding the waste-to-energy plants in Forlì and Ferrara)

- by resolution ARG/elt 125/10, the Consolidated Active Connections Act (TICA) was reviewed in order to simplify the connection procedures for the renewable source production plants, thereby encouraging development of widespread generation, and at the same time introducing instruments to monitor the requests and discourage speculative behaviour regarding the capacity in use on the distribution networks
- initiating an “innovative” regulation phase for the electricity networks, the Authorities implemented an experiment involving public recharging of electric vehicles (resolution ARG/elt 242/10), aimed at acquiring the information necessary for subsequent provisions. Special introductory incentive-giving tariffs will be provided for six pilot projects to be selected by April 2011
- finally, the consultation process for institution of the 2012 – 2015 period of electricity distribution tariff regulation has begun, where relative simplification of the current complex equalisation regimes is expected, in addition to consideration of the “complex network regulation” issues regarding the increasingly “active” nature of distribution networks.

As regards **transversal provisions**, it is important to note resolution ARG/com 104/10 which approved the Commercial Code of Conduct for the sale of electricity and natural gas to end consumers; the Code will enter into force starting from 1 January 2011. It is particularly important to note the introduction of automatic compensation to end consumers, which the seller must provide in the event of failure to comply with the specific standards defined by the Authority. Further news involves establishment of an integrated information system with the Sole Purchaser, aimed at constructing a standard, tendentially unified platform for the exchange and circulation of information that is relevant for relations between distributors and sellers on the deregulated market.

1. Gas distribution: tariff framework

2010 is the second year of the third regulatory period (2009-2012) for gas distribution and measurement tariffs. The regulatory reference for this four-year period was introduced by resolution AEEG arg/gas no. 159/08 of November 2008 and is in many respects highly innovative compared to previous methodologies.

The tariff structure set out by resolution 159/08 ensures each operator the achievement of certain permitted revenues calculated by the AEEG based on the recognized costs and the delivery points served, effectively making the company's revenue independent from the volume distributed during the period. This is possible through appropriate mechanisms for tariff equalization, allowing operators to adjust, through the adjustment fund, the difference between their permitted and invoiced revenue to the sellers. Finally, the latter derives from the application of compulsory tariffs determined by AEEG for macro-regional areas and of equal level for all operators.

The reference document for 2010 for approval of the restrictions on company revenues is resolution arg/gas no. 115/10 of July 2010, while the compulsory tariff levels were determined under resolution arg/gas no. 206/09 of December 2009. However, we should note, that following the Lombardy Regional Court ruling of October 2010, partially cancelling resolution 159/08, the AEEG formally initiated, by resolution arg/gas no. 235/10 of December 2010, a procedure aimed at evaluating the resulting changes to the tariff regulations. Therefore, approvals of the 2010 revenue restrictions decided by the AEEG under resolution no. 115/10, on which the 2010 revenues were identified, are not to be considered definitive. However, we should note that the partial cancellation of resolution 159/08, in addition to referring to a first instance ruling, regards regulatory plant specifics for which any changes to the AEEG study would have a presumably fairly neutral effect on HERA SpA, if not a beneficial effect with respect to the previously approved restriction levels.

Finally, in 2010, the data Adjustment Fund reporting process to calculate the 2009 equalisation balance took place. The understanding of the reporting logic and the calculation of the equalisation amounts by the Adjustment Fund, duly defined for the first time in 2010, therefore led to the need to partially adjust the previously estimated revenues pertaining to 2009, and give the opportunity to make a more precise estimate of the 2010 equalisation amounts, therefore assuming an adequate degree of caution.

Against this backdrop, revenues for HERA SpA in relation to the gas distribution and metering activities amounted to Euro 149.2 million, with distribution volumes of 2,330 million cubic metres, and a corresponding average revenue per unit of Euro cents 6.4 per cubic metre.

Gas distribution and metering - regulated revenues	2009	2010	% Change
Hera Spa			
Revenues (millions of €)	143.80	149.20	3.80%
Volumes (millions of cubic metre)	2,179.00	2,330.00	6.90%
Average revenue per unit (€cent per cubic metre)	6.60	6.40	-2.90%

The increase over 2009 levels, equal to Euro 5.4 million, is due to the increase in permitted revenues between the 2009 and 2010 transactions, to the extent of Euro 7.7 million, mainly due in turn to the setting up of the second portion of the gradual implementation of recognition of capital costs to a level identified by the tariff system, and to a lesser extent, due to the updates recognising the investments made in 2008 and the registered user dynamics.

However the increase in permitted revenues of Euro +7.7 million is offset by the effect of various adjustments to the accounts from previous years and changes in the accounting of certain tariff components, to the extent of Euro -2.3 million.

In this overall framework, expected revenues for HERA SpA attributable to 2010 only, amount to Euro 152.8 million.

The consolidation perimeter for 2010 also includes MARCHE MULTISERVIZI Spa. Reported below are the consolidated revenues from gas distribution and measurement, distributed volumes and average revenue per unit for the HERA Group.

Gas distribution and metering - regulated revenues	2009	2010	% Change
Hera consolidated			
Revenues (millions of €)	155.60	163.20	4.90%
Volumes (millions of cubic metre)	2,334.00	2,504.00	7.30%
Average revenue per unit (€cent per cubic metre)	6.70	6.50	-2.20%

With respect to the regulatory framework set out for HERA SpA, we should note that during 2010, MARCHE MULTISERVIZI obtained definitive approval of the revenue restrictions for 2009 and 2010, on the basis of the stratification of the invested balance sheet capital, and since it passed an additional charge for the preliminary study made on the data presented initiated by AEEG at the beginning of the year. The previous 2009 tariff approval, pursuant to resolution arg/gas 197/09, was made by AEEG in accordance with a penalising method that imposed a reduction of cost levels compared to the levels guaranteed by the pre-existing tariff method. This is why MARCHE MULTISERVIZI shows, compared with 2009, a significant increase in revenues of Euro 2.1 million from Euro 11.9 million to 14.0 million (+18%).

It should be noted that the Net Capital Employed for regulatory purposes, at the baseline revenue indicated for 2010 is approximately Euro 860 million for the HERA Group.

2. Electricity distribution: tariff framework

The year 2010 is the third year within the third period of tariff regulation for transmission, distribution, and measurement of electricity. The tariff framework is based on the definition of tariffs set out by the AEEG on a national basis, differentiated by user type, and on the existence of suitable general equalization mechanisms, established to adjust the invoicing revenue depending on the operating and capitalised costs of each operator.

All reference tariff provisions are identified by the Consolidated Act on the provisions for the supply of transmission, distribution, metering and sales services (TIT), approved by AEEG by resolution no. 348/07 of December 2007, while the specific tariff levels for the reference tariffs for 2010 were defined by resolution arg/elt 203/09 of December 2009.

In addition, in 2010, AEEG approved the amounts of certain significant revenue and cost equalisation components provided under the TIT with reference to 2008. Specifically, it refers to approval of the revenue equalisation amounts of the low voltage metering service (resolution arg/elt no. 40/10) and equalisation of the commercial costs of the low voltage customer distributors (resolution arg/elt no. 227/10). Even though these approvals refer to previous years, they are the first formal definitions by AEEG for the current regulatory period, for the associated equalisation items. Finally, we note approval, by the Equalisation fund for the Electricity Sector, of the equalisation amount of the value of the difference between actual and standard network losses provided for distributors under the Consolidated Act on Sales (TIV), pursuant to resolution 156/07.

Against this backdrop, revenues from tariffs for transmission, distribution, and measurement of electricity for 2010 were equal to Euro 52.0 million, with 2,238 million kWh distributed and an average revenue per unit equal to Euro 2.32 cents / kWh.

Compared to 2009, an equally significant increase in revenues of 7.6% was recorded, (from Euro 48.3 million to 52.0 million) against a significant increase in the delivered volumes (up 5.7% from 2,117 million to 2,238 million kWh).

Electricity distribution, metering and transmission - regulated revenues	2009	2010	% Change
Hera consolidated			
Revenues (millions of €)	48.30	52.00	7.60%
Volumes (millions of cubic metre)	2,117.00	2,238.00	5.70%
Average revenue per unit (€cent per cubic metre)	2.28	2.32	1.80%

In order to give a more detailed account of the Euro 3.7 million increase in revenues, we should first analyse the development of the permitted revenues generated by the reference tariffs with respect to the 2009 and 2010 levels, that show an increase of approximately Euro 4.5 million due to the double effect of an increase in the distributed volumes noted above, and the increase in the reference tariffs approved by AEEG by resolution arg/elt no. 203/09 (average increase of about +4%). The increase in permitted revenues was however offset, by Euro -0.9 million by various effects mainly to do with a change in the components provided for tariff equalisation between 2009 and 2010, and the revision of past year amounts, with reference to both the amounts invoiced to the sellers and the equalisation amounts.

Water cycle: tariff framework

The year 2010 was the third year of the 2008-2012 regulatory period concluded with all ATOs, except for the ATO Modena, for which the tariff agreement was renewed for the 2010-2012 period.

The comparison with data of 2009 shows an increase in revenue per unit of 5% for 2010. This is mainly due to the application of tariff agreements resolved by ATOs that provide for a tariff convergence towards the entire coverage of costs. On the other hand, as regards volumes, 2010 decreased by 2.3% mainly due to the exceptional rain that fell in the summer months especially.

Hera Group consolidated water cycle - tariff revenues	2009	2010	% Change
Tariff revenues (millions of €)	408.50	419.15	2.6%
Volumes (millions of cubic metre)	256.60	250.80	-2.3%
Average revenue per unit (€cent per cubic metre)	159.20	167.13	5.0%

Urban waste management: tariff framework

As at December 2010, Urban Waste Management services were provided in 182 municipalities, and 47% of these (86 Municipalities) adopted the tariff system pursuant to Presidential Decree 158/99, serving a population equal to 65% of the territory served, 54% of the municipalities are still under the TARSU (Urban Solid Waste Tax) regime.

An accurate comparison of homogeneous data of Hera Group Consolidated provides some indications.

Hera Group consolidated urban waste management - tariff revenues (TIA + TARSU)	2009	2010	% Change
Tariff revenues (millions of €)	385.57	398.49	3.4%
Population served* (000)	2,707.06	2,759.71	1.9%
Average revenue per unit (€/inhabitant)	142.43	144.40	1.4%

* population served as at 01/01

The overall increase in regulated revenues for the Urban Waste Management service to municipalities under license, equal to 3.4%, is due mostly to the average tariff increase of approximately 3.2%, which offsets the increased inflationary costs.

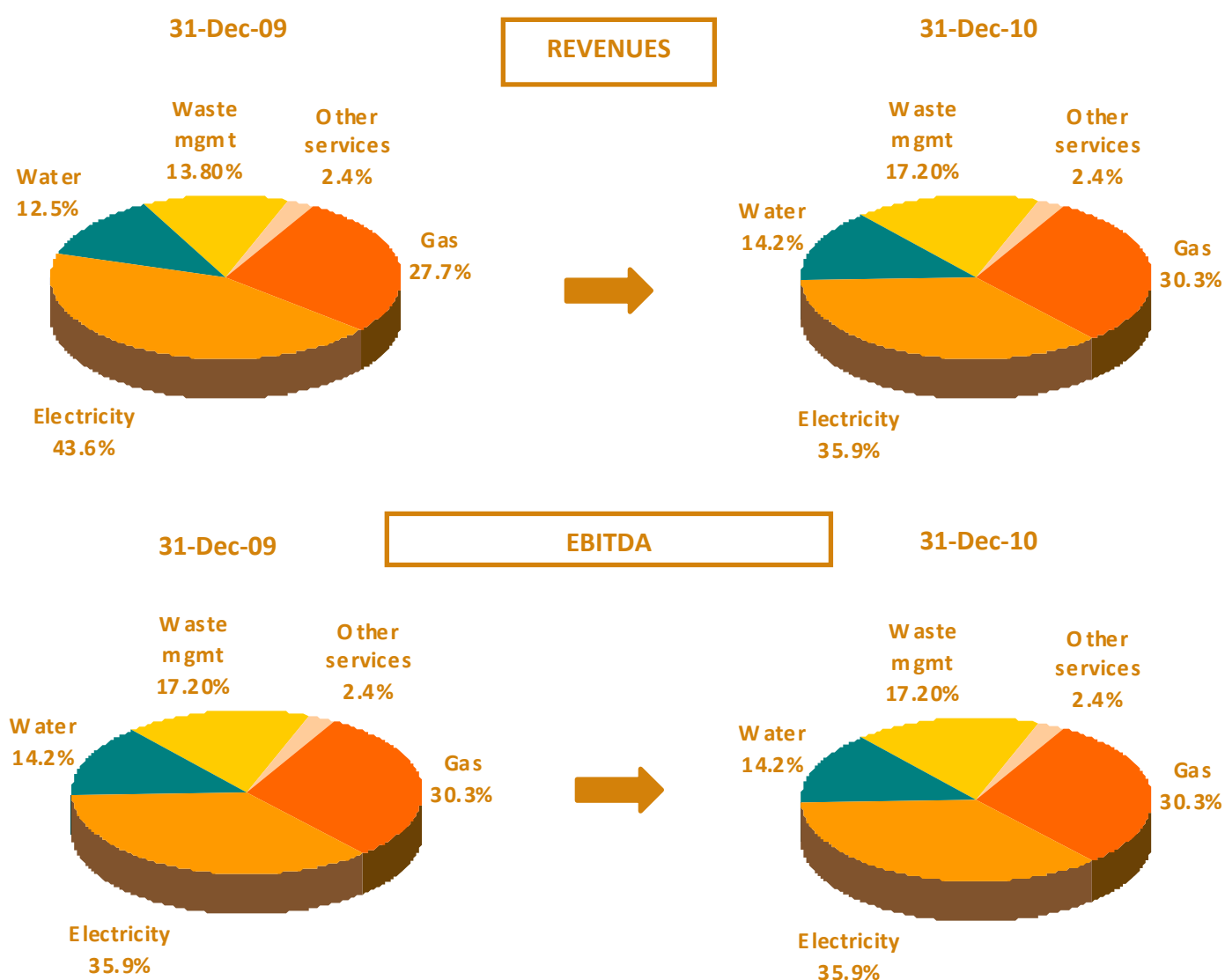
The remaining part is due to the added services requested by the Municipalities and income from improved control initiatives of tariff subject entities.

1.03.03 Analysis by Business Segment

An analysis is presented below of the operating results achieved in the business areas in which the Group operates: (i) Gas sector, concerned with the distribution and sale of methane gas and LPG, District heating and Heat Management (ii) Electricity sector, regarding the production, distribution and sale of Electricity, (iii) Integrated Water Cycle sector, including Aqueducts, Purification and Sewage, (iv) Waste Management sector, including Waste Collection, Treatment and Disposal and (v) Other Services sector, including Public Lighting, Telecommunications and other minor services.

In light of the above, the breakdown and development over the years in terms of Revenues and EBITDA is illustrated in the following charts:

Breakdown of the business portfolio



In the following chapters the operating performance of the various business areas is analysed. Income statements by business area include structural costs, and inter-divisional transactions valued at current market prices.

The analysis by business segment considers the valuation of the main revenues and costs, without impacts on the EBITDA, regarding application of IFRIC 12, as explained in the Group Consolidated Income Statement. The business segments that are most influenced by application of this standard are the following: the methane gas distribution service, the electricity distribution service, all the integrated water services and the public lighting service.

In addition, the accounting reclassification made in both 2009 and 2010 that increases the costs for services and the capitalised costs of the same amount are also considered. This reclassification, which impacts all the business segments, was made necessary in order to more clearly represent the plant construction and other facilities between companies operating within the Group.

Analysis of the Gas Area

As at 31 December 2010, the Gas area is up on the previous year, increasing its contribution to the Group's EBITDA margin by over one percentage point, as highlighted in the following table:

(millions of €)	31-Dec-09	31-Dec-10	Change	% Change
Gas area EBITDA	174.4	193.9	+19.5	+11.2%
Group EBITDA	567.3	607.3	+40.0	+7.1%
Percentage weight	30.8%	31.9%	+1.1 p.p.	

The following table shows the main quantitative indicators of the area:

Quantitative data	31-Dec-09	31-Dec-10	Change	% Change
Number of customers (thousand units)	1,070.6	1,072.5	+1.9	+0.2%
Gas volumes distributed (millions of cubic metre)	2,334.4	2,504.1	+169.7	+7.3%
Gas volumes sold (millions of cubic metre)	2,802.7	2,914.0	+111.3	+4.0%
<i>of which trading volumes</i>	627.9	721.8	+93.9	+15.0%
Heat volumes supplied (Gwht)	476.4	534.5	+58.1	+12.2%

The gas volumes distributed, with the same number of concessions managed, increased from 2,334.4 million cubic metres in 2009 to 2,504.1 in 2010, with a 7.3% increase; this increase is basically in line with the approximately 9% growth registered at a national level; we should note that a portion of the new connection development activities were concentrated in favour of growth in district heating.

The volumes of gas sold increased from 2,802.7 million cubic metres in 2009 to 2,914.0 in 2010, with an increase of 4.0%, due to the weather conditions that affected domestic consumption, and the higher levels supplied to large consumption centres (for example thermoelectric plants) by Hera Trading.

The volumes of heat supplied increased from 476.4 Gwht in 2009 to 534.5 in 2010, with a 12.2% increase following significant developments in the Imola area after start up of the cogeneration plant and Bologna.

A summary of the economic results in the area is shown hereunder:

Income statement (millions of €)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	Abs. Change	% Change
Revenues	1,290.7		1,237.1		-53.6	-4.2%
Operating costs	(1,067.8)	-82.7%	(1,003.3)	-81.1%	-64.5	-6.0%
Personnel costs	(63.5)	-4.9%	(66.9)	-5.4%	+3.4	+5.4%
Capitalised costs	15.0	1.2%	27.0	2.2%	+12.0	+79.9%
EBITDA	174.4	13.5%	193.9	15.7%	+19.5	+11.2%

Revenues decreased by 4.2%, falling from Euro 1290.7 million in 2009 to Euro 1237.1 million in 2010 due to the decrease in the price of raw materials, which similarly affects operating costs, but in the opposite sign; this effect prevails over the positive effect of the increase in volumes sold and distributed.

The higher capitalised costs are related to both the accounting reclassification of the plants and works within the Group, and application of the IFRIC 12 standard. If these effects are not considered, a comparison between the periods would show an increase of Euro 5.0 million.

The EBITDA in the Gas area increased by Euro 19.5 million, from Euro 174.4 million to Euro 193.9 million, with a significant increase of the percentage profit, which rose from 13.5% in 2009 to 15.7% in 2010.

This result is due to the following factors: (i) higher volumes of gas sales and better performance in trading activities; (ii) higher revenues from gas distribution. For more information, refer to the specific section regarding the regulatory aspects of the business; (iii) higher volumes of heat supplied and the lower average procurement cost of raw materials, related to the heat sold from the new cogeneration plant in Imola as regards district heating; (iv) better gas purchasing terms for the thermal year 2010/2011 that had an effect on the last quarter of the year.

When comparing the two periods, it should also be considered that there were capital gains in the last quarter of the previous year of about Euro 15 million, related to the transfer of the gas networks in the Ravenna and Imola areas.

Analysis of the Electricity Area

There was an increase in the electricity area between 2009 and 2010, including in terms of the amount of overall Group profit that rose from 9.3% to 9.8% as shown in the table below:

(millions of €)	31-Dec-09	31-Dec-10	Change	% Change
Electricity area EBITDA	53.0	59.8	+6.8	+12.8%
Group EBITDA	567.3	607.3	+40.0	+7.1%
Percentage weight	9.3%	9.8%	+0.5 p.p.	

The EBITDA for the area increased from Euro 53.0 million as at 31 December 2009 to Euro 59.8 million as at 31 December 2010.

The main results of the area are briefly summarised below:

Income statement (millions of €)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	Abs. Change	% change
Revenues	2,032.5		1,468.3		-564.2	-27.8%
Operating costs	(1,969.6)	-96.9%	(1,399.2)	-95.3%	-570.4	-29.0%
Personnel costs	(24.1)	-1.2%	(23.8)	-1.6%	-0.3	-1.2%
Capitalised costs	14.2	0.7%	14.5	1.0%	+0.3	+2.1%
EBITDA	53.0	2.6%	59.8	4.1%	+6.8	+12.8%

Revenues decreased from Euro 2032.5 million in 2009, to Euro 1468.3 in 2010, down by 27.8%, mainly linked to the decrease in trading activities and, to a lesser extent, to the reduction in the average market price of electricity.

The table below provides a detailed view on the evolution of revenues by type:

(millions of euro)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	Abs. Change	% Change
Sales revenues	690.0	33.9%	720.5	49.1%	+30.5	+4.4%
Distribution revenues	48.3	2.4%	52.0	3.5%	+3.7	+7.7%
Trading / other	1,294.2	63.7%	695.8	47.4%	-598.4	-46.2%
Total revenues	2,032.5	100.0%	1,468.3	100.0%	-564.2	-27.8%

Sales revenue increased by 4.4% due to higher volumes sold, resulting from the increased trade activity, partially offset by the aforementioned reduction in the average energy market price. Distribution revenues increased over the previous year, due both to the AEEG tariff adjustments and the recovery of revenues invoiced and equalisation components for previous years. Please refer to the appropriate section on the regulatory tariff framework for further discussion.

The quantitative data of the area, that do not include trading activities, are shown in the table hereunder:

Quantitative data	31-Dec-09	31-Dec-10	Change	% Change
Number of customers (thousand units)	335.3	382.5	+47.2	+14.1%
Volumes sold (Gw/h)	7,047.4	7,744.0	+696.6	+9.9%
Volumes distributed (Gw/h)	2,117.5	2,237.8	+120.3	+5.7%

The increase in volumes distributed shows an upswing in consumption, with the Imola and Modena territories displaying higher than average increases with respect to the average in the reference area of Emilia Romagna and Tuscany (+0.2%) and the national average (+1.8%).

The 9.9% increase in volumes sold is due to the strong performance of the commercial activities in the residential and VAT number segments of Emilia Romagna and the surrounding regions. The over 47 thousand unit increase in customers is especially significant, since it does not consider the customers who left and those who changed supplier. In addition, we should mention that the sales company acquired the protection service of the Tuscany, Umbria and Marche regions in 2009, and will expand the area serviced to Lombardy, Tuscany, Lazio, Abruzzo, Molise and Puglia in 2011.

The reduction in volumes traded and prices proportionally affected the decrease in operating costs for the purchase of raw materials, and the percentage margin increased from 2.6% in 2009 to 4.1% in 2010, also due to the effect of the different mix of volumes billed.

The capitalised costs increased by Euro 0.3 million as a whole due to the combined effect of higher increases for the aforementioned accounting reclassification, and application of the IFRIC 12 standard. Net of these effects, the capitalised costs are down by Euro 2.0 million between 2009 and 2010.

EBITDA increased from Euro 53.0 million in 2009 to Euro 59.8 million at the end of 2010, with a percentage increase of 12.8% as a result of the higher volumes sold and the improved profits obtained mainly from the brokerage activities, which interpreted the market situation with a provisioning campaign that allowed the flexibility of the available plant portfolio to be balanced against the market opportunities, thereby reducing the effects of the reduction in profits from the generation activities. Finally, the activities initiated in renewable energy sources and industrial cogeneration also contributed to the overall result.

Analysis of the Integrated Water Cycle

The result for the Integrated Water Cycle as at 31 December 2010 also increased with respect to the previous year:

(millions of €)	31-Dec-09	31-Dec-10	Change	% Change
Water cycle area EBITDA	131.4	142.0	+10.6	+8.1%
Group EBITDA	567.3	607.3	+40.0	+7.1%
Percentage weight	23.2%	23.4%	+0.2 p.p.	

The Water cycle area was particularly affected by the previously mentioned reclassifications due to application of the IFRIC 12 standard, and the increased costs for services and capitalisations for the improved representation of the plant works to the Group companies. An analysis of the operating results achieved in the area containing the above mentioned variations is shown below:

Income statement (millions of €)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	Abs. Change	% Change
Revenues	583.7		579.2		-4.5	-0.8%
Operating costs	(356.1)	-61.0%	(344.7)	-59.5%	-11.4	-3.2%
Personnel costs	(104.7)	-17.9%	(105.2)	-18.2%	+0.5	+0.5%
Capitalised costs	8.6	1.5%	12.8	2.2%	+4.2	+48.8%
EBITDA	131.4	22.5%	142.0	24.5%	+10.6	+8.1%

Revenues, equal to Euro 579.0 million, are down 0.8% compared to 2009.

If the effects of application of the IFRIC 12 standard are not considered, which generated a Euro +13.5 million change in 2010 compared to 2009, revenues are up by Euro 9.0 million (+1.9%) due to the combined effects of higher supply revenues to cover the services requested and lower connection revenues and revenues from volumes billed.

The reduction in operating costs, equal to -3.2 % is related to the effects noted above. If these impacts are not considered, the operating costs between 2009 and 2010 are down by Euro 4.2 million (-1.6%), showing that operating efficiency is being constantly monitored.

The capitalised costs, net of applying the provisions of IFRIC 12 and the accounting reclassification on the construction of the plants between the Group companies, are down by Euro 4.1 million.

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

Quantitative data	31-Dec-09	31-Dec-10	Change	% Change
Number of users (thousand units)	1,166.3	1,173.3	+7.0	+0.6%
Volumes sold (millions of cubic metre)				
Aqueduct system	256.6	250.8	-5.8	-2.3%
Sewage system	225.7	220.0	-5.7	-2.5%
Purification system	226.2	220.0	-6.2	-2.7%

The volumes of water supplied, in addition to the sewage and purification volumes, are down compared to 2009 due to the weather during the summer, since there was much higher rainfall in 2010 compared to the average for the period.

EBITDA at the end of 2010 increased by Euro 10.6 million, going from Euro 131.4 million in 2009 to Euro 142.0 million this year (+8.1%).

Analysis of the Waste Management Area

The Waste Management Area had higher profits than 2009, as shown in the table below:

(millions of €)	31-Dec-09	31-Dec-10	Change	% Change
Waste mgmt area EBITDA	187.3	195.1	+7.8	+4.2%
Group EBITDA	567.3	607.3	+40.0	+7.1%
Percentage weight	33.0%	32.1%	-0.9 p.p.	

The Hera Group has been for some time an important operator in the waste management sector, capable of integrated operations over the entire waste cycle, with 77 treatment and disposal plants for urban and special waste.

In addition, it expanded its activities during 2010 through renting the CAM S.p.A. line of business, and consolidation of the company Naturambiente S.r.l. operating in the Urban Hygiene and Waste Disposal sectors of the Marche Multiservizi Group.

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

Income statement (millions of €)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	Change	% Change
Revenues	642.1		703.1		+61.0	+9.5%
Operating costs	(334.7)	-52.1%	(386.0)	-54.9%	+51.3	+15.3%
Personnel costs	(142.4)	-22.2%	(147.2)	-20.9%	+4.8	+3.4%
Capitalised costs	22.3	3.5%	25.3	3.6%	+3.0	+13.5%
EBITDA	187.3	29.2%	195.1	27.8%	+7.8	+4.2%

As at 31 December 2010, revenues showed a 9.5% increase compared to the previous year, from Euro 642.1 million to Euro 703.1 million, linked to higher volumes disposed and, to a lesser extent, to higher revenues from urban hygiene due to tariff adjustments obtained to cover a greater number of services required. Please refer to the appropriate section on the analysis of regulated revenues for more information.

The increase in personnel costs of Euro 4.8 million is due to consolidation of the company Naturambiente S.r.l. and accounting for the rent of the CAM S.p.A. business line for Euro 2.1 million.

The capitalised costs, net of applying the previously mentioned accounting reclassification on the construction of plants between the Group companies, are down by Euro 3.8 million.

Separate waste collection, as a percentage of total volume of waste collected, reached at the end of 2010 a value of 47.8%, against 44.8% for the year 2009, up 3.0 percentage points. The % final balance of the 2009 and 2010 separate waste collection still does not include the DGR 1620-01 modification which does not include inorganic waste from multimaterial waste collection in the equation.

The following table highlights the growth in quantities of waste disposed of, which showed a 4.4% increase compared to 31 December 2009:

Quantitative data (thousands of tonnes)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	Abs. Change	% Change
Urban waste	1,793.9	35.1%	1,864.1	32.7%	+70.2	+3.9%
Market waste	1,530.8	29.9%	1,608.5	28.2%	+77.7	+5.1%
Commercialized waste	3,324.7	65.0%	3,472.6	60.9%	+147.9	+4.4%
Plant by-products	1,790.2	35.0%	2,230.5	39.1%	+440.3	+24.6%
Waste treated by type	5,114.8	100.0%	5,703.1	100.0%	+588.3	+11.5%
Landfills	1,400.4	27.4%	1,429.7	25.1%	+29.3	+2.1%
Waste-to-energy plants	734.5	14.4%	800.6	14.0%	+66.1	+9.0%
Selection plants	290.6	5.7%	322.2	5.7%	+31.6	+10.9%
Composting plants	402.0	7.9%	463.8	8.1%	+61.8	+15.4%
Stabilization and chemical-physical plants	1,084.6	21.2%	1,218.6	21.4%	+134.0	+12.4%
Other	1,202.7	23.5%	1,468.2	25.7%	+265.5	+22.1%
Waste treated per plant	5,114.8	100.0%	5,703.1	100.0%	+588.3	+11.5%

An analysis of the quantitative data shows an increase in both urban waste and market waste, due to the improved waste disposal capacity on the one hand, and a recovery of the economic activities in general on the other: 2009 was characterised by a sharp contraction in production activities.

Specifically, note the development in the disposal amounts recorded in 2010, which, due to the combined effect of availability of the new WTE plants and further developments in the recycling and separated waste collection activities, resulted in the significant increase in the volumes utilised in the waste to energy and selection and composting plants against a concomitant stabilisation in the use of the landfills.

The EBITDA of the Waste Management area increased by Euro 7.8 million over the previous year, going from Euro 187.3 million in 2009 to Euro 195.1 million in 2010, with a 4.2% increase. This result is due to the increase in the volumes disposed of and the lower revenues from electricity production, due to the lower Green Certificate price for the plants, and the higher street cleaning costs related to the abundant snowfalls.

Analysis of Other Services Area

The result of the Other Services Area as at 31 December 2010 decreased with respect to the same period of the previous year:

(millions of €)	31-Dec-09	31-Dec-10	Abs. Change	% Change
Other services area EBITDA	21.1	16.4	-4.7	-22.2%
Group EBITDA	567.3	607.3	+40.0	+7.1%
Percentage weight	3.7%	2.7%	-1.0 p.p.	

As noted above, during 2010 the reduction in profits can be attributed to a contraction in activities in the telecommunications sector, which was affected by the termination of the contract for supply by Acantho to the Emilia Romagna Region.

A summary of the main economic indicators of the area is shown in the following table:

Income statement (millions of €)	31-Dec-09	% Inc.	31-Dec-10	% Inc.	Abs. Change	% Change
Revenues	111.2		99.4		-11.8	-10.6%
Operating costs	(76.5)	-68.8%	(66.5)	-66.9%	-10.0	-13.1%
Personnel costs	(17.4)	-15.6%	(18.7)	-18.9%	+1.3	+7.5%
Capitalised costs	3.8	3.4%	2.3	2.3%	-1.5	-39.7%
EBITDA	21.1	19.0%	16.4	16.5%	-4.7	-22.2%

On the other hand, the Public Lighting service is substantially in line with the 2009 results, and the main indicators, shown in the table below, show an increase in the light points and no change in the municipalities served:

Quantitative data	31-Dec-09	31-Dec-10	Abs. Change	% Change
Public lighting				
Light points (thousand)	331.5	338.0	+6.5	+2.0%
Municipalities served	61.0	61.0	+0.0	+0.0%

1.04 Commercial policy and customer care

In line with the objectives of the business plan, in 2010 the commercial strategy which was begun in previous years and which focuses on the two following areas will continue to be pursued:

- Commercial development
- Optimisation of customer management

Commercial development

In 2010, the commercial activities were even more intense than in the previous year, in line with the challenging objectives which were set and achieved. Thanks to this and despite the competition on the deregulated electricity market, there was an increase in the number of customers this year as well across all services and a positive balance in terms of supply points (as shown in the table below).

	31-Dec-10	31-Dec-09	Supply point change	Supply point change
gas	1,072.5	1,070.6	1.9	0.18%
electricity	382.5	335.3	47.2	14.07%
water	1,173.3	1,166.3	7.0	0.60%
TIA	970.7	950.2	20.5	2.16%

This increase in free market services was achieved by continuing the commercial development policy that breaks down into the following points:

- multi-service offer: simplifying customer management by offering a sole contact and a single bill for energy services (gas and electricity), and also for those licensed (water and municipal sanitation) in the areas managed;
- proximity to customers: being “physically” close to customers through a network of approximately 100 branches and a widespread sales structure; being quickly accessible through contact centres and the web; being socially responsible and contributing to the growth of the territory and local communities through its activities;
- simplified management: independently manage one’s bill through the new HER@ ONLINE site and the possibility of requesting the bill to be sent via email and direct debiting of the utilities.
- economic advantage and transparency: proposing offers that are always competitive and clear, suited to the needs of all customers (over thirty offers are available, many of which can be further customised).

The commercial strategy is broken down differently depending on the various types of customers:

- families,
- small and medium-sized companies,
- large companies
- blocks of flats,
- public administrations.

In 2010, for the Families segment, Hera Comm launched the new “CasaDolceCasa” [home sweet home] offer for dual fuel, with a discount on the electricity component provided by the AEEG (Italian Authority for Electricity and Gas).

In relation to electricity sales to companies, Hera Comm proposed offers of both electricity as a single supply as well as paired with gas (dual fuel offer), and offering, in addition, the Energia Verde option in 2010, or the possibility of purchasing energy produced from renewable sources. The new element was Casa&Bottega, the combination of the “CasaDolceCasa” dual fuel offer for families with the “Buon Lavoro” offer for businesses. A dedicated offer was also proposed for blocks of flats named “Buon Condominio.”

Optimisation of customer management

Since the day it was established, the Hera Group decided to maximize integration between services and group systems by setting up a single platform that is composed of two main structures:

- Group Invoicing and Collection System
- Management channels

Group Invoicing and Collection System

Through its shared systems, Hera issued more than 17 million bills in 2010, following the multiservice strategy which allows our customers to simplify the administrative part and reduce payment costs. Requests have continuously increased for electronic sending of bills, implemented in the second half of 2008, with +99% of customers requesting activation of the service, which increased from 11,800 at the end of 2009 to approximately 24,000 customers in December 2010. This corresponds to approximately 31,700 bills which, for each invoice, are sent via email thereby causing less environmental impact and savings of 5.7 metric tons of CO₂ in the atmosphere and the absorption capacity of 760 trees, that is 380 more trees in a year.

The large range of payment methods available to Hera customers for bill payments (RID (direct debits) , banks, post offices, Sisal and Lottomatica betting shops, online using a credit card, and Coop Adriatica, Reno and Estense stores) has been very appreciated by customers who in 2010 expressed increased satisfaction through the Customer Satisfaction survey.

There was an increase in usage of the new method for customers to communicate self-readings of meters through SMS, available since 2007, in addition to existing telephone and internet communication, confirming its growth. The satisfaction of customers with this service is high.

Management channels

In 2010 the Hera Group continued its policy of strengthening customer contact channels, with the goal of making it increasingly simple and fast to contact Hera. The Group has 5 separate contact channels:

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

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

Average contact centre waiting times (sec.)	2005	2006	2007	2008	2009	2010
residential customers	70,2	34,5	46,2	66,1	33,2	33,8
business customers		43,9	26,8	42,4	25,2	22,1
Number of calls to the contact centre (no.)	2005	2006	2007	2008	2009	2010
residential customers	1,394,458	1,991,264	2,375,823	2,489,180	2,428,392	2,495,000
business customers		59,686	105,447	115,997	152,046	282,000
Percentage of successful calls to the contact centre (%)	2005	2006	2007	2008	2009	2010
residential customers	87.10%	94.10%	94.20%	93.20%	94.20%	93.8%
business customers		89.00%	97.60%	95.50%	92.60%	94.9%
Average contact centre waiting times (min.)	2005	2006	2007	2008	2009	2010
Average	26.89	23,85	21,88	18,50	14,70	14,50

We confirm the strong presence of Hera branches in the zone (84 in the Hera zone and approximately 16 in the Hera Comm Marche zone), with the inauguration of the new layout of the TOP branches of Modena and Ferrara. The redesign of the TOP branches was completed with the latter, and they are now uniform to a very high degree, in terms of logistics, management and layout.

With Lugo in 2010 the process of updating the major priority branches was commenced as well. The TOP model was used which, though on a smaller scale, maintains the visual identity and the management process.

All pre-existing Customer Management units were gathered under Hera Comm in 2010. The change was completely transparent for the customers and caused no discontinuity. The evident effects of this reorganisation were the optimisation of resources, more uniformity in decision making and better planning ability. The results, both in terms of service levels and customer satisfaction (the customer satisfaction survey gave Hera branches excellent marks) confirm the correctness of this choice.

The renewals of the layouts of other priority branches are planned for 2011.

The visits to the branches in 2011 were approximately 11.27% higher than in 2010 (+46,000 customers). Despite this, the waiting time decreased further to 14.5 minutes. In particular, the variance between the branches was reduced, thereby making the service level throughout the zone more uniform. The percentage of customers with non standard waiting times was further reduced to only 8%.

The positive effects of the F.A.S.T. project (begun in 2008) were consolidated, and the new S.PR.I.N.T. system (*Sistema Previsionale Integrato Normalizzazione Tempi* - Integrated Forecasting System for Time Standardization) was developed in 2010. The engineered system will be deployed fully across the branches during 2011. This involves innovative software developed along Hera specifications, that broadens the scope of F.A.S.T. by extending the model in three areas:

- processing of daily forecasts of visits to individual branches over the medium and the long term;
- optimisation of the staff available, based also on the visits, balancing the minimisation of the use of the staff with the achievement of targets;
- provision to coordinators of an instrument to support their decisions "in real time," allowing them to adapt the layout of the structure according to actual circumstances.

The objective is to achieve further stabilization of the waiting times together with better operational planning and therefore optimal use of available staff. In the second half of 2011, the S.PR.I.N.T. model will be extended to the call centres as well.

In 2010, the figures achieved in 2009 in relation to accessibility and service quality were confirmed for the family market call centres. For the business market call centres, the figures are increasing (they have almost reached 2008 values), though the contacts were doubled on account of the transferral of customers with VAT codes from the family call centres to the business call centres.

The call centre survey carried out by the AEEG in the first half of 2010 over a total of 30 companies selling electricity and gas with over 50,000 customers gave a higher overall rating to Hera Comm (the Group sales company): from 83.8 points in 2009 to 91.3 points in 2010. Hera Comm was ranked in 4th place among the 30 major Italian electricity companies.

The survey's reference parameters were access to the services (availability of lines, access periods, free calls), the quality (waiting times, percentage of calls answered, possibility of being called back) and in general, the degree of customer satisfaction. The performance of Hera Comm above national standards in regard to ease of accessing the service, waiting times and call management were confirmed. Hera Comm ranked above the sector average in terms of its ability to resolve problems and requests and to provide coherent responses in the case of several calls as well.

1.04.01 Customer satisfaction

A glance back over the strategies employed in the last 3 years

Since its establishment in 2002, the Group has benefitted from a solid customer base that demanded good quality primary services and whose loyalty had built up over many years of services provided by former municipal enterprises who merged into Hera. The strategic and commercial challenge was therefore to maintain the intangible wealth of the customer base following the corporate mergers that took place under the “Hera” brand, throughout the local areas of the territory of reference.

The quality of the multi-utility offer, coupled with the after sales service, have always been elements to which the Group has paid particular attention and over the years the “sentiment” of its customer base has always been monitored using an approach of listening and continuous interaction.

Hera has made significant investments in improving the **quality of its services** in terms of reduction of service failure times, providing more rapid and efficient emergency services, improving measurement and meter reading systems, and making more analyses of water resource quality and the environmental impacts of its activities.

The quality of its **customer service** has always been strategically significant for the Group and over the last few years has resulted in a significant improvement of the service offered. This is obvious in the results of the last three years, in terms of the reduction of waiting times at counters, improved telephone assistance, increased cases in which customer requests were resolved in a shorter time and finally the functionality of the website, are some examples.

The results of these activities are monitored every year through **retail and business customer market research**. Reports show a constant increase in customer satisfaction for the service and after sales support over the past 3 years, to the point where it has reached a high rating (average vote about 7/10), with a reduction in “low” satisfaction ratings, and a higher concentration of customers with positive ratings, increasing every year.

Customer satisfaction trends improved once the unsettled transition period finished which had been related to the installation of new invoicing systems for consolidated billing. The consolidated utility billing system, along with the continued improvement in after sales support performance led to a rapid recovery of customer satisfaction levels. This led to an improved image of Hera, frequently seen as a reliable, transparent, customer orientated, innovative and sustainable company. The level of customer satisfaction was therefore equal or more than what had been recorded prior to the mergers.

Market surveys also indicate that the increase in the level of satisfaction is associated with a higher perception of convenience, propensity towards cross-selling and positive word of mouth promotion to other potential customers. This reflects Hera's multi-utility strategy, particularly with regard to upstream energy activities, which constitute a truly competitive offer. These are the factors that constitute the basis of the Group's commercial success over the last 4 years and show significant ongoing growth of the customers through the expansion of the various markets. To this end, the data relating to the electricity sector, which shows double digit growth rates, is particularly significant. Furthermore, the reduced level of the alienation of existing gas customers allowed Hera to reconfirm its dominant position in the markets within the territory of reference.

1.05 Trading and procurement policy

Business Analysis

Macroeconomic scenario

2010 was a year in which worldwide growth reached almost 5%, considerably higher than expectations at the beginning of the year, though even in the major industrialised countries the economic crisis continued to be felt after the financial system bailouts, while in emerging countries, the improved debt situation made it possible to end the year with strong growth.

In Italy, the gross domestic product (GDP) increased by 1.1%, though the increase in the fourth quarter of 2010 of 0.1% was modest compared to the previous quarter. During 2010 the crisis in the Eurozone was characterized mainly by the increase in sovereign risk.

Inflationary pressures have been contained in developed economies, including in OECD (Organization for Economic Cooperation and Development) countries, inflation over the 12 months increased by 2.1% in December from 1.8% in November.

The conditions in the labour market in the Eurozone continued to level off in recent months while in Italy employment continued to decrease, particularly among young people, in the third quarter.

Insofar as raw materials are concerned, following the significant decrease in 2009, the year just ended showed a recovery in the prices of all fuels, mainly concentrated in the third quarter, when the trend turned decisively upwards.

Brent returned to levels above 79 dollars per barrel (+28.9%, on a trend basis), realigning itself to 2007 levels, after a two year period of excellent values and performance.

In 2010, coal also recovered from the slide it experienced in 2009. Its prices increased to slightly over 101 dollars/metric ton (MT) (+43%, on a trend basis).

In 2010, annual prices at the natural gas exchanges also increased, in line with the gas and coal markets.

In regard to currencies, 2010 was a year of depreciation for the Euro due to the tensions caused by sovereign risk in the Euro area. The tensions peaked in June bringing the EUR/USD exchange rate to 1.18 to then invert again, though this too stopped after the second phase of the tensions linked to Ireland.

The average USD to EUR rate in 2010 was 1.3268, a decrease of 4.77% compared to 2009 (source: Italian foreign exchange office).

In 2010, the interest rate dynamics in the Euro area were strongly influenced by Portugal, Ireland, Greece and Spain (PIGS) and in particular the intervention of the European Union (EU) and the International Monetary Fund (IMF) in Greece; these actions resulted in a short term stabilisation of the rates and lowering of the medium-to- long term rates.

Reference scenario

	Financial year 2010	Financial year 2009	Change %
Price of Brent Dated \$/bbl	79.47	61.51	+29.2
Exchange rate \$/EUR	1.33	1.39	-4.77
Price of Brent Dated \$/bbl	59.75	44.25	+35.0

As regards the energy commodities, the price of Brent crude oil (ARA Spot Average), which has a significant impact on the unit cost of liquid and gas fuel on the domestic market, recorded average values higher than those recorded in 2009, from 61.51 dollars per barrel, to 79.47 dollars per barrel, with a peak of 91.36 dollars per barrel in November 2010 (Source: "Quotidiano Energia / World Crude Table").

The causes of this increase are essentially the global economic recovery following the serious financial crisis of 2009. This recovery in the making is led by the increase in consumption throughout all sectors of the economy and particularly the energy segments by countries in the Far East.

In 2010, the average price of electricity in the Stock Exchange was Euro 64.1 per megawatt per hour, an increase of 0.3% compared to Euro 63.8 per megawatt per hour in the same period of 2009. The difference was most marked in the initial months of the year due to the significant decrease in commodity prices last year. In July, due to the concurrent peak in consumption and decrease in the EUR/USD exchange rate, there was an abrupt price increase which was then maintained in the months that followed due to the accompanying increase in the price of fuel.

The relatively low increase in the demand for electricity in 2010 totalling +1.8% compared to last year and the addition of further industrial capacity in a sector already operating at overcapacity, resulted in an additional decrease in the spark spread.

The slight spark spread recorded is actually rendering the situation of even modern plants more critical.

In regard to natural gas, prices in the Central-Northern European market were Euro 17 per megawatt per hour, up by 42/44% and concentrated in the middle of the year, as opposed to the typical decreasing seasonal trend and, in the month of December, a strong rally realigned continental prices at the Italian virtual exchange point (VEP). During this rally, the more moderate recovery led the prices to reach Euro 23.34 per megawatt per hour (+26.8) compared to 2009, reflecting the increases that took place in the summer season particularly.

The Italian market, which in 2009 envisaged a supply excess due to the coming into operation of new infrastructures during 2010 (GNL of Rovigo, 2nd step of Trans Austria Gasleitung – TAG, and of Trans Tunisian Pipeline Company - TTPC) had to tackle a severe reduction in industrial and thermoelectric consumption, despite the 6.6% recovery in consumption compared to last year and nevertheless discounted the effects of significant overcapacity and the impact of SPOT supplies.

The major European and Italian operators, bound by long-term agreements with producers, were subjected to Take or Pay penalties for the second year and are now renegotiating their contract terms as regards both flexibility and price.

Within this context, the average value of the energy rate (QE) in 2010 (calculated referring to the Italian Authority for Electricity and Natural Gas, AEEG, resolutions no. 134/06, 192/08, 64/09 and 89/10 was Euro 0.2372 per cubic meter, compared to an average value of Euro 0.2497 per cubic meter in 2009 and an expected value of Euro 0.2770 per cubic meter for 2011, assuming that Resolution 89/10 will be confirmed. As can be inferred from these data, the oil price increase recorded during the last quarter of 2010 will mainly affect gas prices during 2011. This is naturally due to the effect of the delays associated with the formulas for updating gas prices.

GAS AREA

- Regulatory framework

REFORM OF THE NATURAL GAS MARKET P-gas and M-gas (trading platforms for the exchange of natural gas)

Within the context of the natural gas reform, art. 30 of law no. 99/09 assigned to the Energy Market Authority (the GME) the economic management of the market itself and the responsibility for managing the services involving the purchase and sale of natural gas according to economically beneficial criteria.

In order to enforce the provisions of the law, last April the Ministry of Economic Development issued a decree that provides for the introduction of an exchange platform (P-gas) managed by the GME for the offering of imported gas subject to restrictions on transferral or additional prices offered by entities other than the obligated entities. The platform has been in operation since 10 May last year and has been managed by the GME which acts exclusively as a broker rather than as a central counterparty. In regard to the operation of the platform, it is noted that only entities that are accredited by the Virtual Exchange Point as operators that are sellers are allowed to operate on the platform (entities subject to the obligation to offer imported natural gas and others) or operators that are buyers (all who are not accredited as sellers). Contracts for lots deliverable on an annual or monthly basis are traded in each session.

Though the P-gas was intended to be an initial form of the natural gas exchange, its functions never evolved and the spot-market was launched last December with the introduction of M-gas in which the GME's role is that of central counterparty in the transactions concluded by the operators.

M-gas has evolved into a Day-Ahead Market for natural gas (MGP-gas) and an Inter-Day Market for gas (MI-gas).

The Day-Ahead Market is organized in one continuous trading session (which is opened three days before the gas-day and closed the day before the gas-day the offers refer to) and a closing auction that is carried out in a single session, the day prior to the gas-day that the offers refer to.

On the MI-gas, those offers for purchase or sale of natural gas are selected which relate to the gas-day that corresponds to the day the session ends. The MI-gas trading session is opened after the closing of the MGP-gas and ends on the gas-day the offers refer to.

Finally, the M-gas provides for the establishment of a forward market which is currently being set up.

VIRTUAL STORAGE MECHANISM

As part of the reform of the gas industry and pursuant to the proxy given through Law no. 99/09, the Ministry of Economic Development issued a decree for the revision of the “antitrust ceilings” and the measurement procedure, in order to promote access to storage services also to industrial customers through the realisation of new capacity. Firstly, the ministerial provision replaces the antitrust ceiling mechanism with a threshold system based on which each entity that declares holding a market share higher than a predefined threshold must either be subjected to an administered disposal procedure or carry out projects aimed at implementing storage capacity.

In particular with reference to projects that increase storage capacity, the Ministry publishes a list of interventions that can be carried out/implemented by obligated entities, which then select and present a project that must be approved by the Ministry itself, on the recommendation of the Antitrust Authority.

These new provisions also give the possibility to other third party industrial entities who are large consumers of natural gas to participate in the realization of projects as investors. The investor entities which are selected through a tender procedure are granted the right to use future capacity in proportion to the commitment they assumed through their investment.

In order to forecast the benefits for investors of having the new capacity available, the decree provides that the Authority will introduce measures that, through an exclusively financial mechanism, will allow procurement and storage of virtually significant volumes of gas in the periods of greatest availability or lower prices to then be used in the winter months.

The possibility of participating in the realization of projects as investors is also extended to producers of electricity, only for plants that are powered exclusively by natural gas, while no benefits can be gained while the investment is pending.

REVIEW OF THE BALANCING MECHANISMS

As mentioned, the reform of the gas market as defined by the regulator provides for a review of the balancing mechanisms to which economic criteria must be applied starting from 1 April 2011, according to Law 130/2010.

In fact, the review of the balancing mechanisms had already begun last year by the Authority with Resolution ARG/gas 165/09. This resolution introduced a new weekly market session in order to promote the ex post balancing of users who will be then able to adjust their positions with respect to the previous week. Furthermore, the resolution also introduced the “user balancing service” for all users of the transport service, in order to create new balancing capacities for those entities which are usually excluded after having reached the limits provided by the regulation currently in force. The newly introduced mechanism is based on weekly auctions during which the storage businesses and the storage users exchange capacities relating to space, introduction and assignment.

In order to fulfil the regulatory requirements for the beginning of economic balancing starting from 1 April 2011, the Authority recently put up a document for consultation (DCO 45/10) in which it proposes the introduction of a simplified balancing system that allows for the gradual replacement of the current storage system. Based on the mechanism that was introduced, the system’s current physical dispatching procedures which are focused on using the stored natural gas remains as it is and a daily session is introduced for the reserve in which operators offer storage availabilities. In this market session, the balancing users are required to offer to the Grid Operator an amount of withdrawn or introduced gas that corresponds to the capacity due to them net of the quantities used for that gas day.

Offers will be presented to the GME managed reserves market from 7.00 pm on day D until 11.30 am of day D+1; this will render the weekly balancing mentioned in the Authority’s resolution ARG/gas 165/09 redundant.

NEW TRANSPORT TARRIF COMPONENTS

With its resolution ARG/gas 177/10, the Authority defined the conditions for application of the new natural gas transport tariff components which had been established with the previous ARG/com 93/10. These components which are required for the "gas bonus" (GST) and the financing of energy savings measures and the development of renewable sources (RET) are applied from 1 July 2010 to the withdrawals of final customers that are directly connected to the transport network. However, they were defined and activated only starting from January 2011 and therefore it is provided that during the entire year the withdrawals tariff will recover the amount necessary to cover the lack of withdrawals in the last half of 2010.

The ARG/gas resolution 218/10 therefore defined the value of the new components in effect from the first quarter of 2011, which will be updated every three months on the basis of the expense forecasts for the accounts they refer to.

RESOLUTION ARG/gas 89/10 AMENDMENT to Energy prices (QE)

On 28 December 2009, through resolution 173/09, the AEEG started an investigation into the procedures and conditions for the procurement of natural gas for supply to protected categories and to promptly assess possible structural changes which may occur to those conditions.

The objective was essentially to assess to what extent SPOT supplies, available on the market consistently since 2009, affect long-term agreements taken as a reference for the procurement terms in question.

Upon completion of this investigation and starting from update for the fourth quarter of 2010, with its resolution 89/10 the Authority amended the formula for calculation of the QE by inserting a value abatement coefficient of 0.925 which will be removed in the fourth quarter of 2011, except in the case of a further extension or amendment.

Significant events

2010/2011 THERMAL YEAR (TY) STORAGE CAPACITY

During March, the contracts with STOGIT and EDISON STOCCAGGIO for the modulation storage service for the 2010-2011 thermal year were renewed.

FINALISATION OF NEW PROCUREMENT AND SALES CONTRACTS

Procurement contracts for modulated gas to REMI were finalised in March and May for approximately 1,700 Mmc for thermal year 2010-2011.

Further procurement contracts for non-modulated SPOT gas were concluded in the same period and the months that followed, with supplies abroad, at national borders, and at the virtual exchange point.

As regards sales, starting in April and for a 12 month period, Hera Trading succeeded another Hera Comm REMI supplier for approximately 145 Mmc.

Subsequently, for the 2010-2011 TY, the direct procurement to the Forlì (Hera Comm) and Pesaro (Hera Comm Marche) REMIs was confirmed for approximately 270 Mmc as were the intermediate supplies to remaining Hera Comm REMIs of 1,700 Mmc.

During the summer, the evolution of the market and the particular aggression of major operators who were subject to stringent Take or Pay restrictions, made it impossible to confirm the outstanding supplies for TY 2009-10 to thermoelectric operators totalling approximately 200 Mmc.

INTERRUPTION OF TRANSITGAS OPERATION

At the end of July the TRANSITGAS pipeline was closed and emptied due to significant erosion and an uncontrollable landslide following a flood in the Swiss Alps. The work to restore the safety of the pipeline required several months and operations began again at the end of December, although on a provisional basis.

This event did not affect the safety/continuity of the country's procurement but it did make the situation of the smaller, more unbalanced operators (in terms of their portfolio) difficult on that pipeline. In particular, Hera Trading did not experience any negative effects as its portfolio is almost entirely set up along the Austrian TAG pipeline.

SUMMER STREAMLINING OF AGREEMENTS

Despite the Transgas interruption, during summer, streamlining of agreements gave remarkable economic advantages thanks to flexibility and Spot prices, which were lower on the European market. In Hera Trading's case, this was facilitated by the availability of capacity on the TAG pipeline and the fact that it traded on the Austrian gas exchange at Baumgarten as from the end of 2009.

CONSOLIDATION OF FLAME ENERGY OPERATIONS ON THE ITALIAN MARKET

During 2010, the operations of FLAME ENERGY were consolidated even further on the Italian market, though the expected introduction of market balancing will require a review of operations during 2011.

MANAGEMENT DURING WINTER 2010-2011

As regards 2010-2011 winter, in spite of the climate trend, which was less severe compared to the standard, the management is continuing without any particular problems. The portfolio position is maintained continuously balanced through transactions, even daily transactions, on the market to carry out the necessary adjustments.

ELECTRICITY AREA

Regulatory framework

VIRTUAL POWER PLANT IN SARDINIA

The Development Law, aiming at increasing competition in the "Sardinia" market area, provided for a procedure of virtual sale of production capacity.

In order to implement the legislative decree, the Ministry for Economic Development set out a five-year term and the extension of the program (25% of local needs).

Following these trends, last August the AEEG issued the Resolution Arg/elt 115/09, which defines the selling entities, the instruments to be adopted in the procedure, criteria for the definition of auctions to sell the capacity and conditions for participating in the auction.

The outcomes of the procedure were that Enel's baseload production of 220 MW in 2010 and 23 MW in 2010-2014 will be assigned through a tender procedure. E.ON also had all its virtual industrial capacity of electricity assigned by tender: in particular, for 2010, 12 operators were assigned all the 27 available bands totalling 135 MW while the 3 bands put up for auction for 2010-2014 and totalling 15 MW were assigned to two operators.

DEVELOPMENT OF NETWORK INFRASTRUCTURES

The main legislative interventions regarded the electricity sector during 2009-2010 and had a remarkable impact on the regulation of infrastructures.

In particular, the Development Law introduced some rules aiming at simplifying the authorization procedures while providing for, amongst other things, one single authorization to build electroducts.

As regards the expansion of connections abroad, TERNA was conferred the task to program and build new infrastructures (interconnectors) in order to achieve an increase of 2000 MW in interconnection capacity. These actions shall be carried out also through financing by private entities (end users with high energy needs), selected before the examination procedures that will be implemented by the Grid Operator.

The procedure provides that private entities (only industrial users of energy) that are awarded the right to fully use the lines in departure from the principle of third party access, shall enjoy the benefits that derive from the deployment of the new infrastructures, even if their realization is delayed, through a virtual interconnector mechanism.

To this end, it is envisaged that operators who are shippers will assume the obligation to take delivery of energy in the country of origin and redeliver it to the user client in Italy. These shippers are in turn selected on the various borders, through a tender procedure based on the energy supply prices; for 2010 the outcomes of the procedure show that all the interconnector capacity was allocated between Germany and France (in particular 1,966 MW were allocated to Germany and 34 MW to France).

The law decree also known as Salva-Alcoa has provided for an increase in the interconnection share that can be assigned (a further 500 MW) which refers only to the Austrian border and the possibility of placing the shares that were not assigned in the previous tender procedure on auction again.

Conversely, as for the internal network development and in order to overcome the stalemate in a number of planned investments, the Anti-crisis Law allocated, for single and particularly urgent interventions, extraordinary assets and powers to complete the authorization phase (commissarial administrations). It should be noted that commissaries will act only in cases in which the competent Administrations have not fulfilled the legal terms for the issue of authorizations and the effective implementation of interventions.

EMISSION TRADING SYSTEM: refunds expected for emission trading system (ETS) shares that were not allocated.

With resolution no. 9/10 the Ministry for the Environment completed the assignment of the reserve dedicated to "new entrants" plants for the 2008-2012 period: given the disproportionate nature of the share needs of the new plants and the capacity of the reserve, the COGEN Imola plant did not receive all the shares it was entitled to.

Law decree no. 72 of 20 May 2010 introduced a refund mechanism for shares that were not assigned, shares that the managers of plants that are considered as new entrants must purchase on the market. By 31 March of each year, the Authority must define the credits due to those who are entitled to them based on the need as determined by the Committee for implementation and management of Directive 2003/87/EC. The measure introduced provides that the refund of the sums corresponding to the aforementioned credits will fall within the limits set by the revenue from the auctions for attribution against consideration of the shares for the 2013-2020 period.

Based on the completed assignment it is estimated that the COGEN Imola plant will have a credit balance amounting to 249,716 shares that will be subject to the refund mechanism for 2010. For the remaining periods the credit amounts to 249,716 shares.

As provided by the Legislator, the Authority has issued Resolution ARG/elt 117/10 with which it defined the criteria for determination of the value to be placed on each unassigned share that has been issued: this value is established based on the annual averages of the daily EUA share prices in the various European markets, in proportion to the overall volumes exchanged each year on these markets. The final amount of the credit due is equal to the value established by the authority multiplied by the number of unassigned shares each new plant is entitled to that the Committee has announced.

In application of this criterion, through Resolution ARG/elt 194/10 the Authority extended to COGEN Imola for 2009 a credit of Euro 1,022 thousand for 74,538 shares which it owns.

The reform of the electricity market (the “Anti-Crisis” law decree)

At the end of November 2008, the government issued Law Decree no. 185 of 29 November 2008 (on “Urgent measures in support of families, labour, employment and enterprises and rearrangement of the national strategic framework as an anti-crisis measure”). This decree provides for a series of innovations affecting the operation of the electricity market among other things.

The main elements of the reform are the following:

- creation of an Inter-Day Market of energy, with continuous trading, integrated with the Dispatching Service Market (MSD) and replacement of the current adjustment market;
- reform of the MSD operational processes, based on transparency and economic efficiency criteria in selecting resources and to be implemented based on criteria of economic merit order. Moreover, the reduction in costs borne by the Grid Operator would be also through negotiation of future services rendered. Finally, it was set out that, in special situations of grid congestions or danger for the safety of the system, possible interventions of the Authority is provided for. The latter will have the faculty of pinpointing some plants for the supply of key dispatching services;
- re-examination of the mechanism of price formulation of energy on the Day-Ahead Market (MGP) to be defined based on the criteria of economic merit order (this review is to be made before amendments regarding the Inter-Day Market and its integration with MSD);
- publication by the GME of offers submitted on the MGP within 7 days and data on unavailability of grids and plants on a monthly basis, except for cases regulated by the Authorities;
- promotion of the widening of physical and financial forward markets for energy, through the development of new products, even long-term products;
- provision that, within 24 months, the MSE, upon proposal of Terna, may divide the National Transmission Network into no more than three macro-zones;
- provision that the MSE, after hearing the Authority, may intervene with temporary measures to promote competition in the areas where abnormal market behaviour may occur.

Pursuant to Law 2/2009, on 29 April 2009, the Ministry for Economic Development issued an implementation decree which indicates the guidelines for the reform of the electricity market legislation, while setting out the implementation terms of interventions of the competent bodies. The ministerial decree set out, but is not limited to:

- the replacement of the adjustment market with an inter-day market, articulated in two or more sessions, starting from November 2009, as well as its integration with the dispatching service market, starting from 2011;
- a new organization of the dispatching service market based on the type of services offered, starting from January 2010;
- the evolution of forward electricity markets (MTE), with a wider range of listed products, starting from January 2010.

The same provision postpones the evaluation of the possible change of trading rules on MGP to April 2012, after completion of the reform process and subsequent analysis on its efficacy.

Today, the reform of the market saw the introduction of the inter-day market (the first session was held last 31 October, with flow day on 1 November) in place of the adjustment market. This market, which allows operators to make amendments to programs defined in MGP through further purchase or sale offers, is carried out in two separate sessions.

Simultaneously, as regards the reform of MSD, Terna approved some amendments to the Grid Code in force since 1 January 2010. Amongst the main novelties that have an impact on the rules for dispatching, the following is to be highlighted:

- possible submission of a special offer for switching off;
- possible submission of a different price for the ancillary reserve with respect to price for other services;
- possible submission of different offers for each hour of the day;
- change in restraints for the permanence of service provision;
- possible modification, in subsequent sessions, of offers already submitted (only for lower prices).

Starting from 1 January 2011, the provisions for integration between the inter-day market and the MSD will be applied through a review of the Grid Code that provides for:

- introduction of some sessions of the Inter-Day market that take place on the delivery day;
- setting up the MSD into sub-phases that take place after each session of the inter-day market;
- some changes which are not directly connected to the reform such as, for example, the review of the minimum hours of permanence in service and introduction of the explicit remuneration for the access service.

At this point, a review of the price formation criteria is required for completion of the reform outlined by the Legislator; the proposal on which the Ministry of Economic Development is working consists in moving from a Marginal Price System to a Pay as Bid system, though this is still in the probable stage.

REVIEW OF THE INCENTIVE SYSTEM RENEWABLE SOURCES

Various amendments to laws were introduced in 2010 that resulted in a framework of new rules regarding renewable energy sources.

The main new items are contained in the draft of the legislative decree for enactment of Directive 2009/28 EC which aims to promote energy produced from alternative sources. Currently the draft is being discussed by the competent Parliamentary Committees and the opinion of the Unified Conference is required for its final approval.

In regard to the mechanisms for renewable sources incentive system, the main new item introduced by the draft of the decree involves the gradual movement from the Green Certificate system to a tariff mechanism with auctions for assignment.

For plants that will begin operation by 31 December 2012, the current incentive system will remain in force, with attribution, depending on the size of the plant, of GCs or all inclusive tariffs at the current levels/multiplication factors. After 2012, there will be a general passage to a tariff based system of the feed-in type with a differentiation of the support mechanisms based on the power of the plant:

- for plants with nominal capacity that is no higher than 5 MW and for plants of any sized powered by biogas, sustainable bioliquids and biomasses, the incentive level is set by law through application of a constant tariff for the entire entitlement period equal to the conventional average useful life of the specific types of plants (this begins from the date the plant begins operations);
- for plants with nominal capacities above 5 MW, the Ministry of Development established the power to be installed for each source or type of plant and the incentive is recognized through a system of discount bidding managed by the Energy Market Authority (GSE). The level of the incentive is based on the outcome of the auctions: in essence the producers compete for assignment of a tariff premium on the projects under development.

In regard to management during the transition period from the old to the new incentive system, the decree provides that the Green Certificate mechanism will remain in place until 2015 for plants deployed by 31 December 2012 through this instrument. In regard to the Green Certificates mechanism, up to 2012 the mandatory share for the thermoelectric producer is the one set by the Financial Act of 2008 which established a regime in which the annual share increase will be of 0.75 percent (the obligation therefore increases from 6.8% in 2011 to 7.55% in 2012), to be reabsorbed on a line by line basis from 2012 onwards and be phased out by 2015.

The operation of the transition mechanism provides for annual withdrawal of unsold certificates that were issued for production from renewable sources from 2011 to 2015 by the GSE. The withdrawal price is equal to 70% of the price applied by the GSE for the sale of its own green certificates.

Significant events

REGULATION OF THE DISPATCHING SERVICE MARKET (MSD) AND PARTICIPATION THEREIN

During 2010 the optimisation activity for the Teverola and Sparanise plants and their usage on the Dispatching Service Market was particularly satisfactory. The possibility of selling forward in 2009 all the production expected in 2010 made possible, within a market situation with lower exchange prices, for a longer number of hours than production costs, the application in 2010 of systematic optimisation interventions (closing of plants and purchasing of the required electricity on the exchange).

This type of exercise proved satisfactory on the Dispatching Service Market as well.

OPERATION OF COGEN IMOLA PLANT

2010 was the first year of the commercial operation of the COGEN Imola plant, which is operated by Hera Trading under a tolling regime.

The inability to sell forward the electricity production expected for 2010 in relation to the possible risks of outages, given that this is a plant in its first year of operation, the low flexibility in regard to the restrictions connected to the cogenerative nature associated with urban district heating and the impossibility of trading it on the Dispatching Service Market for the same reasons, produced an economic result in line with the difficult conditions on the market.

SETTING-UP OF HERA COMM'S SOURCES PORTFOLIO FOR 2011 SALES

During September and October, the Sources Portfolio was set up for Hera Comm's trading activity, using the electricity produced from the plants in Teverola, Sparanise, COGEN Imola, part of the electricity produced by Tirreno Power, all purchased on the over the counter (OTC) platform during the year. A bilateral contract signed with ENI Gas & Power was also used. The 2010 long-term contract with ALPIQ was also renegotiated at the end of the year.

PURCHASE OF TRANSMISSION RIGHTS FOR IMPORT/EXPORT FROM BORDERING COUNTRIES

In December, Hera Trading participated in auctions organised by transmission network operators (Terna, RTE, APG, Swissgrid, etc.) for assignment of the trans-border physical transmission rights for electricity on the border with France, Switzerland and Austria, which has been assigned 15 MW annually for import and 5 MW annually for export on the Italian-French border and 5 MW annually for import and 10 MW annually for export on the Italian-Austrian border.

DEVELOPMENT OF THE TAMARETE PROJECT

In collaboration of the holding company's business development department, the contract terms regulating the techno-commercial operation of the thermoelectric plant in TAMARETE were negotiated with the partners. This plant in Ortona is currently under construction.

RISK MANAGEMENT

During 2010 as well, operating management of commodity and/or currency risk, was implemented in a "hedging" capacity, aimed at establishing the margins provided by the budget of the commercial transactions effected in both the Gas and Electricity Areas by Hera Trading and Hera Comm.

From the organisational viewpoint, the activity is centralised in one sole function (risk management), allocated in the Gas Division, in relation to the coverage requirements for fuel and exchange, for carrying out both the coverage activities of that area and those of the Energy Division.

This approach, based on the creation of a concentrated fuel concentration portfolio on the one hand and a concentration/electricity trading portfolio on the other, without generating a duplication of competences, enables the unitary management of homogeneous risks of the two companies and, based on macrohedging instead of using specific hedging formulas, has made it possible to attain certain advantages, such as:

- Achievement of greater levels of hedging;
- Elimination of constraints on the minimum volumes which can be hedged;
- Optimisation of costs for lesser recourse to the market, by netting the positions of single contracts and the positions generated by the Gas and Electricity Areas;
- Increased flexibility in evaluating procurement contracts with non-standard index-linked formulas;
- Increased flexibility in structuring the products and services, with the possibility of proposing/quoting index-linked formulas different to those present in the acquisition portfolios;
- Increased visibility of the over-the-counter (OTC) commodities prices.

The activity carried out in the Concentrated Risk Portfolio, based on derivative financial instruments – even if carried out for hedging purposes only – does not meet the requirements of IAS 39 for application of hedge accounting. Consequently, the result attained and the anticipated value of the derivatives in the portfolio are included in the operating result of the Gas Area.

The credit risk represents Hera Trading's exposure to potential losses from failure to fulfil the obligations assumed by the counterparties, particularly in relation with the growing commercial activity involving the sale of gas and electricity.

Starting from January 2010, the Credit Control and Management Policy became effective in order to control this risk as well which, in combination with the economic crisis, has assumed great significance.

This Policy was defined by Hera Spa's Risk Control Department and was approved by the Energy Risks Committee on 1 December 2009.

Relations with other investee companies

Galsi Spa

HERA TRADING continues to hold shares in GALSI S.p.A. The company is currently working on preparing the executive gas pipeline project and its compression and measurement stations, as well as on acquiring the necessary permits.

During 2010, the executive project of the works was almost completed and authorisation procedures are almost complete.

The priority allocation for 100% of the capacity for a 25 year period has already been obtained, the EIA-related activities were completed successfully and the relative decree is about to be published. We believe that the procedure for obtaining the Single Authorisation can be completed within June 2011.

During the summer, the process for selecting contractors for the construction of the infrastructure was begun and is now at a very advanced stage.

In June, Shareholders, after assessing the impossible completion of the Target Activities within 30 June 2010, approved in the Shareholders' Meeting, the proposal to postpone the term for the approval of the Final Investment Decision to 31 December 2010. Following this, in December the shareholders approved in the shareholders' meeting a further extension to 30 April 2011.

The project was then included by the European Union amongst the strategic projects and was awarded a contribution of Euro 120,000,000 as part of the European Recovery Plan.

In January 2010 the first portion of the Euro 10,000,000 was paid and in September the second portion of Euro 14,000,000 was paid in relation to the last share capital increase of Euro 24,000,000 decided in 2009.

During 2010, the shareholding structure was unchanged:

- Sonatrach	41.6%
- Edison Gas	20.8%
- Enel Power	15.6%
- Hera Trading	10.4%
- SFIRS	11.6%

Flame Energy GmbH

The joint shareholding of HERA TRADING and VNG-Erdgascommerz GmbH in the trading company FLAME ENERGY, headquartered in Vienna, continues.

The company has up to now decided it would not employ its own staff and avails itself of services rendered by its shareholders for its operations. It has been active in the wholesale trade of gas since September 2006, and became operational on the Italian market as well, starting in October 2007, only at the virtual exchange point and, since October 2008, it is fully operating for modulated supplies at REMI. During 2010, operations further increased, also through the direct participation to the commercial activity at the Baumgarten Hub.

1.06 Financial Policy and Rating

The objective of the Group's financial management is to maintain an adequate current and prospective balance between investments and uses of capital on the one hand and sources of funds on the other, in terms of the repayment schedule as well as the rate type.

Following are the policies and principles for the management and risk control of the Group's financial management such as liquidity risk, interest rate risk and exchange risk.

Liquidity risk -Debt quality

The liquidity risk is the risk that the company will not be able to honour its payment commitments due to its inability to access new funds or liquidate assets on the market.

The table below shows the worst case scenario in which assets (liquidity, trade receivables, etc.) are not taken into consideration while the financial liabilities, principal and interest, trade payables and derivative contracts on interest rates are shown. The revocable credit facilities are shown as expiring on demand while other loans are shown as becoming due on the first due date in which repayment may be required (put bonds are considered as being repaid on the first exercise date of the put).

Worst case (in millions of €)	from 1 to 3 months	31.12.2010 from 3 months up to 1 year	from 1 to 2 years	from 1 to 3 months	31.12.2009 from 3 months up to 1 year	from 1 to 2 years
Bonds	27.9	244.8	415.0	28.0	237.3	272.7
Payables and other financial liabilities	69.8	61.2	45.3	34.0	70.0	72.6
Trade payables	1,061.0	0.0	0.0	1,048.2	0.0	0.0
Total	1,159	306	460	1,110	307	345

The Group's objective is to ensure a liquidity level that will allow it to cover its contractual obligations both in the normal course of business and under crisis conditions through maintenance of available credit facilities, liquidity and rapid undertaking of negotiations in regard to loans about to mature, optimising the cost of funding in relation to current and future market conditions.

Against its short term financial debt as at 31 December 2010, the Group has available Euro 538 million in cash, Euro 430 million in unused committed credit facilities and abundant uncommitted credit facilities (over Euro 1,300 million) so as to ensure sufficient liquidity for covering each financial commitment at least over the next two years.

The credit facilities and the related financial activities are not concentrated on any specific financial backer but are distributed equally among leading Italian and International Banks with a use much lower than the total available.

In regard to the debt structure in the medium and long term, on 11 November 2010 a "€140,000,000 1.75 per cent. Equity-Linked Bonds due 2013" bond maturing 1 October 2013 was issued and placed on the Luxembourg Stock Exchange's EURO MTF market on 21 January 2011.

The bond issue became convertible into ordinary Hera shares on 27 January 2011 following the approval by the extraordinary shareholders' meeting of the share capital increase with exclusion of the purchase option.

The price per share (including the par value and share-premium) is equal to Euro 1.834, subject to any adjustments to the conversion price, as provided in the Bond Regulation.

The transaction has reinforced the financial structure of the Company in the very short and the medium term so as to make it possible to reap future market and business opportunities that could arise in the immediate future.

As at 31 December 2010 the Group had a structure in which the long term debt was 96% of the total financial debts.

The average term is approximately 10 years and 75% of the debt matures in over 5 years.

Following are the nominal flows expected on the tranches maturing in up to five years and the over 5 year portion.

Nominal debit flow (millions of €)	31.12.2011	31.12.2012	31.12.2013	31.12.2014	31.12.2015	over 5 years	Total
Bonds	0	0	0	0	0	1,250	1,250
Convertible bonds	0	0	140	0	0	0	140
Put Bond / Loan	0	0	0	0	0	540	540
Payables to Banks/others	59	36	33	28	202	62	420
Gross financial indebtedness	59	36	173	28	202	1,852	2,350

These transactions do not provide for financial debt covenants, apart from the corporate rating limit by one rating agency only that is lower than "Investment Grade" level (BBB-).

Interest Rate Risk

The Group is exposed to interest rate fluctuations (Euribor) insofar as the financial expenses that refer to indebtedness.

Following is the debt structure in relation to the portion of fixed and variable rates, with and without the effect of hedging derivatives.

Gross financial indebtedness (*)	31.12.2010			31.12.2009		
(millions of €)	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
fixed rate	1,819.8	1,665.5	69%	1,439.8	2,040.9	90%
variable rate	588.5	742.8	31%	816.4	215.2	10%
Total	2,408	2,408	100%	2,256	2,256	100%

(*) Nominal flow which includes account overdrafts. The amount does not include the liquid funds and other current and non-current financial receivables

The portion of the debt which is exposed to interest rate risk is approximately 30%. The residual debt (70%) is based on a fixed rate. The debts are perfectly consistent with the underlying debt and in compliance with IAS standards.

The Group's hedging policy does not provide for the use of financial instruments for speculative purposes and aims to achieve an optimal identification between the fixed rate and the variable rate as part of a prudent risk fluctuation strategy. The interest rate risk management essentially aims to stabilise the financial flows so as to ensure the revenue therefrom and the certitude of the cash flows from operations.

During 2010, though the structure was strongly characterised by the long term debt (approximately 95%), the Group was able to maintain its cost at 4.2% overall.

Exchange risk not connected to commodity risk

The Group adopts a prudential strategy towards exposure to exchange risk, so that all currency positions are netted or hedged using derivatives (cross currency swaps).

Currently the Group is holding a bond in a foreign currency of JPY 20 billion which is fully hedged by a cross currency swap.

Rating

Hera S.p.A.'s long term ratings are confirmed as "A3 Stable Outlook" for Moody's and "BBB+ Stable Outlook" for Standard & Poor's. The rating was reviewed by the Rating Agencies respectively in July and June of 2010.

One of the chief aims of the Group in defining its plans is to implement strategies aimed at ensuring the maintenance/improvement of high rating levels.

1.07 Research and development

Hera Group's research activities in 2010 chiefly concerned the technological development of renewable sources, the development of environmental monitoring and control technologies, energy efficiency, and optimisation of the network management. Research applied to systems producing energy from renewable sources was given particular emphasis, through a project designed by the Energy Laboratory, which will be implemented in 2011.

An activity involving disclosure and internal awareness on issues involving intellectual property, with particular emphasis on patents for inventions and usage methods also began.

Leading research projects were:

Energy Laboratory. In 2010, the executive plan for the Energy Laboratory was finalised. It calls for an experimental centre for applied research on energy production technologies from renewable and alternative sources, which will be opened in 2011 in Forlì. The Energy Laboratory will evaluate various technologies, from those already available on the market to prototypes, with the help of an advanced network for measuring and acquiring data. The experimental activities will be managed in collaboration with the University of Bologna.

Emerging Pollutants Project. The term "Emerging Pollutants" (EP) means various biologically active substances of anthropic origin such as personal care products, medicines, psychoactive substances associated with drug addiction, and the relevant metabolites. Interfering endocrines is an unusual and transversal category compared to those listed above. The presence of these substances in the water is considered to be one of the most important environmental problems of the last decade. In 2007, Hera began research focused on identifying the main emerging pollutants in water systems (with particular emphasis on natural water that undergo purification), setting up analytical methods for quantifying the latter and investigating the presence of these substances in the water systems in question, assessing the effectiveness of the current treatment systems' removal abilities (purification and potabilization). Collaborations were established with the Italian Institute of Health, the Mario Negri Institute and the study group "Interfering endocrines and water intended for human consumption" (Edinwater) promoted by the AMGA Foundation. In 2010 a set of parameters to monitor was set up and a control plan was instituted.

Environmental Catalysis Project. The project, started in 2007 in collaboration of the University of Bologna and with the participation of the Italian Institute of Health, envisages reviewing the use of traditional catalytic converters used to abate NOx emissions and dioxins. During 2007, several commercial catalytic converters were analysed with outstanding results, especially for those used on the Group's plants. During 2008, a new filter prototype was designed and plans were made for detailed sampling and analysis of emissions by means of analyses by Group laboratories in collaboration with the Italian Institute of Health. Sampling began in 2009 at the new waste-to-energy plant in Forlì.

At the same time, a study was performed on a catalytic converter used by the Group, with promising results.

In 2010, the Italian Institute of Health continues its analyses of the data collected.

Automatic Leakage Detection Project. This project consists of studying innovative systems for automatically locating water leaks, to be used with the remote reading system. A test site was set up in 2007, and tests were carried out under different environmental conditions. The first experimental results were very interesting. In 2008, investigative techniques were refined by developing a device for automatic unsupervised data acquisition in the field, developing a statistical analysis tool on the MatLab® platform and designing a device to simulate water leaks. The device was built in 2009 and installed at actual user locations together with data acquisition tools developed in the previous year. The massive amount of data resulted in better analysis of the physical phenomenon compared to the past. In 2010 a device was designed and constructed for easy collection of data within different connections and under differing conditions.

Bio-Hydro Project. The project aims to develop a disposal cycle for organic waste from the agricultural-livestock sector consisting of the hydrogen fermentation of certain types of agricultural-livestock waste, and in the methane co-digestion of residuals for this process with other agricultural-livestock waste and/or the organic separation of solid urban waste. The project was carried out in collaboration with Herambiente and the engineering faculty at the University of Bologna and was co-financed by the Ministry of Agriculture, Food, and Forests. In 2010, the initial activities related to capturing agricultural-livestock waste were launched while various waste matrices were acquired that are appropriate for the bioconversion to hydrogen process and the anaerobic co-digestion of the effluent from the hydrogen fermentation.

Concurrently, the university is continuing with the bio-production tests and the designing of prototype reactors.

Automatic Plant Operation Project. The project, developed in cooperation with ENEA, involves the development of a system for the automatic management of the main function parameters in the water supply service plants. The system shall maintain the process conditions of a specified plant within its maximum efficiency, based on the composition of the incoming wastewater (purifiers) or of the incoming raw water (potability treatment plants).

In 2008 the works at the Calderara di Reno (Bologna) treatment plant, selected as the test site, were begun. In 2009, the analysis and control tools were installed at the site and field data acquisition was initiated.

The data collected in 2010 validate the knowledge gained on SBR systems and identify the existence of new characteristic points in the signals relating to the volumes monitored, with the possibility of identifying characteristic or irregular plant operations. In general, the theoretical applicability of automatic plant control was proven on a real scale.

Modelling Project for Plants of the Water Cycle. The project expects to develop mathematical models for the purpose of hydraulic and process simulation of purification plants. The objective is to acquire the tools and know-how needed to coordinate mathematical modelling of the plants of the Integrated Water Cycle. The project is being carried out in collaboration with ENEA. In 2009, preliminary activities to develop a model of the sample site and to select off-the-shelf calculation software were performed. In 2010, the software licenses were purchased upon completion of the valuation activities. The modelling activity within the Group will begin in 2011.

Optimizing Intellectual Property. The project intends to make efficient use of the intellectual property within the company with particular reference to patents for inventions and utility models. These activities involve scouting and the protection of new patentable ideas and the optimisation of existing patents.

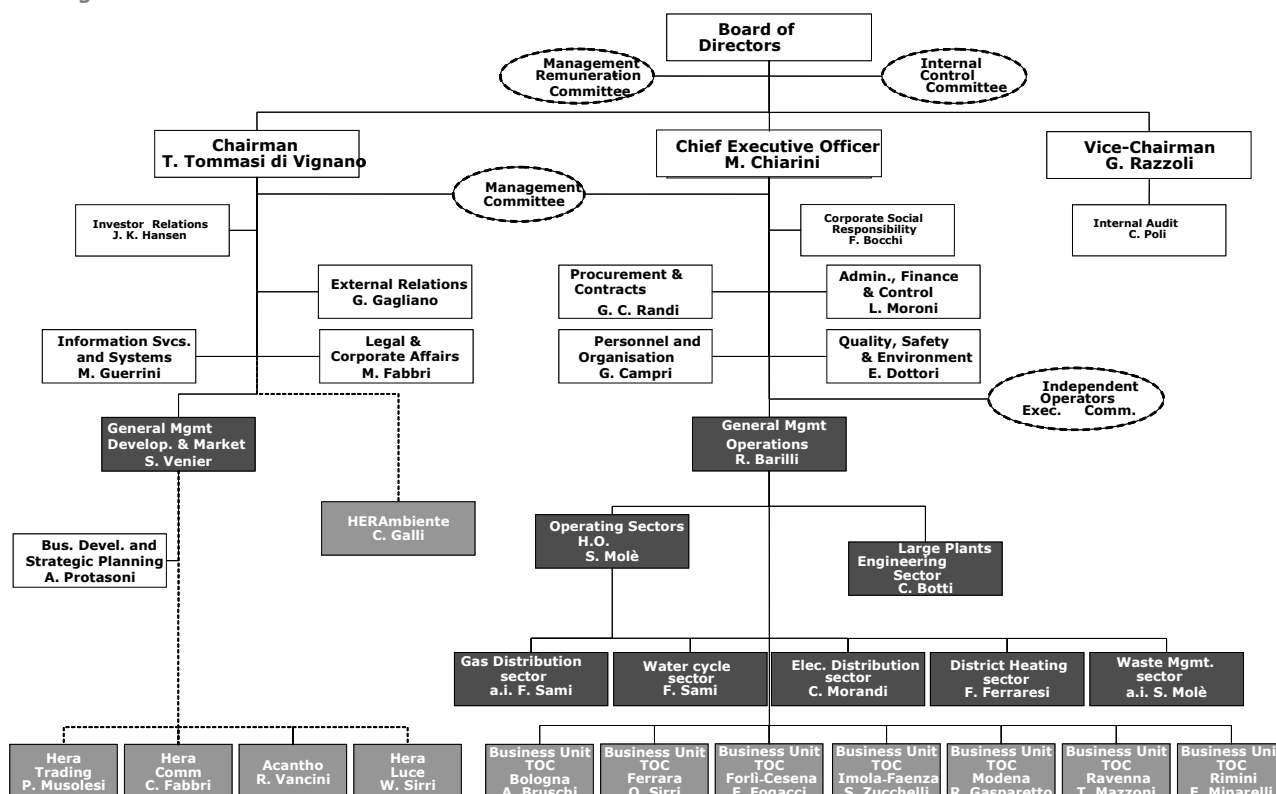
Energy Recovery in Water Service Plants. In 2010, several assessments on the possibility of recovering energy in water service plants and the related technology were initiated. An initial feasibility study was developed in order to recover energy within the Bologna purification plant using high yield hydraulic screws developed by the Loccioni Group.

Characterisation and Analysis of the Polyethylene Pipes During the Year. The polyethylene water network pipes were affected by breakage that was traditionally higher than the breakage of other materials. In order to investigate the causes of this situation, a project was started to carry out a critical analysis of the breakages, improve the know how on PE pipes, provide simple criteria with which to classify the various types of breakage, identify the major causes and define plans for improvement.

The project is developed with LyondellBasell, one of the major producers of polyethylene globally and the Foundation Laboratory for Testing of Plastics of the Department of Chemistry, Materials and Chemical Engineering of the Milan Polytechnic University. In 2010, samples of portions of pipes on which breakage had occurred were collected and visually analysed and the laboratory and statistical analyses were begun.

1.08 Human resources and organisation

The organisational macrostructure



Human Resources

As at 31 December 2010, the Hera Group had 6,491 employees (consolidated companies), with the following breakdown by role: managers (125), executives (342), employees (3,297) and workers (2,727). This structure was the result of the following changes: incoming (+176), outgoing (-187), changes in the Naturambiente perimeter (+21). It should further be noted that the new hiring was a decisive factor in the changed employee mix, with the increase in qualified staff; lastly, there was an overall increase in the number of employees with university degrees compared to 2009: there was an increase from 947 permanent employees with degrees as at 31 December 2009 (or 15 % of the total permanent employees) to 1,033 holders of degrees as at 31 December 2010 (or 16% of total permanent employees).

Organisation

The Hera model stands out in the panorama of multi-utilities because of its effective achievement of industrial and operational integration, based on a Holding company which:

- guarantees an integrated view of the Group and favours the exploitation of synergies, through Central Divisions of direction, support and control;
- provides guidance and coordination to the businesses managed, through General Management Divisions and Central Sectors.

Hera's operational model combines the business sector perspective and operating units/companies so as to allow:

- better focusing on development and rationalisation objectives;
- optimisation/concentration of assets, skills and specialisations that are able to ensure a unified perspective;
- the achievement of a "balanced" structure with regard to the regulatory obstacles on certain activities (e.g., electricity unbundling);
- maintenance of the operational coverage of the reference territory.

There were important changes in 2010 from a corporate and organisational point of view that led the Group to evolve in line with the new corporate structure set up in 2009 and in line with the reference business context.

In fact, in the first few months of the year, the consolidation of the organisational changes relating to the hierarchical unification of the Administration, Quality, Safety & Environment and Local Public Relations and Communications activities from the Territorial Operative Companies to the respective Central Divisions was pursued, specifically through the optimisation and standardisation of operating processes and improvement of the service level provided by the central structures to the local areas.

Consequently, the macrostructure of the Group now has the following features:

- The managers of the Corporate Departments for Legal and Corporate Affairs, Information Services and Systems, External Relations and the Investor Relations Departments all report to the Chairman. The General Management - Development and Market department and Herambiente S.p.A. also report to the Chairman.
- The managers of the Corporate Departments for Procurement and Contracts, Administration, Finance and Control, Personnel and Organisation, Quality, Safety & Environment and Corporate Social Responsibility all report to the Chief Executive Officer. The General Management - Operations, under which the Operating Segments Division was established in 2010 and to which the Gas Distribution, Electricity Distribution, Waste Management Services, Water Cycle and District Heating, reports to the CEO. Furthermore, the seven TOC business units and the Large Plants Engineering Division also report to the General Management- Operations.
- The Internal Auditing Department reports to the vice chairman.

In regard to the Corporate Department for Information Services and Systems, the consolidation process continued of the organisational changes to Famula On Line (effective from 1 January 2010) which involved a greater focus on the internal customer and abandoning the sales activities targeted to the external market.

Within General Development and Marketing, particularly of Hera Comm, several organisational changes took place in 2010 which aimed to consolidate the new organisational structure that was outlined in 2009: within the Family Market function a new organisation that focuses more on the client management in the relative territories and the establishment of the Family Market Back Office was set up as the management and coordination operation of Hera Comm's back office activities.

With regard to Herambiente S.p.A., in 2010 there were significant organisational changes: the Operating Services Department was established to ensure more focus on the process across businesses, optimising the interactions between the structures involved; within the Production Department (waste treatment and disposal plants), there was a rationalization of the businesses which were reduced from five to three, through the merger of the two Composting and Anaerobic Digester businesses and reallocation of the activities that had previously been allocated to the Chemical-Physical Material Recovery business, partly to the Operating Services Department (Quality and Urban Waste and Biodegradable Materials) and partly to the Market Department (Chemical Physical, connected to the management of urban waste plants); finally the Development, Planning and Control structure was set up to ensure more focus on the activities involving development initiatives, pricing and industrial accounting. From a marketing point of view in the Market Department, this organisational arrangement assures dedicated and focused oversight of the unregulated market activities of waste management (special waste).

We note furthermore the new organisation of the Procurement and Tender Contract Management Division, featuring a greater focus on the needs of internal clients and a more integrated view of procurement processes, as well as greater oversight of sector regulations, with specific regard to tender management and tender procedures.

In the area of Administration, Finance and Control, we note the establishment of the Credit Management Department which aims to strengthen the management of all activities related to Group credit management, following from the efforts and results achieved through the project that had previously been carried out with regard to the Net Working Capital.

Furthermore, a new model was defined and formalised for internal authorisation of expenditure, aimed at implementing all the organisational changes of the last few months and guaranteeing the utmost organisational consistency in the management of authorisations for purchasing and procurement processes.

In 2010, the Operating Segments Division was established within the General Management - Operations, in order to further capitalise on the opportunities provided by the corporate changes in 2009, ensuring an integrated approach to the activities of the in the management of the Water Cycle, Gas and Electricity Distribution, District Heating, and Waste Management Services, Meter Reading, and Planning, Control and Programming segments. In the Large Plants Engineering segment, 2010 witnessed a detailed redefinition of the organisational structure, with the establishment of new engineering responsibilities based on a matrix of specialist competences.

Insofar as the individual TOS business units are concerned, in 2010 the territorial back office activities were consolidated, including in support of the operations and specialised segments, in line with the requirements defined by the latter.

The centralisation of the remote control of fluids is coming to completion, as per the program schedule.

Industrial Relations

The signature of the Group's Supplementary Collective Labour Agreement which began in September 2009 n based on the platform presented by the Trade Unions Organisation, took place on 24 March 2010 and resulted in the definition of a new agreement on Group performance-related bonuses for 2010-2012.

The renewed Group Supplementary Collective Labour Agreement reviews the mutual rules governing union relations and established for the first time within the renewed Protocol for Industrial Relations, a technical observatory for organisational innovation and quality of labour, which is not of a bargaining nature, named LaborHERA and the members of which are experts appointed by the unions and experts appointed by the company. It will be in charge of monitoring and/or formulating proposals on issues that are of particular importance such as the monitoring of initiatives involving health & safety (H&S), training, tendering and corporate social responsibility. Monitoring the development and investment programmes and providing insight in support of the organisation's evolution in regard to the organisation of work in a spirit of experimentation and innovation. The same observation process, with the same features, can be activated at the local level as well, for the development of the same issues at the territorial level. The objective is to involve trade unions so that they participate more in issues involving innovation and those which carry the most significance for the company. This will take place in order to identify involvement other than through the normal union negotiating procedures.

Furthermore, within the Group Wholesale Marketing Component (CCI), the chapters on the training health & safety (H&S) , atypical and closed ended work contracts and the chapter on representation and health & safety issues on the job was rewritten to indicate that in every Group Company/Operating Unit, there exist worker representatives for health and safety that are competent in relation to the activity they exercise. Furthermore an RLS Group Coordination will be set up that will work on issues that are general or transversal.

Within the Group CCI chapter on memoranda of understanding relating to tenders, it was decided in view of the changes in the legislation referring to tenders for the assignment of Local Public Services, to establish a technical round table between the trade unions and the company that will study and understand the scenarios deriving from the activation of the national and regional legislative changes.

Finally, for legal indemnities and financial compensation a technical committee was set up that will define a system for harmonisation of the indemnities and legal financial compensation within the HERA Group, including the gradual uniformity of the travel and cafeteria compensation and updating the compensation for geographic mobility. Through this instrument, the compensations for the counting of holiday time and overtime were harmonised and a sing stem for managing tardies and permits for visits to doctors was introduced.

The negotiations at the Group and territorial level with union representatives that were concluded in September made it possible to reach an agreement on the establishment of "Access monitoring and video surveillance" systems within Hera Group.

At the beginning of 2011, a union negotiation was concluded that had begun in 2010 and which aimed to define working hour of the waste to energy plants within Herambiente and which were thus made uniform. It was also possible to define a single staff turnover system for shifts within all the company's waste to energy plants and to harmonise the financial and regulatory compensation of involved personnel.

4 strikes were announced in 2010. Three strikes were against government policies, two of which were organised by the CGIL and one by the CUB. The fourth strike was organised by Filctem CGIL and related to the renewal of the CCNL GasAcqua.

Training and Development

The research programme in collaboration with CRISP (Inter-university Research Centre for Public Utilities Services) carried out a study on corporate universities and advanced managerial training applied in public utilities services.

As part of institutional and managerial training programmes, additional programmes of individual coaching and training regarding economic and managerial aspects of public utilities were developed that involved management personnel.

In addition, in collaboration with Alma Graduate School, the second edition of the Managerial Development programme was created, to strengthen managerial skills and develop managerial potential of the personnel involved.

As part of the collaboration with the Alma Mater Foundation, the fourth and fifth versions of the high level training course "Regulation and markets in public utility services" for executives and managers were taught.

In the second half of 2010, a program of meetings focused on providing updates for Health and Safety Managers pursuant to Legislative Decree 106/2009 (which amended Legislative Decree 81/2008).

In the Back Office area a Practice Community was set up and a supporting IT tool was developed to support professional communications between the members of the practice community.

Training for trainers on the Networks area of the two Pilot TOSs (Bologna and Imola/Faenza) was provided as part of the Work Force Management project and involved over 80 employees.

The trainers are provided with teaching method training as well as teaching management training, with particular attention to the motivational and cultural change aspects tied to the technological innovation model of the WFM system. Both the classroom technical training aimed at learning the operation of the system and that structured along a base model, aimed at ensuring uniformity of system knowledge and the logic of its operations, and specialised models aimed at learning the individual functions required for management of event, conducting and maintenance interventions were provided.

In 2010, the training for compliance with legal requirements was continued (fire, first aid, etc.).

In 2010 the intense training activity and professional refresher courses continued for both technical and operating staff as well as specific activities aimed at maintaining and enhancing the operating skills required for activities that are deemed to be critical from the point of view of service quality, safety and potential environmental impacts.

A knowledge management course which involved all Hera Trading personnel was held.

Since 2006, Improvement Groups represent one of the principal methods adopted by Hera Group to involve personnel (in particular, office workers and blue-collar workers) and create opportunities for active participation in the improvement of daily working activities, enhance professional skills and, consequently, improve the working environment, motivation and the sense of belonging. During 2010, three new improvement groups were formed in response to specific requirements indicated by the TOSs of Bologna and Forlì-Cesena and by Herambiente. The Forlì-Cesena TOS formed a group the purpose of which is to analyse avoided accidents and to list and map over 50% of avoided accidents. Herambiente has dedicated a group to classifying the accidents and analysing them, with in depth analysis of the causes and recommendations for reductions of the ensuing risks. The Bologna TOS has dedicated a group to the process of managing ancillary activities and to verifying measurements of gas, water and district heating within networks and management.

As is now common practice, during 2010 improvement initiatives approved by management are subject to specific monitoring during their implementation phases.

There were more than 29,000 participants in various training initiatives and more than 96% of Group employees took part in at least one training activity.

The total financial investment in 2010, net of personnel and internal staff costs, was Euro 753,235.

These data confirm the substantial commitment of both funds and resources that the Hera Group dedicates to the career advancement and continuous development of its human capital.

Training Axis	Man hours
Professional training and specialised courses	65,623
Quality, safety and environment	48,372
Institutional and managerial training	24,786
Information technology	4,877
Total	143,658

The Graduates Programme continued in 2010; the project began in 2004 with the objective of recruiting and hiring new graduates with high professional potential. Currently, 91 employees that joined the Group in 2004 continue to be employed.

In 2010, 60 recent graduates were assessed for selection. Subsequently, 11 new employees were hired and have now completed the introductory training, which also includes the basic management course.

A Potential Development Project was started in 2008 with the objective of enhancing and developing potential in young resources employed in the Group.

All staff belonging to the 2004, 2005 and 2006 editions of the Graduates Programme participated in the project, as well other young employees with similar demographic and educational characteristics.

Beginning in February 2008 a total of 95 employees who, having first had a motivational and orientation interview, then participated in two days at the Assessment Development Centre during which the professional growth potential was evaluated for each participant.

In line with the results achieved, individual professional growth plans were designed, which are currently being frequently monitored.

Hera Group has a framework agreement with the University of Bologna that includes incentives for training of students and recent graduates, with particular attention to subjects related to water, energy and waste management, by granting study grants of 6 months for students and 12 months of recent graduates.

1.09 Information systems

In 2010 the Hera Group information systems followed the course set out in the business plan and operated along the following lines: Efficiency in satisfying business needs, capacity to strengthen the operating efficiency of the companies and organisations of the Hera Group, promptness in updating information systems to sector regulations.

Significant indicators of the contribution of information systems to the business activities of the Hera Group include the following:

- more than 17 million bills issued, of which 165,000 sent in electronic form;
- over 5,500 online tenders managed;
- more than 100,000 emergency service calls managed;
- more than 4.5 million active contracts over 5 services (EE, GAS, TLR, H2O, TIA);
- over 65,000 kilometres of distribution network managed on the system;
- approximately 3.4 million service requests, handled through four channels:
 - call centres,
 - physical branches,
 - mail,
 - internet.

The new operating and organisational work model of the Hera Group's information systems became operational on 1 January 2010, making it possible to focus more on the requirements of the Hera Group and to constantly monitor innovation in IT architecture.

The IT Architecture management activities made it possible to:

- innovate by 'rationalising' the systems map, extending and improving the use of reference applications in line with technologies available on the market;
- maintain the overall operational coherence within a context of change.

In 2010, information systems managed over 90 projects. The number of the projects and the quality of the results that were reached confirm the capacity of the information systems to adapt to the business context; the capacity was developed also as a result of the technological investments made in previous years.

Following are the main projects that took place over the course of the year, classified in the following categories:

Improving the efficiency of the Hera Group's operating processes and supporting its new business needs:

- Implementation of the new integrated IT system supporting maintenance, operations and realisation of the Networks Department (Work Force Management);
- Realisation of the new GIS systems for electric grids;
- Realisation of a system dedicated to managing communications between Hera Comm and distributors;
- Introduction of the new Group system for taking roll;
- Adjustment of the systems to the new organisational structure relating to the Territorial Operating Structures;
- Implementation of the new Group system for managing documents in support of customer management activities;
- Introduction of the system of business intelligence /reporting;

- Completing the planning activities for migrating the contracts of Prigeas and Gas Tecnica Galliera into the Group information systems;
- Realisation of new commercial offers.

Adjustments to the regulatory requirements of the business, the most significant of which are:

- Defining the plan for evolution of the information systems in compliance with the requirements of unbundling regulations (11/07 et seq.) and the launch of the revision of the Data Form;
- Implementation of the system for remote reading of Gas meters > G40 (Arg/Gas 155/08);
- Compliance to commitments towards AGCM (the Italian Antitrust Authority).
 - EE distributor portal (switches and accessory services according to standard communication).
 - Pre-check,
 - Publication of metering calendar,
 - Publication of meter readings on portal;
- Adjustment to legislative amendments of Consolidated Texts on Commercial Quality (amendments to the resolutions Arg 120/08 and Arg 333/07);
- Compliance with the new European regulation SEPA – Single European Payment Area;
- Evolution of the energy tariff components (AEEG, Italian Authority for Electricity and Natural Gas) and non-energy components (ATO).
- Adjustment to resolutions on the harmonisation and transparency of invoices and the disclosure obligations of providers of the most protected services for application of the PED compensations (Arg/Com 202/09, Arg/Elt 8/10);
- Compliance with IFRIC 12 for adjustment pertaining to fixed asset classes.

Reducing technological risk and improving the security levels:

- Optimisation of the SAP database;
- Continuation of the consolidation and enhancement of the technological infrastructure to support the steady increase in business volumes and to increase the level of reliability in the provision of services;
- Extension of monitoring instruments to the major applications;
- Realisation of joint security services for the Hera Group (email gateway, text messages, antivirus, patching);
- Completion of the Identity Access Management project for management of the user access methods for major Enterprise systems.

Furthermore, the information systems have ensured continuity of the systems service, minimising the impact from the release of new projects and covering the requirements for ordinary maintenance and system evolution according to agreed upon priorities.

1.10 Quality, safety and environment

2010 brought significant administrative changes on account of the disincorporation following the unbundling. This resulted in the unification of all QSA and RSPP functions in the territorial structures of the TOS BUs, within the Central Office for Quality, Safety and Environment (DCQSA). Within this ambit the coordinating role of all subsidiaries and investee companies was strengthened.

During 2010, the objectives set by the DCQSA were achieved with satisfactory results, while it must be remembered that the DCQSA's service function is directed at all company structures within the Group, with particular involvement by the territorial operating companies, which demonstrated a significant effort and commitment to reach the ambitious objective of certifying our integrated Quality, Safety and Environment management system.

Specifically, OHSAS 18001:2007 certification was obtained for the 1st and 2nd scope segment and activated the necessary actions for the 3rd scope which involved, respectively:

- ❖ in May 2010 the maintenance of the arguments for the 1st scope segment, the waste management services and district heating management of the TOSs and the central Hera S.p.A. support and management structures;
- ❖ maintenance of the arguments of the 2nd scope segment which are the gas and electricity distribution at the TOSs and the related sector management structures, Laboratories and the Large Plants Structure,
- ❖ in addition to the initiation of necessary actions for the acquisition of certification for the 3rd scope segment which completes the procedure authorised by ACCREDIA.

This effort concluded with a decidedly satisfactory result, with points of excellence, but also improvement areas, particularly within the 3rd portion segment which posted two major non compliances that will be addressed in the first two months of 2011.

In May 2010, the reviews to renew ISO 9001 and ISO 14001 certifications were successfully completed. For both certifications, after concluding the two certification paths, the company saw improved results overall, compared to the previous situations without any non-compliance areas and a net decrease in minor non compliances.

Two further milestones were reached in relation to these two schemes: the securing of 9001 certification for the General Management of Large Plant Engineering and 14001 certification for Group company Uniflotte.

Among the 2010 results was the achievement of the prestigious milestone represented by the certification of the environmental management system and validation of the environmental declaration for Emas registration purposes of the Casalegno di Imola co-generation plant, a significant 80 megawatt plant serving the district heating needs of Imola.

The *Presidio Privacy* [Privacy Control] unit defined and consolidated an organisational model for management of privacy, which addresses organisational and managerial ambits through which to govern outsourced activities, intervene in order to prevent unlawful conduct, define a single privacy management system for the Hera Group and re-engineer processes for privacy purposes. In this context, numerous activities took place including, as an indication:

- Joint setting up of the System with the Company Management.
- Network organisation.
- Appointment of persons in charge of processing.
- Establishment of a system of governance and internal control.
- A procurement system was set up.
- A Letter of Engagement was distributed to all employees.
- Accountability for privacy was formally announced to all subsidiaries
- The procedure for assignment of accountability to all suppliers was defined.
- The template study phase to be adopted with the public administration was completed.

All training activities regarding workplace Health and Safety for senior managers were completed in 2010, and as part of the programme, tiered training was carried out for supervisors and workers.

In 2010, the computerisation of the management aspects of occupational medicine was almost definitively completed, along with gathering of information to complete risk assessment documentation and managing accidents.

Following the completion of the course on the investigation techniques for accidents and near misses, usage rights were acquired for the methodology of this training, known as SCAT. The instrument was further streamlined and customised for Hera's needs and was fully applied in 2010, passing the tests and acceptance testing, but requires further effort in its application for alignment of all business areas so that it is used methodically and consistently by them.

At the same time, an audit cycle was completed by the Central Office for Purchases and Contracts to verify the degree to which the primary company procedures are applied regarding control of suppliers and supplies. The initiative was begun in the TOSs of Modena and Ravenna in 2009, and was completed in the other TOSs and in Herambiente during 2010.

A series of initiatives were conducted in preparation for Emission Trading certification, such as:

- conducting internal audits,
- organising a task force on the specific issue of analysing common problems and aligning behaviours.

As a consequence, in the initial months of 2010 a positive result was achieved with the acquisition of the certification on all ten plants assessed, with the correspondence of the data and the system management that were the objects of the certification.

All of these activities were in addition to the ordinary activities that DCQSA plans and executes to maintain the Integrated Management System of the Group. Obtaining certifications certainly takes a maximum effort, but this does not relieve us of the obligation to ensure continued improvement, a requirement in all three certification standards that we have adopted: 9001, 14001 and 18001.

During 2010 the significant process of reviewing the assessment process of the environmental aspects and legislative compliance continued.

There was a strong commitment to carrying out the respective internal controls, which are fundamental to monitoring the degree of efficiency and effectiveness of the management systems. 8 complete internal audit cycles were completed, totalling 195 internal audits. Training of employees on issues involving quality management, health and safety and the environment were very important in 2010 with over 48,000 hours of training being provided in the classroom or on the job.

Among the principal ordinary activities carried out in 2010, DCQSA was mainly involved in:

- QSA inspections to ensure compliance of procedures and instructions prepared by various company structures;
- Updating system documentation, the QSA Manual, System procedures, Risk analysis documents and Environmental analyses;
- Supporting Facility Management in inspecting area supervision of TOSs and structuring significant projects for addressing several NCs regarding the internal control of environmental aspects and the controlling of suppliers to the structure itself.

We reiterate that the DCQSA has also had significant obligations in regard to the disincorporation, and in January 2010 the Prevention and Protection Services and all territorial QSA functions, that previously reported to the TOC Managers, were centralised to report to the DCQSA.

At the end of 2010 a further reorganisation of the DCQSA was carried out, which reinforced the specialisations of the employees and promoted synergies on technical aspects of the business.

“Security Measures and Protection of Personal Information”

“Pursuant to the provisions of articles 33 and 34 of Legislative Decree 196/03 (known as the Privacy Code) on security measures aimed at ensuring a minimum level of protection of personal information and in compliance with points 19 and 26 of the Technical Specification contained in Attachment B of the Code, we hereby certify that for the year under review and in its role as Data Holder, Hera S.p.A. has compiled and updated the Security Planning Document (SPD) which contains the information required by the law.

The document was approved and signed within the deadline set of 31 March of this year and is kept in the records of the company's Protocol Department, while it can also be consulted under DCQSA – Presidio Privacy [Privacy Control].”

1.11 Report on corporate governance and ownership structures

1. Company profile

Hera Group began in 2002 with the integration of eleven public services companies in Emilia Romagna and, over the years, continued its territorial growth to expand its core business.

This growth was the result of its organisational structure, made up of a parent company and territorial operating companies, forming a highly innovative growth model.

Hera is among the principal Italian multiutilities in the waste management, water, gas and electricity businesses and has more than 6,000 employees.

The Company, a public majority shareholding, was initially quoted on the automated stock exchange of Borsa Italiana S.p.A. on 26 June 2003 and operates mainly in the areas of Bologna, Ravenna, Rimini, Forlì, Cesena, Ferrara, Modena, Imola and Pesaro-Urbino.

Hera aims to be the best multiutility company 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.

Hera has included Corporate Social Responsibility in its strategy since 2003, as a valid tool for increasing competition and a clear element for achieving sustainable development. The Mission and Values dictate the corporate behaviour expressed in the Code of Ethics which direct all company actions and relationships. Shared mission, values and behaviours make up the strategic and cultural horizon within which the Business Plan is developed, for which results are reported in a transparent manner in the Sustainability Report and which are defined on an annual basis in financial planning.

2. Information on ownership structures (pursuant to art. 123-bis, section 1, letter a) of the FCA) as at 29 March 2010

a) Share Capital Structure (pursuant to art. 123-bis, section 1, letter a) of the FCA)

The share capital is Euro 1,115,013,754.00, fully subscribed and paid-in, and represented by 1,115,013,754 ordinary shares with a nominal value of Euro 1 each.

Share Capital Structure

Type of share	Number of shares	% of share capital	Listing	Rights and obligations
Ordinary shares	1.115.013.754	100%	Borsa Italiana automated stock exchange (MTA)	Holders of ordinary shares are granted equity and administrative rights provided for by law

b) Restrictions on share transfers (pursuant to art. art. 123-bis, section 1, letter b) of the FCA)

Article 7 of Hera's Articles of Association envisages that at least 51% of the Company's share capital must be held by municipalities, provinces or consortia constituted pursuant to art. 31 of Legislative Decree no. 267/2000 or by consortia or equity companies of which municipalities, provinces or consortia constituted pursuant to art. 31 of Legislative Decree no. 267/2000 hold the majority of share capital.

Any share transfer which would reduce the amount of local public equity should be considered ineffective for the Company, and it is forbidden to record in the Shareholders' Register any share transfer which violates said provision. Article 8.1 of the Articles of Association prohibits any shareholders other than those indicated above to hold equity investments of more than 5% of the company's share capital.

c) Significant equity investments in share capital (pursuant to art. 123-bis, section 1, letter c) of the FCA)

Declarer	Direct Shareholder	% of share capital
Municipality of Bologna	Municipality of Bologna	13.672%
Municipality of Modena	HSST-Mo Spa	12.521%
Municipality of Imola	CON.AMI	8.696%
Municipality of Ravenna	Ravenna Holding Spa	4.421%
Municipality of Ravenna	Area Asset Spa	2.971%
Municipality of Rimini	Rimini Holding Spa	2.160%
Municipality of Ferrara	Holding Ferrara Servizi Srl	2.136%
Municipality of Cesena	Municipality of Cesena	2.086%

d) Restrictions on the right to vote (pursuant to art. 123-bis, section 1, letter f) of the FCA)

Article 8.6 of the Articles of Association states that the right of vote of parties, other than public entities, that hold an equity investment in the share capital of more than 5% shall be reduced to the maximum total limit of 5%.

e) Agreements between shareholders (pursuant to art. 123-bis, section 1, letter g) of the FCA)

Pursuant to art. 122 of the FCA, on 20 April 2009, a Voting Trust and Share Transfer Rules Agreement was concluded concerning the methods for exercising voting rights as well as transferring equity investments held in Hera for the 122 public shareholders signing the agreement.

On 14 April 2010, 53 public shareholders of Hera concluded a Voting Trust and Share Transfer Rules Agreement concerning the methods for exercising voting rights as well as transferring equity investments held in Hera by the signatories to the agreement.

Moreover, a consulting agreement was signed on 23 February 2010 by four minority shareholders of Hera Spa, regarding the exercise of the voting right as well as the appointment of the Board of Directors and the Board of Statutory Auditors.

f) Authorisations to purchase treasury shares (pursuant to art. 123-bis, section 1, letter m) of the FCA)

The Shareholders' Meeting of 30 April 2010 approved, within the limits of art. 2357 of the Italian Civil Code, the purchase of Hera ordinary shares, in one or more purchases, up to a rotating maximum of 24,000,000, for a nominal value of Euro 1 per share, to be completed within 18 months of the resolution date, under the following conditions:

- purchase price not less than the nominal value and not greater than 10% of the reference price recorded on the market day prior to each individual purchase, envisaging a total amount for the purchases of Euro 60,000,000;
- use of treasury shares purchased for transactions which present investment opportunities or other transactions that involve assignment or sale of treasury shares;
- sale at a price which does not have a negative impact on the Company, including over more than one sale.

Furthermore, it should be noted that the number of treasury shares in the portfolio at the end of 2010 was 5,939,609.

3. Compliance (pursuant to art. 123-bis, section 2, letter a) of the FCA)

Hera assimilates the rules of the Code of Conduct (hereinafter "Code") published in March 2006, which contains a formal series of recommendations regarding the methods and rules for managing and controlling listed companies in order to augment clarity and concreteness of figures and roles, particularly of the independent directors and the committees within the board of directors.

Although adoption of the principles contained in the Code is not imposed by any legal obligation, the Company agreed to the principles of the new Code and assimilated its provisions with a resolution passed by the Board of Directors on 10 October 2006. This was done to reassure investors that a clear and well-defined organisational model exists within the company, one having appropriate breakdowns of responsibility and powers and a correct balance between management and control, which is an effective tool for enhancing and protecting the value of its shareholders' investment.

The complete text of the Code of Conduct is available to the public on Borsa Italiana's website: www.borsaitaliana.it.

4. Board of Directors

a) Appointment and replacement (pursuant to art. 123-bis, section 1, letter I) of the FCA)

The current Board of Directors, appointed by the Shareholders' Meeting of 28 April 2008, will remain in office until the approval of the financial statements relating to 2010.

The second call of the Shareholders' Meeting, held on 28 April 2009, resolved to change the methodology for appointment pursuant to art. 2449 of the Italian Civil Code, by introducing a single list voting system to appoint all directors which ensures that the minority list has the right to appoint 1/5 of the directors in accordance with the provisions of art. 4 of Law Decree no. 332 of 31 May 1994, converted into Law no. 474 of 30 July 1994.

The 14 (fourteen) members of the Board of Directors are taken from the list that received the highest number of votes. The remaining 4 (four) directors are taken from the minority list that will have obtained the highest number of votes and which must not be in any way connected, including indirectly, to the directors in the majority list.

In addition, it should be noted that art. 17 of the Articles of Association specifies that the lists, which must include at least two candidates who meet the independence requirements established for auditors in art. 148, section 3 of Legislative Decree no. 58/1998 and those provided by the Code of Conduct compiled by the Corporate Governance Committee of Borsa Italiana SpA, may be submitted by shareholders that represent at least 1% of shares with the right to vote and must be filed at the registered offices at least 25 days prior to the date of the Shareholders' Meeting together with the curriculum vitae of the candidates, the declaration of the individual candidates stating they irrevocably accept the office and certifying there are no grounds for ineligibility or incompatibility, as well as the declaration that the individual candidates meets the independence requirements established for the members of the Board of Statutory Auditors pursuant to art. 148, section 3 of the FCA and those provided for in the Code of Conduct. These lists are made available to the public through the headquarters, the stock exchange management company and the website www.gruppohera.it, at least 21 days prior to the meeting.

Pursuant to art. 17.10 of the Articles of Association, if during the year one or more directors who were appointed based on list voting is/are no longer able to fulfil the role, their positions will be co-opted, in accordance with art. 2386 of the Italian Civil Code, by the first unelected candidates from the list to which the directors whose positions are being replaced belonged before becoming members of the Board of Directors. If for any reason there are no candidates available, the Board will provide for the co-optations in accordance with art. 2386 of the Italian Civil Code.

Directors appointed in this manner will remain in office until the next Shareholders' Meeting that shall resolve using the established appointment methodology.

The local authorities holding shares have entered into a Voting Trust and Share Transfer Rules Agreement which governs the method for preparing the majority list.

The consultancy agreement, signed on 23 February 2010 by 4 minority shareholders of Hera S.p.A., provides for nominating members of the Board of Directors.

b) Role of the Board of Directors (pursuant to art. 123-bis, section 2, letter d) of the FCA)

The Board of Directors is the central administrative body of the Company. In compliance with the recommendations of the Code, by which the Board of Directors must meet on a regular basis, the Company Articles of Association provide that the Board meets periodically, at least on a quarterly basis, and whenever the Chairman considers it necessary or when a request is made by at least one third of its members or by the Board of Statutory Auditors. In addition, in compliance with the recommendations of the Code which provide that the Board must function and operate in such a way as to guarantee the effective and efficient performance of its duties, the Company Articles of Association provide that the Board of Directors is vested with the widest powers for the ordinary and extraordinary management of the Company without limitations, with faculty to implement all acts considered necessary or appropriate for the pursuit of the corporate purpose, excluding only those that, by law or the Articles of Association, are strictly reserved for the Shareholders' Meeting.

Specifically, in accordance with the Articles of Association and in addition to definition of the Group structure, resolutions on the following matters are of the exclusive competence of the Board:

- I. appointment and/or revocation of the Chairman and Vice Chairman;
- II. appointment and/or revocation of the Chief Executive Officer and/or of the General Managers;
- III. formation and composition of the Executive Committee, appointment and/or revocation of the members of the Executive Committee;
- IV. determination of the powers delegated to the Chairman, Chief Executive Officer and/or General Managers and/or the Executive Committee and amendments thereto;
- V. approval of and amendments to long-term plans and business plans;
- VI. approval of and amendments to Group regulations if adopted;
- VII. engagement and/or appointment, upon the proposal of the Chief Executive Officer, of the managers responsible for each departmental area;
- VIII. proposal to place on the agenda of the Shareholders' Meeting the amendment to arts. 7 (public majority shareholding), 8 (limits to shareholding), 14 (validity of the Shareholders' Meeting and rights of veto) and 17 (appointment of the Board of Directors) of the Articles of Association;
- IX. undertaking and disposal of equity investments worth more than Euro 500,000 (five hundred thousand);
- X. purchase and/or sale of properties worth more than Euro 500,000 (five hundred thousand);
- XI. provision of sureties, liens and/or other collateral worth more than Euro 500,000 (five hundred thousand);
- XII. purchase and/or sale of companies and/or business units;
- XIII. appointment of directors of subsidiaries and/or investee companies;
- XIV. participation in tenders and/or public procedures that involve contractual obligations exceeding Euro 25,000,000.

The Board of Directors has reviewed the suitability of the organisational, administrative and general accounting structures of the Company, with specific reference to the internal control system.

In accordance with the provisions of art. 23 of the articles of association and article 150 of Italian Legislative Decree n. 58/98, the Board of Directors regularly reports to the Board of Statutory Auditors, at least on a quarterly basis, normally during the meetings of the Board of Directors or even directly with written report sent to the Chairman of the Board of Statutory Auditors, on the activities performed and on the most important economic and financial operations implemented by the Company and by its subsidiaries, as well as on the operations in which the directors have an interest, on their own behalf or on behalf of third parties or which have been influenced by the party that exercises the activity of direction and coordination. Pursuant to art. 2391 of the Italian Civil Code, the director informs the other directors and the Board of Statutory Auditors of any interest that, on his own account or on behalf of third parties, he has in a given transaction of the Company, indicating the nature, terms, origin and extent; if the Chief Executive Officer is involved, he must refrain from undertaking the transaction entrusting it to the Board.

The Board of Directors met 12 times in 2010; all the directors participated in 2 meetings, while in the other 10 meetings almost all the directors participated; all the standing auditors participated in 8 meetings, while almost all the standing auditors participated in the other 4 meetings. The meetings of the Board of Directors lasted 2 hours on the average.

The General Manager – Operations, and the General Manager – Development and Market, who are invited to participate in the Board meetings, were present in 10 and 12 meetings respectively during 2010.

The Corporate and Legal Affairs Manager, in the role of Secretary of the Board of Directors, was present at all the Board meetings.

As for the current financial year, as at 24 March 2011, 3 Board of Directors meetings have been held. Nearly all directors and all standing auditors attended the meetings. As at 24 March 2011, 4 Board of Directors meetings have already been scheduled for the rest of the year.

Transactions with Related Parties

In its meeting of 10 October 2006, the Board of Directors of Hera SpA approved, in compliance with Articles 1 and 9 of the new Code of Conduct, the guidelines for significant transactions, transactions with related parties and transactions in which a director holds an interest (the “Guidelines”) so as to guarantee that they are carried out transparently and in observance of the criteria of substantial and procedural correctness.

Subsequently, the board of directors of Hera SpA approved the new procedure for transactions with related parties (the “Procedure”) in compliance with the Consob regulations adopted with Resolution no. 17221 of 12 March 2010 as amended (the “Consob Regulation”).

The discipline regarding transactions with related Parties contained in the Guidelines is considered to be abrogated and replaced in its entirety by the Procedure, while the provisions in the Guidelines relating to significant transactions and transactions in which a director holds an interest remain in effect.

In the Procedure, the Board of Directors implemented in their entirety the definitions of “related party”, “transaction with a related party”, and all the functional definitions contained in the Consob Regulation and its annexes.

The following were identified in particular:

1. the types of transactions with related parties to which the Procedure is applied:
 - “Transactions of Major Significance,” or transactions that include at least one of the indicators of significance set forth in the Consob Regulations in excess of the threshold of 5%;
 - “Transactions of Minor Importance,” or those transactions with related parties that are neither of Major Significance nor of a Small Amount.
 - “Ordinary transactions,” or transactions which a) are part of ordinary operations or a connected company financial activity; and b) are concluded under terms that are: (i) analogous to those usually applied to non-related parties for transactions of a similar nature, entity and risk, (ii) based on terms which are regularly applied or on set prices, or (iii) correspond to those which are applied to entities with which the company is obliged by law to contract against a specific consideration.
 - “Transactions involving a small amount,” or those transactions in which the maximum expected amount of the consideration or value of the service does not exceed, for each transaction, the amount of Euro 1,000,000.00;
 - “Transactions with Related Parties realized by Subsidiaries.”
2. The approval of the Transactions of Major and Minor Significance depends on whether the transactions involve:
 - Transactions of Minor Significance for which the Board of Directors is competent and which are approved by the Board of Directors upon a reasoned, non-binding opinion of the Internal Control Committee (hereinafter the “Committee”) on the interest, convenience and substantial correctness of the transaction;
 - Transactions of Major Significance for which the board of directors is competent and in the ambit of which the Committee must be involved at the negotiation and investigation phase and the transaction may be approved upon the Committee’s favourable opinion in regard to the interest, convenience and substantial correctness of the transaction and the favourable vote of the majority of the independent directors;
 - Transactions of major and minor significance for which the Shareholders’ Meeting is competent and the resolutions of which must follow the same procedure as for the transactions the board of directors is competent for, described above, while the favourable opinion of the Committee must be obtained.

The Procedure provides that the Committee, which is in charge of guaranteeing, through the issuance of its specific opinion, the essential correctness of the transaction with related parties must coincide with the Internal Control Committee.

The procedure also identifies the cases in which the application of the Procedure can be waived and the disclosures which must be made to the public regarding transactions which are carried out.

b) Composition of the Board of Directors (pursuant to art. 123-bis, section 2, letter d) of the FCA)

The Company's Articles of Association envisage that the Board of Directors is comprised of 18 members.

The Board of Directors in accordance with the provisions of art. 1.C.1 letter g) of the new Code, has evaluated the size, composition and functioning of the Board and its committees, and confirms its positive opinion on the functioning of the Board.

The current composition of the Board of Directors is indicated below, and the personal and professional profiles of each director is available on the website www.gruppohera.it.

Name and surname	Office	Position
Tomaso Tommasi di Vignano	Chairman	Executive director
Maurizio Chiarini	Chief Executive Officer	Executive director
Giorgio Razzoli	Vice-Chairman	Non-executive independent director
Mara Bernardini	Director	Non-executive independent director
Filippo Brandolini	Director	Non-executive independent director
Luigi Castagna	Director	Non-executive independent director
Mauro Cavallini	Director	Non-executive independent director
Piero Collina	Director	Non-executive independent director
Pier Giuseppe Dolcini	Director	Non-executive independent director
Ferruccio Giovanelli	Director	Non-executive independent director
Lanfranco Maggioli	Director	Non-executive independent director
Alberto Marri	Director	Non-executive independent director
Daniele Montroni	Director	Non-executive independent director
Roberto Sacchetti	Director	Non-executive independent director
Paolo Trombetti	Director	Non-executive independent director
Francesco Sutti	Director	Non-executive independent director
Bruno Tani	Director	Non-executive independent director
Stefano Zolea	Director	Non-executive independent director

Plurality of offices in other companies.

With its resolution of 10 October 2006, the Board of Directors has established the limit for directors or auditors of a maximum of one office in listed companies that can be considered equivalent to the role of executive director, and a maximum of two offices in listed companies that can be equivalent to the role of non-executive director.

d) Delegated bodies

Chairman of the Board of Directors

In the meeting held on 30 April 2008, the Board of Directors passed a resolution to grant the following powers to the Chairman:

1. to chair and direct the Shareholders' Meetings;
2. to establish the agenda of the meetings of the Board of Directors taking into account the proposals of the Chief Executive Officer;
3. to supervise the execution of the resolutions passed by the corporate boards of the Company, also based on the periodic reports provided by the internal auditing department;
4. to represent the Company before third parties and in court with the power to appoint attorneys and lawyers;
5. to make, in association with the Chief Executive Officer, any urgent decision reserved for the Board of Directors, which the Board shall be notified of in the first meeting thereafter;
6. in association with the Chief Executive Officer, to propose to the Board of Directors designation of Company representatives on the administrative and control boards of investee companies;
7. to represent the company in relations with the shareholding public authorities;
8. to propose to the Board the candidates standing for member of the Committees which the Board may decide to establish in compliance with stock exchange regulations which the Company is obliged to observe, or which it intends to establish;
9. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his/her authority permits;
10. to supervise the Company's performance for the purposes of achieving corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
11. to be responsible for the organisation of services and offices under his/her authority and also for the subordinate employees;
12. to supervise operations of the Company and of subsidiaries, reporting monthly to the Board of Directors;
13. to draw up long-term plans and business plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of directives established by the Board, and to exercise the powers delegated thereto, and in particular those listed hereunder, in compliance with said strategies and directives;
14. to propose to the Board all the initiatives that he/she may deem useful to the interests of the Company, and the Group, and to draw up proposals on matters reserved for said Board;
15. to represent the Company in the shareholders' meetings of companies, associations, entities and bodies which do not constitute stock companies, of which the Company is a member, with faculty to issue special proxies;
16. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting on said accounts;
17. to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, stock exchanges, the National Commission for Listed Companies and the Italian Stock Exchange (CONSOB), the Ministry for Foreign Trade, and the Italian Exchange Office as well as any other public administration or authority; by way of example:
 - a. to sign notices, including notice to the General Register of Shares and to CONSOB, and to fulfil the corporate obligations provided by law and regulations;
 - b. to submit claims, motions and appeals, to apply for licences and authorisations;

18. to represent the Company in all active and passive lawsuits, in all stages of civil and administrative proceedings, before arbitration boards, with the widest powers to:
 - a. bring conservative, restraining and executive actions, request summary judgements and seizure of property and oppose the same, enter civil proceedings, file motions and appeals;
 - b. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators and perform all else that proves necessary to the positive outcome of the lawsuits at issue;
19. to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
20. to stipulate and sign contracts and memoranda of association of companies, associations and consortia worth no more than Euro 500,000 (Euro five hundred thousand) for each transaction;
21. to establish, in the Company's interests, consultancy activities with external experts and professional consultants, specifying terms and conditions of payment, all within the limits of Euro 100,000 (Euro one hundred thousand) for each transaction;
22. as far as his/her authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
23. to participate, as far as his/her authority permits, in the capacity of representative of the Company, as parent company or as principal company, in the formation of joint ventures, T.A.C. (Temporary Associations of Companies), E.G.E.I. (European Group of Economic Interest), consortia and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
24. to take part, as far as his/her authority permits, in the Company's name, also in T.A.C. (Temporary Associations of Companies), E.G.E.I.. (European Group of Economic Interest), consortia and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international level, even admitted to State grants or aid, for the awarding or works, supplies of plant, including "turnkey", and/or of goods and/or of studies and/or of research and/or of services in general for any national, EU or international public or private entity; submit applications for participation as from the prequalification stage; submit bids and, in the case of awarding, sign the relative documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he/she may deem necessary and/or appropriate and/or useful;
25. to take part, as far as his/her authority permits, in any type of public or private auction or invitation to bid in Italy and abroad;
26. to stipulate, amend and terminate contracts for insurance policies with expense limit relating to the annual premium, including surety insurance policies up to a maximum of Euro 500,000 for each transaction (this limit does not apply for transactions related to participation in tenders);
27. to rent or let out property under lease or sublease and stipulate, amend and terminate the relative contracts;
28. to deliberate the cancellation, reduction, restriction of mortgages or liens registered in favour of the Company, as well as subrogation in favour of third parties, where the aforesaid cancellations and waivers are requested further or subordinate to the full discharge of the credit;
29. as far as his/her authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements in any case pertaining to the corporate purpose – including those referring to know-how, trademarks and patents – including in association with other companies;

30. to establish, register and renew mortgages and liens for the account of third parties and to the benefit of the Company; permit mortgage cancellations and limitations on behalf of third parties and for the benefit of the Company for return and reduction of obligations; waive mortgages and mortgage subrogation, including those of a legal nature, and effect any other mortgage transaction, again on behalf of third parties and for the benefit of the Company, and therefore receivable, exonerating the competent property registrars from each and any responsibility;
31. to appoint lawyers and attorneys in any disputes and for any stage of proceedings; conclude settlements, sign arbitration agreements and arbitration clauses, also proceeding to nominate and appoint arbitrators;
32. to appoint attorneys for single acts, within the powers assigned;
33. to decide the Company's subscription to bodies, associations, and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of said entity and participation in the same does not involve an outlay of more than Euro 100,000.00 (Euro one hundred thousand).

In relation to the powers listed above and in compliance with art. 2 of the Code, readers are hereby informed that the Board of Directors has granted management authority to the Chairman as a result of the organisational complexity of the Hera Group and for the purposes of a more efficient achievement of the company's business and strategies.

Chief Executive Officer

During the same meeting, the Board of Directors passed a resolution to vest the Chief Executive Officer with the following powers:

1. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his/her authority permits;
2. to make, in association with the Chairman, any urgent decision reserved for the Board of Directors, which the Board shall be notified of in the first meeting thereafter;
3. to implement corporate and Group strategies, within the context of directives established by the Board, and to exercise the powers delegated thereto, and in particular those listed hereunder, in compliance with said strategies and directives;
4. to propose to the Board all the initiatives that he/she may deem useful to the interests of the Company, and the Group, and to draw up proposals on matters reserved for said Board;
5. to draw up the annual budget to be submitted before the Board of Directors;
6. to be responsible for the organisation of the services and offices under his/her authority and also for subordinate employees;
7. to define the functional structures of the Company and its subsidiaries, within the framework of the general organisation guidelines established by the Board, specify the criteria for personnel recruitment and management in compliance with the annual budget; propose the appointment of managers to the Board of Directors; engage, appoint and dismiss personnel up to and excluding the rank of General Manager, in compliance with the provisions contained in the annual budgets; adopt and implement the disciplinary sanctions, dismissal and any other measure in respect of blue-collar workers, office workers, assistants and auxiliary staff;
8. to stipulate, amend and terminate contracts for the opening of credit, loans of any type and duration; request the drawdown of tranches of loans, up to the amount of Euro 3,000,000 (Euro three million) for each contract;
9. to open and close current accounts with banks and credit institutions, withdraw sums from the accounts held in the Company's name, issuing for this purpose the relative cheques or equivalent credit documents, and order transfers utilising effective availability or credit lines in the current account;

10. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting on said accounts;
11. to draw bills on customers, endorse also for discount promissory notes, bills and drafts as well as cheques of any kind and effect any consequential transaction;
12. to actively and passively represent the Company before tax authorities and commissions of any nature and rank as well as before the Cassa Depositi Prestiti, the Bank of Italy, customs offices, post and telegraphic offices; by way of example:
 - a. to sign tax and VAT returns and to fulfil any tax-related obligation,
 - b. to submit reports, motions and appeals, to apply for licences and authorisations;
 - c. to issue receipts, in particular for payment orders in relation to receivables subject to factoring transactions;
 - d. to perform any transaction at the Cassa Depositi e Prestiti, the Bank of Italy, customs offices, post and telegraphic offices for shipment, deposit, clearance and collection of goods, credit instruments, parcels and packages, registered and insured letters, issuing receipt in discharge;
13. to represent the Company in all lawsuits pertaining to labour law including the power to:
 - a. settle individual labour disputes concerning the categories of officers, white-collar workers, assistants and auxiliaries;
 - b. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators and perform all else that proves necessary to the positive outcome of the lawsuits at issue;
14. to represent the Company before social security and welfare offices and institutions for the settlement of issues relating to employees of the Company, and also before trade unions in negotiations for contracts, agreements and labour disputes, with the power to sign the relative documents;
15. to issue guarantees and grant loans up to the value of Euro 500,000.00 (Euro five hundred thousand) for each transaction; said limit shall not apply to transactions related to participation in tenders; issue, accept and endorse credit instruments;
16. to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
17. to participate, as far as his/her authority permits, in the capacity of representative of the Company, as parent company or as principal company, in the formation of joint ventures, T.A.C. (Temporary Associations of Companies), E.G.E.I. (European Group of Economic Interest), consortia and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
18. to take part, as far as his/her authority permits, in the Company's name, also in T.A.C. (Temporary Associations of Companies), E.G.E.I.. (European Group of Economic Interest), consortia and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international level, even admitted to State grants or aid, for the awarding or works, supplies of plant, including "turnkey", and/or of goods and/or of studies and/or of research and/or of services in general for any national, EU or international public or private entity; submit applications for participation as from the prequalification stage; submit bids and, in the case of awarding, sign the relative documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he/she may deem necessary and/or appropriate and/or useful;

19. to take part, as far as his/her authority permits, in any type of public or private auction or invitation to bid in Italy and abroad;
20. as far as his/her authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
21. as far as his/her authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements in any case pertaining to the corporate purpose – including those referring to know-how, trademarks and patents – including in association with other companies;
22. to establish, in the Company's interests, consultancy activities with external experts and professional consultants, specifying terms and conditions of payment, all within the limits of Euro 100,000 (Euro one hundred thousand) for each transaction;
23. to conclude settlements, sign arbitration agreements and arbitration clauses, also proceeding to nominate and appoint arbitrators;
24. to arrange for sureties to be provided by third parties in favour or in the interests of the Company, both in its position as creditor and as debtor, not exceeding the amount of Euro 100,000 (one hundred thousand) for each transaction;
25. to provide for the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:
 - a. works and supplies necessary for the transformation and maintenance of properties and plant;
 - b. purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, as well as finance leases and rentals of said assets, with the cost limit referring to the annual rental;
 - c. purchases, also under usage licence with the cost limit referring to the annual premium, and job orders relating to EDP programmes;
 - d. commercial information;
26. to appoint attorneys for single acts, within the powers assigned;
27. the Chief Executive Officer is also assigned the powers and responsibilities set forth in Italian Legislative Decree No. 626 dated 19 September 1994 and Legislative Decree no. 81 of 9 April 2008 as it is currently applicable regarding worker health and safety during work, with the authority to delegate, with the exception of the following sectors/structure, for which the role of "Employer" is covered by other specifically appointed parties:
 - a. Services sector;
 - b. General Management - Operations, specifically for the Corporate Departments of Gas Distribution, Water Cycle Sector, Electricity Distribution Sector, District Heating Sector, Waste Management Sector, Large Plants Engineering Sector, as well as for the Staff Planning, Control, TOC Relations Coordination, Research and Development and Meter Reading Sectors.
 - c. TOC Business Unit Corporate Departments for Bologna, Ferrara, Forlì – Cesena, Imola – Faenza, Modena, Ravenna and Rimini;
28. in particular, the Chief Executive Officer is assigned the role of "Employer" pursuant to and for the purposes of art. 2 of Italian Legislative Decree No. 626 dated 19 September 1994 and article 2 of Italian Legislative Decree No. 81 dated 9 April 2008 as it is currently applicable with the duties provided for therein and with the right to delegate, as far as is permitted by said decree, the performance of every activity useful and/or necessary for ensuring compliance with the provisions of the law;

29. the Managing Director is also assigned the powers and responsibilities set forth in Italian Legislative Decree No. 196 dated 30 June 2003 concerning the protection of individuals and other parties in observance of the handling of personal information.

Hence both the Chairman and the Chief Executive Officer are executive directors.

Disclosure to the Board of Directors

In compliance with the recommendations of the Code, the delegated bodies report to the Board of Directors and to the Board of Statutory Auditors, at least on a quarterly basis, on the activities performed when exercising the powers assigned thereto.

The Chairman ensures that each director and statutory auditor has all the information and documentation necessary for discussing the business on the agenda of the Board meetings at least 3 days before the meeting, except in cases of necessity and urgency.

Lastly, the Chairman and the Chief Executive Officer ensure that the Board of Directors is also informed on the most important changes in legislation and regulations relating to the Company and corporate bodies.

e) Executive Committee (pursuant to art. 123-bis, section 2, letter d) of the FCA)

The Board of Directors that had been appointed during the Shareholders' Meeting held on 29 April 2008 as provided for by art. 23.3 of the Articles of Association appointed the Executive Committee with the following members on 30 April 2008:

- Mr. Tomaso Tommasi di Vignano – Chairman of the Executive Committee;
- Mr. Giorgio Razzoli – Vice-Chairman of the Executive Committee;
- Mr. Maurizio Chiarini -Member of the Executive Committee

With regard to the annual definition of the Group Business Plan and Budget and to proposals for appointment of 1st level senior executives, the Committee has the task of expressing an opinion prior to presentation to the Board of Directors and also resolving:

1. as to contracts and conventions in any way pertaining to the corporate purpose worth more Euro 2 million per single contract;
2. in the interests of the Company, consultancy arrangements with external experts and professional consultants, specifying terms and conditions of payment, worth more than Euro 100,000 and up to Euro 500,000 and more generally on the overall criteria for use;
3. as to the Company's subscription to bodies, associations, and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of said entity and participation in the same involves an outlay of more than Euro 100,000 and up to Euro 500,000;
4. to settle disputes and/or waive credits of an amount exceeding Euro 1,000,000;
5. as to the activation, amendment and termination of contracts for the opening of credit, loans of any type and duration which involve a commitment of more than Euro 1,000,000 and up to Euro 5,000,000; request the drawdown of tranches of loans, for an amount of more than Euro 3,000,000 and up to Euro 5,000,000 per single contract;

6. as to the stipulation, amendment and termination of contracts relating to:
- works and supplies necessary to the transformation and maintenance of properties and plants worth more than Euro 15,000,000;
 - purchases and sales of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers worth more than Euro 8,000,000.

The Executive Committee also has the duty to examine the audit reports every quarter and to supervise, in observance of the system of delegated powers defined on the corporate level, implementation of the action plans ensuing from the audit reports.

The Executive Committee met 6 times in 2010 and all members attended the meetings. The meetings of the Executive Committee lasted one hour on the average.

f) Independent directors

Currently there are 16 directors qualifying as non-executive independent members of the Board, in that:

- a) they do not control, directly or indirectly, even via subsidiaries, trust companies or third parties, the Company; they do not exercise significant influence over the Company; they are not parties to a shareholders' agreement via which one or more parties may exercise control or significant influence over the Company;
- b) they are not currently nor have they been in the last three accounting periods, important representatives of the Company, one of its subsidiaries with strategic importance or one of the companies subject to joint control together with the Company, or of a company or body which, also together with others as a result of shareholders' agreements, controls the Company or is able to exercise significant influence over the same;
- c) they do not have nor have they had in the previous year, either directly or indirectly, significant commercial, financial or professional dealings:
 - with the Company, one of its subsidiaries, or with some of the related important representatives of the same;
 - with a party who, also together with others as a result of shareholders' agreements, controls the Company, or – if concerning companies or bodies – with the related important representatives, and who have not been employees of one of the aforementioned parties in the last three accounting periods;
- d) they have not received in the last three accounting periods, from the Company or from a subsidiary or parent company, significant remuneration in addition to the "fixed" emolument of the company's non-executive directors, including participation in incentive schemes linked to the Company's performance, even if share-based;
- e) they have not been directors of the Company for more than nine years in the last twelve years;
- f) they have not performed the role of executive director in another company in which an executive director of the Company performs the role of director;
- g) they are not shareholders or directors of a company or a body belonging to the network of the firm appointed to audit the Company's accounts;
- h) they are not close family members of a party found in one of the positions contrasting with those described in the previous points.
- i) they meet the independence requirements set forth under art. 148, section 3, of the FCA.

The following do not invalidate the requirements for independence of a director: the appointment of the director by the shareholders or group of shareholders that control the Company, holding the office of director of a subsidiary of the Company and relative remuneration, being a member of one of the advisory committees described hereunder.

The Board of Statutory Auditors, in compliance with the provisions set forth in art. 3 of the Code, has checked the correct application of the criteria and the assessment procedures adopted by the Board of Directors for ascertaining the independence of its members.

5. Handling of Corporate Information

In order to regulate the communication to sector authorities and the public of news, data and price-sensitive information inherent in the operations and activities performed, whose dissemination may impact the valuation processes of equity shares and, consequently, on the level of demand and supply of the same, the Board of Directors adopted specific procedures on 15 February 2007 which have the objective of:

- i) identifying price-sensitive and confidential information;
- ii) defining the methodology for authorising and managing said information within the Group;
- iii) controlling the methods of external communications, in terms of documentation, communications issued, interviews and statements released and meetings held.

Furthermore, in application of the procedure adopted by Hera on 27 March 2006 in relation to insider dealing and pursuant to art. 152-sexies of the Issuers' Regulations, the following individuals have been identified as significant parties, obliged to inform the CONSOB of transactions they have carried out on Hera S.p.A.'s financial instruments: members of the Board of Directors, standing auditors and shareholders who hold an equity investment equating to or greater than 10% of the share capital, as well as individuals closely linked to the same.

In compliance with the provisions of the Issuers' Regulations, the procedure adopted by Hera S.p.A. has identified the timescales and communication formalities for transactions carried out by the significant parties. Hera S.p.A. has identified the Legal and Corporate Affairs Department as the party tasked with receiving, handling and disclosing the information to the market.

The appointed party will avail of the External Affairs Department for the disclosure of the information to the market by means of the NIS screen-based system (Network Information System).

Furthermore, pursuant to the provisions of art. 115-bis of the FCA and art. 152-bis of the issuers' regulation no. 11971 dated 14 May 1999, introduced by means of CONSOB Resolution no. 15232 dated 29 November 2005, as from 1 April 2006 Hera S.p.A. set up the "Register of Individuals who, as a result of working or professional activities, or in relation to functions performed, have access on a regular or occasional basis to privileged information", this being understood to be information (i) of a precise nature; (ii) directly or indirectly concerning the issuer or its financial instruments; (iii) which has not been made public and (iv) which if made public, could considerably influence the prices of these financial instruments (price sensitive information).

6. Committees within the Board of Directors (pursuant to art. 123-bis, section 2, letter d) of the FCA)

The committees set up are representative of an internal structure of the Board of Directors and fulfil an advisory and consulting role. The Board of Directors, reappointed on 29 April 2008, redefined the composition of said committees at the meeting of 14 May 2008.

a) Appointment Committee

The Appointment Committee was not established in that the appointment of the 14 directors was made by local entities and the remaining 4 directors by other companies through the list vote system.

b) Remuneration Committee

Composition and activities of the Remuneration Committee (pursuant to art. 123-bis, section 2, letter d) of the FCA)

The Board of Directors established the Remuneration Committee in its meeting of 4 November 2002 and in accordance with the provisions of the Code.

This Committee, reappointed in its present composition on 14 May 2008, consists of Giorgio Razzoli as Chairman, Paolo Trombetti (appointed 12 November 2009 to replace Francesco Sutti), Piero Collina and Mara Bernardini (appointment effective 19 July 2009 to replace Nicodemo Montanari). The Chairman of the Board of Directors and the Chief Executive Officer may attend committee meetings upon the express invitation of the Committee Chairman.

The Remuneration Committee met 3 times in 2010; all the members attended two meetings, while the majority of the members attended the other meeting. The meetings of the Remuneration Committee last, on average, 1 hour.

Activities of the Remuneration Committee

The Remuneration Committee has the role of formulating proposals to the Board of Directors for the remuneration of the Chairman, the vice chairman, the Chief Executive Officer, the general managers and directors covering specific roles, as well as on the basis of indications provided by the Chief Executive Officer, for the adoption of general criteria for the remuneration of management, without prejudice to the Chief Executive Officer's duty to define policies and levels of management remuneration.

In performing its duties, the Remuneration Committee has had the opportunity to access the necessary company information and functions for carry out its tasks.

During the meetings in 2010, the minutes for which were duly recorded, the committee discussed issues relating to remuneration policies, the Balanced Scorecard results for directors and managers in 2009, 2010 fixed and variable remuneration guidelines for directors, directors of subsidiaries and Hera Group managers, remuneration for top management positions, as well as the 2011 Balanced Scorecard for directors and managers.

Directors' remuneration

The Shareholders' Meeting of 29 April 2008 awarded the directors a fixed annual remuneration.

In its meeting on 23 June 2008, the Board of Directors resolved to assign the Chairman and Chief Executive Officer a remuneration consisting of a fixed amount, inclusive of the indemnity due thereto, as well as an additional variable annual sum linked to the Company's operating results or to the achievement of specific targets set by the Remuneration Committee. In the same meeting, the Board of Directors passed a resolution to pay the Vice-Chairman a fixed annual consideration including the indemnity due thereto as director and any other remuneration for offices held in Group companies.

In the meeting of 14 May 2008, the Board of Directors also assigned a further fixed annual amount only to the directors holding specific offices, over and above the indemnity due thereto as directors, for serving on other boards of directors of Group companies and/or other boards associated with the Company's Board of Directors.

An agreement was concluded between the company and the Chairman of the Board of Directors, which expired upon approval of these financial statements. It provided for payment, in the event of termination of the relationship prior to the expiration date, of a compensation amount equal to that which the Chairman would have received in the form of emoluments until the expiration of the mandate, except in the case of termination for just cause.

c) Internal Control Committee

Composition and activities of the Internal Control Committee (pursuant to art. 123-bis, section 2, letter d) of the FCA)

In compliance with the provisions of the Code, the Board of Directors of the Company, during the meeting held on 4 November 2002, passed a resolution to set up an Internal Control Committee. This Committee, reappointed in its composition on 14 May 2008, is composed of Giorgio Razzoli as Chairman, Daniele Montroni (appointment effective 20 July 2009 to replace Luigi Castagna), Stefano Zolea and Lanfranco Maggioli. At least one member of the Internal Control Committee must have finance and accounting experience, deemed adequate by the Board of Directors at the time of appointment.

The Remuneration Committee met 7 times in 2010. 6 meetings were attended by all of the members while 1 meeting was attended by the majority of members. The Internal Control Committee meetings last, on average, 1 hour.

Functions assigned to the Internal Control Committee

The Internal Control Committee has been assigned the functions indicated under paragraph 8.C.3 of the Code, with the exception of the tasks pursuant to letters c), d) and e) of the aforementioned paragraph, which are performed by the Board of Statutory Auditors.

In the meetings held during 2010, the minutes for which were duly recorded, audit evaluations were presented, the perspective of the internal control systems was analysed and assessed, the information received in application of Italian Legislative Decree 231/01 analysed as was the procedure relating to transactions with related parties.

The Chairman of the Board of Statutory Auditors or another statutory auditor designated by the Chairman attend the committee meetings, and upon the express invitation of the Committee Chairman, the Chairman of the Board of Directors and the Chief Executive Officer may attend.

In performing its duties, the Internal Control Committee has had the opportunity to access the necessary company information and functions for carry out its tasks.

Internal Control System

Introduction

Hera has an integrated system of risk management and internal control in connection with the financial information process (hereinafter, in short, also the "System"), pursuant to provisions set forth by Art. 123-bis, subsection 2, lett. b) of the Finance Consolidation Act (hereinafter, in short, also FCA).

This System is aimed at recognizing, measuring, managing and monitoring the main risks that might impair the achievement of the objectives of reliability, accuracy, reliability and timeliness of financial information.

The Hera System is based on the CoSO Framework, which is taken as reference model as it is internationally acknowledged for the analysis, implementation and evaluation of the risk management and internal control system.

Hera uses a methodological and operating approach for the management and updating of the administration and accounting system underlying the financial information process.

The risk management and internal control system related to the financial information process

As provided for by Art. 154-bis of FCA, introduced by the Law on the Protection of Savings, a Manager in charge of the preparation of the corporate accounting documents (hereinafter, in short, the "Manager in Charge") was included in the Company's corporate governance.

Within the risk management and internal control system regarding the financial information process, Hera has administrative and accounting procedures for preparing the financial statements and the consolidated financial statements, as well as any other financial communication, while taking care of updating and disseminating the same. In order to update the risks connected with financial information, the Manager in Charge manages the risk recognition and assessment process related to the Internal Control over Financial Reporting ("ICFR Risk Assessment").

The risk recognition and assessment process is aimed at pinpointing items and figures, which are significant or show special risks, and the related processes connected with them, as well as the relevant Group companies for which the recognition and assessment of the internal control system on financial information is required.

This activity is carried out by using the quality and quantity parameters which lead to the assignment of an aggregate risk/significance level for each account/process/entity.

Within the risk recognition and assessment process on financial information, the risk of fraud is also taken into account.

The identification of items, accounts, balance-sheet information, processes, relevant companies and the related risk level assigned are used by the Manager in Charge in determining intervention priorities in order to program recognition and assessment activities of the internal control system on financial information.

Given both the outcome of the recognition and assessment of ICFR process and indications set out in the operating plan of the Manager in Charge, the Company analyses the controls at both corporate and process level.

In particular, controls at corporate level are assessed by relating them, as regards the financial information as well, to the "soft" components of CoSO Framework (control environment, information and communication and monitoring).

Controls at the process level are recognised and measured in terms of consistency through the following steps:

- recognition of key controls and measurement of the control framework;
- assessment of the operation of key controls by testing the identified key controls.

Testing is carried out by internal and external resources, specially appointed for this purposes.

The analysis of the framework and the measurement of the actual operation of controls at corporate level, as well as controls on the process, enable to recognise, report and assess operating activities, as well as roles and responsibilities, error risks and individual control activities.

Moreover, in order to evaluate whether the control system was correctly designed and operates properly, Hera issued and distributed to all Group companies a system of procedures and guidelines to regulate the closure of interim, separate and consolidated financial statements.

These procedures identify the subjects, the organization structures involved in the management, processing or transfer of data and information, identify roles and operating and control responsibilities and define control and reporting activities.

Within the risk management and internal control system, the information flows of the Manager in Charge to and from the other corporate and control bodies were also defined.

These flows also provide for a structured and systematic reporting to the main corporate bodies, with the aim at supplying information on operating planning contents and logistics as well as any deficiencies found and related plans and actions defined to solve these deficiencies.

With reference to the year 2010, the Board of Directors has assessed the adequacy, effectiveness and actual operation of the Internal Control System.

Internal Control Manager

In order to guarantee an adequate internal control system, the Internal Auditing department has been set up; the individual in charge reports directly to the Vice-Chairman.

The individual responsible for Internal Auditing provides a report on his/her activities, on a quarterly basis or whenever he/she considers it necessary.

This person is hierarchically independent of the managers of the operational areas and may have direct access to all information useful for performing his/her role.

d) Ethics Committee

Composition and activities

During its meeting of 12 September 2007, the Board of Directors of Hera S.p.A. set out the new text of the “mission” and “values and working principles” of the Group, and consequently approved the updated version of the Code of Ethics that is a “social responsibility” tool of the Company for implementing principles of ethics inspired by good practices of conduct and addressed to pursuing the Company’s mission.

Therefore, in implementation of art. 60 of the aforesaid Code, the Board of Directors appointed a special Committee during its meeting of 8 October 2007, whose composition was reappointed on 14 May 2008. This committee is made up of Hera S.p.A. director Giorgio Razzoli, Mario Viviani (appointed on 27 January 2010 to replace Luciano Sita) and an executive who is a social responsibility expert.

The Executive Committee met 10 times in 2010 and all members attended all of the meetings. The Ethics Committee meetings last, on average, 1 hour.

In its meeting of 26 January 2011, at the end of the three year experimental phase of the usage of the Code of Ethics, the Board of Directors of Hera SpA adopted an updated text in order to deploy it within the company.

Functions of the Ethics Committee

The Ethics Committee has the duty to monitor the communication and implementation of the Code of Ethics.

In meetings held during 2010, the committee analysed any reports submitted to it, verified the approval status of the Code of Ethics and studied the proposals made in regard to the updating of the code.

7. Organisational model pursuant to Legislative decree 231/2001

Italian Legislative Decree no. 231/2001 introduced into Italian legislation the administrative responsibility of legal entities, companies and associations. In particular, the law introduced the penal responsibility of entities for certain offences committed in the interest or to the advantage of the same by persons fulfilling roles of representation, administration or management of the entity or one of its organisational units with financial and operating independence, as well as persons who exercise, even de facto, management and control thereof and, lastly, persons subject to the direction or supervision of one of the above mentioned parties. The important offences are the offences against the Public Administration and the corporate offences committed in the interest of the companies.

However, articles 6 and 7 of the Italian Legislative Decree 231/2001 provide for a form of exoneration from responsibility where (i) the entity proves that it adopted and efficiently implemented, prior to commitment of the act, organisational, management and control models appropriate to preventing the perpetration of the offences considered by said decree; and (ii) the duty of supervising the effectiveness of and compliance with the models, as well as providing for their revision, is entrusted to a board of the entity vested with autonomous powers of initiative and control.

For this purpose, on 16 February 2004, Hera S.p.A.'s Board of Directors approved – and subsequently updated – the organisational, management and control model pursuant to Legislative Decree no. 231/2001 (also in light of the provisions introduced by Law 123/07) with the aim of creating a structured and organic system of procedures and control activities directed at preventing the offences referred to in the aforesaid decree, through identification of activities exposed to the risk of offence and the consequent implementation of procedures therein.

The organisational, management and control model pursuant to Legislative Decree 231/2001 was also adopted by strategically relevant subsidiaries.

Hence the Board of Directors set up the Supervisory Body, reappointed in its composition on 14 May 2008, composed of the Head of Internal Auditing of Hera S.p.A. as Chairman, the Head of Legal and Corporate Affairs of Hera S.p.A. and an external member to which it entrusted the aforesaid duties including the periodic reporting to the corporate boards of Hera S.p.A. on the implementation of the said model.

The Supervisory Body met 5 times in 2010 and all members attended all of the meetings.

Meetings of the Supervisory Body last, on average, 1 hour and forty minutes.

The Supervisory Body updated the 231 protocols that constitute the organisational model. In addition, the Supervisory Body applied and analysed information flows that permitted it to oversee the effectiveness of and compliance with the models and to thus proceed to examine audit reports and to schedule further activities.

In order to carry out the checks and controls, the Supervisory Board drew up a schedule of measures for checking compliance with the protocols adopted.

8. Independent auditing firm

PriceWaterHouseCoopers Advisory S.p.A was assigned the responsibility for performing the accounting audit by the Hera Shareholders' Meeting on 27 April 2006; the term will expire with the approval of the financial statements as at 31 December 2014.

9. Manager in charge of preparing corporate accounting statements

On 27 January 2010, the Board of Directors temporarily appointed Dario Farina - Administration Manager, as the Manager in charge of preparing corporate accounting statements. It further specified that when the new director of Central Administration, Finance and Control assumes his office, the latter would be in charge of company accounting documents and exercising the functions as provided by the law.

We note to this effect that effective from 29 March 2010, Luca Moroni has assumed the position of Director of Central Administration, Finance and Control and therefore also the duties of Manager in charge of preparing corporate accounting statements.

The Manager in charge of preparing corporate accounting statements has sufficient means and powers to perform his/her role as provided for in art. 154-bis of Italian Legislative Decree no. 58 of 24 February 1998.

10. Appointment of statutory auditors

The statutory auditors are appointed by the Shareholders' Meeting on the basis of the list voting system envisaged by Article 26 of the Articles of Association which specifies that (i) the Municipalities, Provinces and Consortia established in accordance with Article 31 of Italian Legislative Decree no. 267/2000 and the associates or the joint-stock companies controlled by the same may present a single list and (ii) the shareholders other than those indicated in point (i) may present lists provided that they represent, pursuant to regulation currently in force (Consob resolution 17633 of 26 January 2011), at least 2% of the voting shares. The lists must be filed at the registered offices at least 25 days prior to the date of the Shareholders' Meeting, together with the CVs and declarations of the individual candidates stating they accept the office and certifying that there are no grounds for ineligibility or incompatibility as provided by law, and that they meet the requirements of integrity and professionalism required by law for the members of the Board of Statutory Auditors. Together with the lists, a declaration stating there are no agreements or connections of any kind with other shareholders who have presented other lists, as well as the list of administration and control offices held by the candidates with other companies, must be presented. These lists are made available to the public through the headquarters, the stock exchange management company and the website www.gruppohera.it, at least 21 days prior to the meeting.

In the event of replacement of a standing auditor, the alternate auditor belonging to the same list as the standing auditor will take over the position.

For the purposes of the provisions of legislation in force concerning the requirements of professionalism of the members of the Board of Statutory Auditors of listed companies, subject matter and business sectors strictly relating to the activities carried out by the Company are intended to mean the subject matters and sectors associated with or relating to the activity exercised by the Company and set forth in art. 4 of the Articles of Association.

The office of statutory auditor is not compatible with that of councillor or alderman of local public authorities, or with that of statutory auditor in more than three listed companies with the exclusion of the subsidiaries of the Company pursuant to art. 2359 of Italian Civil Code and 93 of the Italian Legislative Decree no. 58/98. In the latter case, an internal auditor who exceeds this limit will automatically be removed from the office of statutory auditor.

Composition and activities of the Board of Statutory Auditors (pursuant to art. 123-bis, section 2, letter d) of the FCA)

The Board of Statutory Auditors consists of three standing auditors and two alternate auditors. The Board of Statutory Auditors, whose term expired with the approval of the financial statements as at 31 December 2007, was reappointed during the Shareholders' Meeting of 29 April 2008 and will remain in office until the approval of the 2010 financial statements.

The Board of Statutory Auditors, in compliance with the provisions set forth in art. 10 of the Code, has appraised the correct application of the criteria and the assessment procedures adopted for evaluating the independence of its members.

The current composition of the Board of Statutory Auditors is indicated below, and the personal and professional profiles of each director are available on the website www.gruppohera.it.

Name and surname	Office
Sergio Santi (*)	Chairman
Fernando Lolli	Standing auditor
Antonio Venturini	Standing auditor
Stefano Ceccacci (*)	Alternate auditor
Roberto Picone	Alternate auditor

() appointed by the Shareholders' Meeting on 29 April 2008 on the basis of the only list presented by the minority shareholders in compliance with the provisions of legislation in force.*

The Board of Statutory Auditors met 16 times during 2010; all statutory auditors were present at 14 of the meetings, while in 2 of the meetings nearly all statutory auditors were present. The average duration of the Board of Statutory Auditors' meetings is approximately 1 hour and 40 minutes.

The local authorities holding shares have entered into a Voting Trust and Share Transfer Rules Agreement which governs the method for preparing the list for nominating two standing auditors and one alternate auditor of the Board of Statutory Auditors.

The consultancy agreement, signed on 23 February 2010 by 4 minority shareholders of Hera S.p.A., provides for nominating members of the Board of Statutory Auditors.

The Board of Statutory Auditors oversees the independence of the independent auditing firm, verifying compliance with legislation in effect and, in carrying out its activities, coordinates with Internal Audit and the Internal Control Committee.

11. Relations with shareholders

In order to encourage a more detailed knowledge of the Company on the part of the shareholders, the Company has set up a special structure dedicated to investors relations, managed by Jens Klint Hansen (Investor Relations may be contacted by calling + 39 051 287737 or via email to ir@gruppohera.it).

12. Shareholders' Meetings (pursuant to art. 123-bis, section 2, letter c) of the FCA)

Both the Ordinary and Extraordinary Shareholders' Meetings are called in the cases and manner prescribed by law; they are held either at the registered offices or at another location within Italy.

The Shareholders holding the requirements set forth in legislative provisions in force are entitled to attend the Meeting.

Both the Ordinary and Extraordinary Shareholders' Meetings and relative resolutions are valid if made with the attendance and majorities established by law.

Resolutions from Extraordinary Shareholders' Meetings regarding changes to articles 7 ("Public majority shareholding"), 8 ("Limits to shareholding"), 14 ("Validity of the Shareholders' Meeting and rights of veto") and 17 ("Appointment of the Board of Directors") of the Articles of Association shall be valid if they obtain the favourable vote of at least 3/4 of the share capital participating in the meetings, rounded as necessary.

The Shareholders' Meeting of 29 April 2003 approved the text of Shareholders' Meeting Regulations, which indicate the procedures to be followed in order to permit the orderly and proper functioning of meetings, without prejudice to the right of each shareholder to express his opinion on the matters under discussion.

The shareholders' meeting held on 27 January 2011, in order to implement the new laws introduced by Legislative Decree no. 27 of 27 January 2010 on "Implementation of Directive 2007/36/EC "Shareholders' rights Directive") and to adapt the aforementioned regulation to certain organisational requirements, amended the text thereof, the updated version of which is published on the company's website www.gruppohera.it.

Table 1: Structure of the Board of Directors and Committees

Board of Directors										Int. Contr.		Remun. Committee		Appointment		Executive Committee		Ethics Committee	
Office	Members	In office since	In office until	List (M/m)	Exec.	Non Exec.	Indep. per Code	Indep. per FCA	(%) **	No. of other offices held	****	****	****	****	****	****	****	****	****
Chairman	Tomaso Tommasi di Vignano	28/04/2008	Approval 2010 FS	EL	X				100%	1						X	100%		
CEO	Maurizio Chiarini	28/04/2008	Approval 2010 FS	EL	X				100%	-						X	100%		
Vice chairman	Giorgio Razzoli	28/04/2008	Approval 2010 FS	EL		X	X	X	100%	1	X	100%	X	100%		X	100%	X	100%
Director	Mara Bernardini	28/04/2008	Approval 2010 FS	EL		X	X	X	83%	-			X	100%					
Director	Filippo Brandolini	28/04/2008	Approval 2010 FS	EL		X	X	X	100%	-									
Director	Luigi Castagna	28/04/2008	Approval 2010 FS	EL		X	X	X	100%	-									
Director	Mauro Cavallini	28/04/2008	Approval 2010 FS	EL		X	X	X	92%	-									
Director	Piero Collina	28/04/2008	Approval 2010 FS	m		X	X	X	100%	1			X	67%					
Director	Pier Giuseppe Dolcini	28/04/2008	Approval 2010 FS	m		X	X	X	75%	-									
Director	Ferruccio Giovanelli	28/04/2008	Approval 2010 FS	EL		X	X	X	100%	-									
Director	Lanfranco Maggioli	28/04/2008	Approval 2010 FS	EL		X	X	X	100%	-	X	100%							
Director	Alberto Marri	28/04/2008	Approval 2010 FS	m		X	X	X	92%	1									
Director	Paolo Trombetti	05/10/2009	Approval 2010 FS	EL		X	X	X	83%	-			X	100%					
Director	Daniele Montroni	20/07/2009	Approval 2010 FS	EL		X	X	X	100%	-	X	100%							
Director	Roberto Sacchetti	28/04/2008	Approval 2010 FS	EL		X	X	X	100%	-									
Director	Francesco Sutti	28/04/2008	Approval 2010 FS	EL		X	X	X	100%	-									
Director	Bruno Tani	28/04/2008	Approval 2010 FS	m		X	X	X	83%	-									
Director	Stefano Zolea	28/04/2008	Approval 2010 FS	EL		X	X	X	83%	-	X	86%							
Indicate the quorum required for the presentation of the lists for the last appointment: the lists can be presented by Shareholders who hold at least 1% of the voting shares in the ordinary shareholders' meeting.																			
Number of meetings held during the year in question:		BoD: 12		ICC: 7		RC: 3		AC: /		EC: 6		Ethics Committee: 10							

notes:

* This column indicates either LA or m based on whether the member was appointed by Local Authorities (LA) or a minority (m).

** This column indicates the attendance percentage of directors at the respective Board of Directors and committee meetings (no. of meetings attended/no. of meetings held during the effective period in office of the party concerned).

*** This column indicates the number of offices as director or statutory auditor the party concerned holds in other companies listed on organised markets, including foreign markets, in financial, banking, insurance companies or large enterprises.

**** In this column, an "X" indicates the Board member's participation in the Committee.

Table 2: Structure of the Board of Statutory Auditors

Office	Members	In office from	In office until	List (M/m)*	Independence as per code	** (%)	Number of other offices***
Chairman	Sergio Santi	28-Apr-08	Approv. of 2010 Fin. Stat.	m	X	94%	1
Standing Auditor	Fernando Lolli	28-Apr-08	Approv. of 2010 Fin. Stat.	M	X	100%	-
Standing Auditor	Antonio Venturini	28-Apr-08	Approv. of 2010 Fin. Stat.	M	X	94%	-
Alternate Auditor	Stefano Ceccacci	28-Apr-08	Approv. of 2010 Fin. Stat.	m	X	-	-
Alternate Auditor	Roberto Picone	28-Apr-08	Approv. of 2010 Fin. Stat.	M	X	-	-

notes:

* This column indicates either M or m based on whether the member was elected by the majority (M) or a minority (m).

** This column indicates the attendance percentage of statutory auditors at the Board of Statutory Auditor meetings (no. of meetings attended/no. of meetings held during the effective period in office of said party).

*** This column indicates the number of offices as director or statutory auditor the party concerned holds in accordance with art. 148-bis of the FCA.

1.12 Performance of the parent company in 2010

In application of the national laws concerning the implementation of the EU regulation no. 1606 of 19 July 2002, the financial statements of the parent company Hera Spa were drawn up in accordance with the IAS/IFRS principles.

The chief results attained during the year are presented hereunder.

(mln/€)	2009	2010	Abs. Change	% Change
Revenues	1,533.8	1,482.1	(51.6)	-3.4%
EBTIDA	353.8	306.4	(47.4)	-13.4%
EBIT	177.0	147.2	(29.8)	-16.8%
Net profit	52.4	124.1	71.6	136.7%

For the value of the 2009 revenues, adjusted relative to the figure published the previous year, please see the Explanatory and supplementary notes of Hera Spa in relation to the reclassification connected with the application of Ifric 12 interpretation "Service concession arrangements".

The interpretation of the results must take into consideration the current set-up of the Group, which sees the distribution of the total result between the parent company and the various sales, operational and maintenance companies and specific business units as well as the company transactions completed during the year, such as the sale of 25% of Herambiente Spa which generated a capital gain of Euro 50,147 thousand. The decrease in revenues, EBITDA and EBIT is mainly due to the transfer from Hera Spa to Herambiente Spa of the "waste management division", with effect from 1 July 2009.

A summary is presented below of the reclassified balance sheet and financial position as at 31 December 2010, shown on a comparative basis with the balances as at 31 December 2009:

Analysis of capital employed and sources of funding (mln/€)	31-Dec-2009	%	31-Dec-2010	%	Abs. Change	% Change
Net fixed assets	3,242.9	105.4%	3,286.9	100.6%	44.0	1.4%
Working Capital	101.2	3.3%	205.5	6.3%	104.3	103.1%
Gross capital employed	3,344.1	108.7%	3,492.4	106.9%	148.3	4.4%
Sundry provisions	(267.8)	-8.7%	(225.9)	-6.9%	41.9	-15.6%
Net capital employed	3,076.3	100.0%	3,266.5	100.0%	190.2	6.2%
Total shareholders' equity	1,646.4	53.5%	1,684.5	51.9%	38.1	2.3%
Net financial indebtedness	1,429.9	46.5%	1,562.4	48.1%	132.5	9.3%
Sources of financing	3,076.3	100.0%	3,246.9	100.0%	170.6	5.5%

The net capital employed increased as at 31 December 2010 by Euro 190.2 million, rising from Euro 3,076.3 million to Euro 3,266.5 million.

Net fixed assets as at 31 December 2010 amount to Euro 3,286.9 million, an increase by Euro 44 million compared with 31 December 2009. The change is connected with the investments made, which are more fully described in the Group's report on operations.

Net working capital stands at around Euro 205.5 million.

Other provisions dropped from Euro 267.8 million to Euro 225.9 million, resulting in a Euro 41.9 million decrease.

The Shareholders' Equity increased from Euro 1,646.4 million to Euro 1,684.5 million.

In relation to the aforementioned change, the net financial position went up from Euro 1,429.9 million as at 31 December 2009 to Euro 1,562.4 as at 31 December 2010.

1.13 Holdings of directors, statutory auditors and general managers

EQUITY INVESTMENTS OF DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS (ART. 79 OF CONSOB REGULATION)

Name and Surname	Offices held at Hera Spa	Investee companies	No. of shares held as at 31 December 2009	No. of shares purchased	No. of shares sold	No. of shares held as at 31 December 2010
Tomaso Tommasi di Vignano (1)	Chairman	Hera Spa	20,000	-	-	20,000
Maurizio Chiarini	Chief Executive Officer	Hera Spa	-	-	-	-
Giorgio Razzoli	Vice chairman	Hera Spa	-	-	-	-
Mara Bernardini	Director	Hera Spa	-	17,400	-	17,400
Filippo Brandolini	Director	Hera Spa	-	-	-	-
Luigi Castagna (2)	Director	Hera Spa	34,000	20,000	-	54,000
Mauro Cavallini	Director	Hera Spa	-	-	-	-
Piero Collina	Director	Hera Spa	-	-	-	-
Pier Giuseppe Dolcini	Director	Hera Spa	2,750	-	-	2,750
Ferruccio Giovanelli	Director	Hera Spa	-	-	-	-
Lanfranco Maggioli (1)	Director	Hera Spa	500	-	-	500
Alberto Marri (3)	Director	Hera Spa	4,380,000	1,559,600	139,600	5,800,000
Daniele Montroni (1)	Director	Hera Spa	2,750	-	-	2,750
Roberto Sacchetti	Director	Hera Spa	-	-	-	-
Francesco Sutti	Director	Hera Spa	-	-	-	-
Bruno Tani	Director	Hera Spa	35,000	-	-	35,000
Paolo Trombetti	Director	Hera Spa	-	-	-	-
Stefano Zolea	Director	Hera Spa	-	-	-	-
Sergio Santi	Chairman of the Board of Statutory Auditors	Hera Spa	-	20,000	-	20,000
Fernando Lolli	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Antonio Venturini	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Roberto Barilli	General Manager Operations	Hera Spa	-	-	-	-
Stefano Venier	General Manager of Development and Marketing	Hera Spa	-	-	-	-

(1) indirect ownership through spouse

(2) of the 54,000 shares held, 1,950 are held by the spouse

(3) shares held through a third party company

1.14 Resolutions concerning the parent company's results for the year

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

- having acknowledged the Director's Report on operations;
- having acknowledged the Report of the Statutory Auditors;
- having acknowledged the Report by the Independent Auditing Firm;
- having reviewed the financial statements as at 31 December 2010 which closed with a net profit of Euro 124,057,358.77;

resolves

- to approve the Financial statements for the year ended as at 31 December 2010 of Hera S.p.a. and the Directors' Report prepared by the Board of Directors;
- to allocate the profit for the year 1 January 2010 – 31 December 2010, amounting to Euro 124,057,358.77 as follows:
 - Euro 6,202,867.94 to legal reserve,
 - Euro 100,351,237.86 for dividend to the shareholders, corresponding to Euro 0.09 per share, allocating the highest distributable dividend regarding any treasury shares in portfolio as at the registration date to extraordinary reserve
 - Euro 17,503,252.97 to extraordinary reserve
- to proceed with the dividend payment from 9 June, coupon No. 8 on 6 June 2011.

2
hera group
consolidated
financial
statements
to december 31st 2010

2.01 Consolidated Financial Statements

2.01.01 Income statement

thousands of €	notes	2010	2009 *
Revenues	4	3,668,563	4,204,204
Change in inventories of finished products and work in progress	4	-1,665	-2,869
Other operating income	5	210,431	234,667
<i>of which non-recurring</i>			16,841
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-2,140,470	-2,777,567
Services costs	7	-810,742	-765,258
Personnel costs	8	-361,931	-352,044
Amortisation, depreciation and allowances	9	-291,886	-276,001
Other operating costs	10	-38,821	-37,725
Capitalised costs	11	81,903	63,869
EBIT		315,382	291,276
Portion of profit (loss) pertaining to associated companies	12	5,868	3,921
Financial income	13	91,021	22,967
Financial charges	13	-206,642	-140,244
<i>of which non-recurring</i>			-12,254
Total financial operations		-109,753	-113,356
Other non-operating costs	14	0	-15,319
Pre-tax profit		205,629	162,601
Taxes for the period	15	-63,575	-77,637
<i>of which non-recurring</i>		25,061	
Net profit for the period		142,054	84,964
Attributable to:			
Shareholders of the Parent Company		117,218	71,052
Minority shareholders		24,836	13,912
Earnings per share	15.1		
base		0.106	0.068
diluted		0.106	0.068

* Figures as at 31 December 2009 were reclassified as described in the explanatory notes in the section "Financial statement formats".

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

2.01.02 Statement of comprehensive income

thousands of €	2010	2009
Net profit / (loss) for the year	142,054	84,964
- change in cash flow hedge reserve (net of tax effect)	5,179	-2,736
- change in cash flow hedge reserve of companies carried at equity (net of tax effect)	163	-220
Total net profit / (loss) for the year	147,396	82,008
Attributable to:		
Shareholders of the Parent Company	122,737	68,222
Minority shareholders	24,659	13,786

2.01.03 Statement of financial position

thousands of €	notes	31-dic-2010	31-Dec-2009 *
ASSETS			
Non-current assets			
Tangible assets	16	1.840.232	1.765.225
Intangible assets	17	1.728.498	1.688.092
Goodwill and consolidation difference	18	377.579	378.574
Equity investments and securities	19	135.344	121.243
Financial assets	20	10.912	10.535
Deferred tax assets	21	84.290	73.596
Financial instruments – derivatives	22	40.071	419
Totale non current assets		4.216.926	4.037.684
Current assets			
Inventories	23	53.880	47.068
Trade receivables	24	1.134.496	1.137.076
Contract work in progress	25	17.228	18.913
Financial assets	26	46.084	21.790
Financial instruments – derivatives	22	12.796	50.199
Other current assets	27	181.607	178.892
Cash and cash equivalents	28	538.226	350.332
Total current assets		1.984.317	1.804.270
TOTAL ASSETS		6.201.243	5.841.954

Cont.d

thousands of €	notes	31-Dec-2010	31-Dec-2009 *
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	29		
Share capital		1,115,014	1,115,014
- Reserve for treasury shares at par value		-5,940	-2,893
Reserves		514,662	472,106
Reserve for treasury shares exceeding par value		-3,105	-1,739
Reserve for derivative instruments valued at fair value		-12,407	-12,995
Retained earnings (losses)		2,061	2,061
Profit (loss) for the period		117,218	71,052
Group shareholders' equity		1,727,503	1,642,606
Minority interest		142,720	58,125
Total shareholders' equity		1,870,223	1,700,731
Non-current liabilities			
Loans - maturing beyond the next year	30	2,313,722	2,144,857
Employee leaving indemnity and other benefits	31	95,643	101,017
Provisions for risks and charges	32	210,968	186,200
Deferred tax liabilities	33	76,143	132,801
Financial leasing payables - maturing beyond the next year	34	8,882	9,379
Financial instruments – derivatives	22	44,082	40,394
Total non current liabilities		2,749,440	2,614,648
Current liabilities			
Banks and other borrowings - maturing within the next year	30	147,837	113,039
Financial leasing payables - maturing within the next year	34	4,599	7,148
Trade payables	35	1,061,003	1,048,214
Income tax liabilities	36	124,502	80,213
Other current liabilities	37	230,050	223,328
Financial instruments – derivatives	22	13,589	54,633
Total current liabilities		1,581,580	1,526,575
TOTAL LIABILITIES		4,331,020	4,141,223
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		6,201,243	5,841,954

* Figures as at 31 December 2009 were reclassified as described in the explanatory notes in the section "Financial statement formats".

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

2.01.04 Cash Flow Statement

thousands of €	31-Dec-2010		31-Dec-2009
Operations			
Cash flow			
Net profit pertaining to Group and minority shareholders	142.052		84.964
Depreciation and writedowns of tangible assets	120.138		115.927
Depreciation and writedowns of intangible assets	103.088		108.587
Total cash flow	365.278		309.478
Profit from equity investments carried at equity	(4.351)		(3.648)
(Capital gains) Losses from disposal of fixed assets	(777)		(4.191)
Changes in prepaid and deferred taxes	(68.335)		(16.708)
Employee leaving indemnity and other benefits:			
Provisions / (uses)	(5.694)		(5.400)
Provisions for risks and charges:			
Provisions / (uses)	16.655		1.982
Total cash flow before changes in net working capital	302.776		281.513
Working capital			
Change in trade receivables	5.129		10.398
Changes in inventories	(5.458)		15.953
Change in other current assets	(2.454)		(41.582)
Change in trade payables	10.945		(33.161)
Change in tax liabilities	43.902		(40.900)
Change in other current liabilities	4.680		18.240
Change in financial instruments - derivatives	(3.685)		9.512
Change in working capital	53.059		(61.540)
Change in financial instruments - non-current derivatives	(30.742)		14.035
Liquidity generated by operations	325.093	a)	234.008 a)
Investment activities			
Disinvestment/(investment) intangible assets, net of net investments/disinvestments	(176.644)		(349.395)
Disinvestment/(investment) intangible assets, net of net investments/disinvestments	(147.137)		(32.582)
Goodwill	0		(14)
Investments in equity investments, net of disinvestments	(10.294)		(34.563)
(Increase) / decrease in other investments	(25.890)		(16.073)
Change in financial instruments - derivatives			
Liquidity generated / (absorbed) by investment activities	(359.965)	b)	(432.627) b)
Financing activities			
Medium/long-term loans	168.865		563.959
Change in shareholders' equity items	(2.494)		(9.734)
Change in equity interests	121.407		(5.135)
Change in short-term bank indebtedness	32.624		(96.028)
Dividends paid out	(96.814)		(94.540)
Change in financial leasing payables	(3.046)		(5.212)
Liquidity generated / (absorbed) by financing activities	220.542	c)	353.310 c)
		185.670	154.691
		(a+b+c)	(a+b+c)
Change in net financial position			
Cash and cash equivalents at the beginning of the year	350.332		193.635
Contribution of cash and cash equivalents from business combinations	2.224		2.006
Cash and cash equivalents at the end of the year	<u>538.226</u>		<u>350.332</u>
	185.670		154.691

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

2.01.05 Statement of changes in shareholders' equity

	Share capital	Reserves	Reserves for derivative instruments at fair value	Profit for the year	Shareholders' equity	Minority interest	Total
Balance as at 31 December 2008	1,030,438	416,155	-16,125	94,765	1,525,233	53,892	1,579,125
Profit for the period				71,052	71,052	13,912	84,964
<u>Other elements of the total profit/loss as at 31 December 2009:</u>							
change in the fair value of derivatives for the period		-5,740	3,130		-2,610	-126	-2,736
change in the fair value of derivatives for the period. Companies valued at equity		-220			-220		-220
Total profit for the period		-5,960	3,130	71,052	68,222	13,786	82,008
change in treasury shares in portfolio	-593	-210			-803		-803
capital increase due to the conferral of assets in kind - Shareholders' Meeting held on 21 October 2009	82,276	48,402			130,678		130,678
change in perimeter		724			724	-5,859	-5,135
change in scope of consolidation		1,034			1,034	8,376	9,410
other movements		8			8	-20	-12
<u>Allocation of 2008 profit:</u>							
- dividends paid out		-2,322		-80,168	-82,490	-12,050	-94,540
- allocation to retained earnings reserve		10,242		-10,242	0		0
- allocation to other reserves		4,355		-4,355	0		0
Balance as at 31 December 2009	1,112,121	472,428	-12,995	71,052	1,642,606	58,125	1,700,731
	Share capital	Reserves	Reserves for derivative instruments at fair value	Profit for the year	Shareholders' equity	Minority interest	Total
Balance as at 31 December 2009	1,112,121	472,428	-12,995	71,052	1,642,606	58,125	1,700,731
Profit for the period				117,218	117,218	24,836	142,054
<u>Other elements of the total profit/loss as at 31 December 2010:</u>							
change in the fair value of derivatives for the period			5,356		5,356	-177	5,179
change in the fair value of derivatives for the period. Companies valued at equity.		163			163		163
Total profit for the period		163	5,356	117,218	122,737	24,659	147,396
change in treasury shares in portfolio	-3,047	-1,366			-4,413		-4,413
sale of investee shares		52,674	1,578		54,252	71,280	125,532
change in perimeter		99			99	-4,224	-4,125
change in scope of consolidation		-870			-870	873	3
other movements		8,372	-6,346		2,026	-113	1,913
<u>Allocation of 2009 profit:</u>							
- dividends paid out		-39,410		-49,524	-88,934	-7,880	-96,814
- allocation to retained earnings reserve		18,640		-18,640	0		0
- allocation to other reserves		2,888		-2,888	0		0
Balance as at 31 December 2010	1,109,074	513,618	-12,407	117,218	1,727,503	142,720	1,870,223

2.02 Financial statements in accordance with Resolution 15519 of 2006 - Related parties

2.02.01 Income statement

thousands of €	Notes	2010	of which Related Parties						2009	of which Related Parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Revenues	4	3,668,563	7	31,909	84,399	6,987	123,302	3.4	4,204,204	20	22,964	87,716	9,449	120,149	2.9
Change in inventories of finished products and work in progress	4	-1,665							-2,869						
Other operating income	5	210,431	10	94	58	294	456	0.2	234,667	82	569	236	152	1,039	0.4
of which non-recurring									16,841						
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-2,140,470	0	-37,889	198	-34,676	-72,367	8.9	-2,777,567	0	-36,889	0	-33,392	-70,281	2.5
Service costs	7	-810,742	-559	-8,662	-7,915	-38,664	-55,800	15.4	-765,258	-959	-9,123	-10,733	-42,746	-63,561	8.3
Personnel costs	8	-361,931							-352,044						
Amortisation, depreciation and allowances	9	-291,886							-276,001						
Other operating costs	10	-38,821	0	6	-1,431	-1,644	-3,070	-3.7	-37,725	-54	-3	-1,046	-975	-2,078	5.5
Capitalised costs	11	81,903							63,869						
EBIT		315,382	-541	-14,543	75,309	-67,704	-7,479		291,276	-911	-22,482	76,173	-67,512	-14,732	
Portion of profit (loss) pertaining to associated companies	12	5,868		5,868			5,868	100.0	3,921		431			431	11.0
Financial income	13	91,021	0	781		107	889	1.0	22,967	71	453		5,087	5,611	24.4
Financial charges	13	-206,642	0	-0	-0		-0	0.0	-140,244				-1	-1	0.0
of which non-recurring									-12,254						
Total financial operations		-109,753	0	6,649	-0	107	6,756		-113,356	71	884	0	5,086	6,041	
Other non-operating costs	14	0							-15,319						
Pre-tax profit		205,629	-541	-7,894	75,309	-67,596	-722		162,601	-840	-21,598	76,173	-62,426	-8,691	
Taxes for the year	15	-63,575							-77,637						
Net profit for the year		142,053	-541	-7,894	75,309	-67,596	-722		84,964	-840	-21,598	76,173	-62,426	-8,691	
Attributable to:															
Shareholders of the Parent Company		117,218							71,052						
Minority shareholders		24,836							13,912						
Earnings per share	15.1														
base		0.106							0.068						
diluted		0.106							0.068						

Key of headings of related parties columns:

A Non-consolidated subsidiary companies

B Jointly controlled associates

C Related companies with significant influence

D Other related parties

2.02.02 Statement of financial position

thousands of €	Notes	31-Dec-2010	of which Related Parties						31-Dec-2009	of which Related Parties					
		A	B	C	D	Total	%		A	B	C	D	Total	%	
ASSETS															
Non-current assets															
Tangible assets	16	1,840,232						1,765,225							
Intangible assets	17	1,728,498						1,688,092							
Goodwill and consolidation difference	18	377,579						378,574							
Equity investments and securities	19	135,344	100	101,851		33,093	135,043	99.8	121,243	182	86,907		30,328	117,417	96.8
Financial assets	20	10,912		10,028			10,028	91.9	10,535		10,108			10,108	95.9
Deferred tax assets	21	84,290						73,596							
Financial instruments - derivatives	22	40,071						419							
		4,216,926	100	111,879	0	33,093	145,072		4,037,684	182	97,015	0	30,328	127,525	
Current assets															
Inventories	23	53,880						47,068							
Trade receivables	24	1,134,496	73	19,840	20,104	13,989	54,006	4.8	1,137,076	119	13,002	14,710	11,053	38,884	3.4
Contract work in progress	25	17,228						18,913							
Financial assets	26	46,084		29,313			29,313	63.6	21,790		13,384			13,384	61.4
Financial instruments - derivatives	22	12,796						50,199							
Other current assets	27	181,607	-0	209	362	16,887	17,458	9.6	178,892		5	445	17,336	17,786	9.9
Cash and cash equivalents	28	538,226						350,332							
		1,984,317	73	49,361	20,467	30,876	100,777		1,804,270	119	26,391	15,155	28,389	70,054	
TOTAL ASSETS		6,201,243	173	161,241	20,467	63,969	245,849		5,841,954	301	123,406	15,155	58,717	197,579	

Cont.d

Key of headings of related parties columns:

A Non-consolidated subsidiary companies

B Jointly controlled associates

C Related companies with significant influence

D Other related parties

2 Hera Group Consolidated Financial Statements

€/000	Notes	31-dec-2010	of which Related Parties						Total	%	31-dec-2009	of which Related Parties						Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES																			
Share capital and reserves	29																		
Share capital		1,115,014									1,115,014								
-Reserve for treasury shares at par value		-5,940									-2,893								
Reserves		514,662									472,106								
-Reserve for treasury shares exceeding par value		-3,105									-1,739								
Reserves for derivative instruments valued at fair value		-12,407									-12,995								
Retained earnings (losses)		2,061									2,061								
Profit (loss) for the period		117,218									71,052								
Group shareholders' equity		1,727,503									1,642,606								
Minority interest		142,720									58,125								
Total shareholders' equity		1,870,223									1,700,731								
Non-current liabilities																			
Loans - maturing beyond the next year	30	2,313,722									2,144,857								
Employee leaving indemnity and other benefits	31	95,643									101,017								
Provisions for risks and charges	32	210,968									186,200								
Deferred tax liabilities	33	76,143									132,801								
Financial leasing payables – maturing beyond the next year	24	8,882									9,379								
Financial instruments - derivatives	22	44,082									40,394								
		2,749,440									2,614,648								
Current liabilities																			
Banks and other borrowings - maturing within the next year	30	147,837									113,039								
Financial leasing payables – maturing beyond the next year	34	4,599									7,148								
Trade payables	35	1,061,003	128	15,010	5,570	23,152	43,861	4.1		1,048,214	175	17,010	9,453	22,453	49,091	4.7			
Income tax liabilities	36	124,502									80,213								
Other current liabilities	37	230,050	0	98	-31	863	930	0.4		223,328		96	20	100	216	0.1			
Financial instruments - derivatives	22	13,589									54,633								
		1,581,580	128	15,109	5,539	24,015	44,791			1,526,575	175	17,106	9,473	22,553	49,307				
Total liabilities		4,331,020	128	15,109	5,539	24,015	44,791			4,141,223	175	17,106	9,473	22,553	49,307				
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		6,201,243	128	15,109	5,539	24,015	44,791			5,841,954	175	17,106	9,473	22,553	49,307				

Key of headings of related parties columns:

A Non-consolidated subsidiary companies

B Jointly controlled associates

C Related companies with significant influence

D Other related parties

2.02.03 Cash flow statement

thousands of €	31-Dec-2010	of which related parties
Operations		
Cash flow		
Net profit pertaining to Group and minority shareholders	142,052	
Depreciation and write-downs of tangible assets	120,138	
Depreciation and write-downs of intangible assets	103,088	
Total cash flow	365,278	
Profit from equity investments carried at equity	(4,351)	
(Capital gains) Losses from disposal of fixed assets	(777)	
Changes in prepaid and deferred taxes	(68,335)	
Employee leaving indemnity and other benefits:		
Provisions / (uses)	(5,694)	
Provisions for risks and charges:		
Provisions / (uses)	16,655	
Total cash flow before changes in net working capital	302,776	
Working capital		
Change in trade receivables	5,129	(15,363)
Changes in inventories	(5,458)	
Change in other current assets	(2,454)	328
Change in trade payables	10,945	(4,539)
Change in tax liabilities	43,902	
Change in other current liabilities	4,680	714
Change in financial instruments - derivatives	(3,685)	
Change in working capital	53,059	
Change in financial instruments - non-current derivatives	(30,742)	
Liquidity generated by operations	325,093	a)
Investment activities		
Disinvestment/(investment) in tangible assets, net of net investments/disinvestments	(176,644)	
Disinvestment/(investment) in intangible assets, net of net investments/disinvestments	(147,137)	
Goodwill	0	
Investments in equity investments, net of disinvestments	(10,294)	(10,294)
(Increase) / decrease in other investments*	(25,890)	(15,849)
Change in financial instruments - derivatives		
Liquidity generated / (absorbed) by investment activities	(359,965)	b)
Financing activities		
Medium/long-term loans	168,865	
Change in shareholders' equity items	(2,494)	
Change in equity interests	121,407	121,407
Change in short-term bank indebtedness	32,624	
Dividends paid out	(96,814)	(21,315)
Change in financial leasing payables	(3,046)	
Liquidity generated / (absorbed) by financing activities	220,542	c)
	185,670	
	(a+b+c)	
Change in net financial position		
Cash and cash equivalents at the beginning of the year	350,332	
Contribution of cash and cash equivalents from business combinations	2,224	
Cash and cash equivalents at the end of the year	538,226	
	185,670	

* Investments in financial assets that do not have any effect on the net financial position

2.03 Explanatory notes

2.03.01 Consolidated explanatory notes

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

The 2010 consolidated financial statements, comprised of the income statement, statement of comprehensive income, statement of financial position, cash flow statement, statement of changes in shareholders' equity and explanatory notes, have been prepared in application of Regulation (EC) No. 1606/2002 of 19 July 2002 in observance of the IAS/IFRS International Accounting Standards (hereinafter the IFRS) approved by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee – SIC and International Financial Reporting Interpretations Committee – IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

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

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

The figures in these financial statements are comparable with the same balances of the previous financial year. Specifically, the values of the statement of financial position as at 31 December 2009 and of the 2009 income statement have been reclassified in order to reflect:

- application of the IFRIC 12 interpretation
- 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 case of additional reclassifications, the notes commenting on the single items provide all necessary information. The non-recurrent cost, income items have been highlighted.

Financial Statements

The formats used are the same as those applied to the consolidated financial statements as at 31 December 2009. Specifically, a decremental format has been used for the income statement, with individual items analysed by type. We believe that this type of disclosure, which is also used by our major competitors and is in line with international practice and the best representation of company results. It is worth noting that for comparison purposes the item "other operating costs", referring to taxes paid in connection with the "tax moratorium" for the year 2009. To this purpose, reference is made to note 15) of the income statement.

The statement of financial position makes the distinction between assets and liabilities, current and non-current. The cash flow statement has been prepared using the indirect method, as allowed by IAS 7. The statement of comprehensive income is presented in a separate document, as allowed by IAS 1 revised up with respect to the consolidated income statement.

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

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, while highlighting the most significant relations with related parties, in order not to alter the overall clarity of the financial statements.

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

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

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

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

These consolidated financial statements as at 31 December 2010 were drawn up by the Board of Directors and approved by the same at the meeting held on 24 March 2011.

Scope of consolidation

The consolidated financial statements as at 31 December 2010 include the financial statements of the parent company Hera Spa and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, in such a way as to obtain benefits from the company's activity.

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

Equity investments comprising fixed assets in large-scale associated companies are valued at equity. Those of an insignificant size are instead carried at cost. Subsidiaries and associated companies that are not consolidated/valued at equity are reported in note 19.

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

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

Changes in the scope of consolidation

Subsidiary companies

Consolidated companies	No longer consolidated companies	Notes
Consorzio Akhea Fondo Consortile	Fully consolidated	
Naturambiente Srl	Fully consolidated	
	Agea Reti Srl	Merged by incorporation into Hera SpA
	Aspes Gas Srl*	Merged by incorporation into Hera Comm Marche Srl
	Satcom Spa	Merged by incorporation into Acantho SpA

Agea reti Srl was merged by incorporation into Hera SpA on 15 July 2010.

As of 1 January 2010, Aspes Gas Srl (wholly controlled by Marche Multiservizi Spa) was merged by incorporation into Hera Comm Marche Srl (wholly controlled by Hera Comm Srl). This transaction made Marche Multiservizi Spa the majority shareholder of Hera Comm Marche Srl, with 52% of the share capital. On 2 February 2010, Marche Multiservizi Spa sold 12% of its equity investment in Hera Comm Marche Srl to Hera Comm Srl, which therefore acquired the majority of the share capital (60%). At the end of the transaction, the Group's interest in the capital of Hera Comm Marche Srl decreased from 100% to 76.26%.

On 1 September 2010, Satcom Spa was merged by incorporation into Acantho Spa.

Consorzio Akhea Fondo Consortile, established by the companies Herambiente Spa and Akron Spa, became operational in January 2010. The company, valued at cost until 31 December 2009, was fully consolidated dating from 2010.

Naturambiente Srl was established on 14 July 2010 and is wholly controlled by Marche Multiservizi Spa. The company operates in waste collection and waste disposal. On 27 December 2010, the shareholders' meeting resolved to increase the share capital reserved for the shareholders of Natura Srl (an investee company of Marche Multiservizi Spa), effective immediately through transferral of the business branch "Discarica Cà Guglielmo." At the time of the transferral, Natura Srl transferred the shares it had acquired in Naturambiente Srl (80% of the share capital) to Marche Multiservizi Spa, which thus became the sole shareholder of the new company. Following this transaction, the selling company Natura Srl was placed under liquidation.

**this transaction did not result in any changes to the scope of consolidation as it only impacted the determination of the minority shares.*

Jointly controlled companies

Consolidated companies	No longer consolidated companies	Notes
FlamEnergy Trading Gmbh	Proportionally consolidated	

As of 1 January 2010, the company FlameEnergy Trading Gmbh (50% held by Hera Trading Srl) is consolidated with the proportional method. Until 31 December 2009, the company was valued with the equity method, a method that can be used alternatively to the proportional method for joint ventures.

Associated companies

New companies valued at equity	Companies no longer valued at equity	Notes
	FlamEnergy Trading Gmbh	Proportionally consolidated
Enomondo Srl		New company purchased
Ghirlandina Solare Srl		New company established by Hera Energie Rinnovabili Srl

Effective 31 December 2010, Herambiente Spa purchased 40% of the share capital of Enomondo Srl from Caviro Società Cooperativa Agricola. The company operates in the waste management sector and manages a composting plant for the processing of organic waste and a thermoelectric plant.

Ghirlandina Solare Srl was established on 19 July 2010 and is 33% owned by Hera Energie Rinnovabili Spa (which is fully controlled by Hera Spa). The company is active in designing, constructing and managing photovoltaic plants.

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

Changes in the scope of consolidation

On 31 December 2010, Hera Spa acquired 17.5% of the share capital of Acantho Spa from Infracomm Italia Spa. Following this transaction, Hera Group's shareholding in Acantho Spa rose to 79.936%. The same transaction resulted in an increase in the shareholding in Modena Network (an investee of Hera Spa and Acantho Spa) to 37.98%.

On 7 October 2010, the shareholders' meeting of Herambiente Spa resolved to transform the company into an Spa. On 15 October 2010, Hera Spa sold 20% of its equity investment to the new shareholder Ambiente Arancione Cooperatief U.A.. Subsequently, on 9 December 2010, Hera Spa transferred to Ambiente Arancione a further 5% of the share capital. Following these transactions, the new shareholder Ambiente Arancione Cooperatief U.A. holds 25% of the share capital of Herambiente Spa.

Evaluation criteria and consolidation principles

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

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

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

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

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

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

The same standards and policies applied in the previous accounting period were followed in preparing these consolidated financial statements, taking into account the new accounting standards illustrated in the specific section “accounting standards, amendments and interpretations applicable from 1 January 2010”. As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

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

The criteria and principles adopted are outlined here below.

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

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

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

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

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

Purification services	min %	max %
Land	-	-
Building civil works	1.5	3
Buildings IDAR construction sections	1.5	3
General and specific plant	7.5	15
Specific IDAR plant	5	10
Specific ITFI plant	5	10
Specific plant	5	10
- Purification plant/Civil works	1.66	3.33
- Purification plant	3.33	6.67
Lifting plant	6	12
Laboratory equipment	5	10
Network	2.5	5
Electricity substations	3.5	7
Equipment	5	10
Furniture	6	12

Gas service	min %	max %
Land	-	-
1 st stage pressure reducer stations - Abstraction		
- buildings	2.5	5.5
- General plant	4	15
- Specific plant	2.33	10
2 nd stage pressure reducer stations - district - specific plant-user stations	3.13	10
User transformers - Specific plant	3.13	8
Distribution network in steel	1.75	8
Distribution network in cast iron or spheroidal cast iron	1.96	8
Distribution network in PE or PVC	2.5	8
Outlets/Intakes	2.33	8
Meters	4	10
Cathodic protection	3.7	8
Electricity substations - Specific plant	3.5	7

District heating service	min %	max %
Land	-	-
- Production - Buildings	1.92	5.5
- Production - General plant	4.5	9
- Production - Specific plant	3.85	9
Distribution network	2.7	8
Meters	2.5	6.67
Heat exchange units	4.5	9
- Boilers	1.43	3.85
- Heat exchangers	2.5	5
- Expansion tanks	1.66	5.56
Pumping stations	0	0
- Electricity substations	2	4
- Generators	2.75	4.55
- Pumps	3.33	6.67
- Electricity substations	3.5	7
Equipment	5	10

Water service	min %	max %
Land	0	0
Buildings/Civil works	1.75	3.5
Wells		
- Buildings/Civil works	1.75	3.5
- General and specific plant	1.25	2.5
- Disinfection plant	2.5	5
- Pumps	5	10
- Building works	1.43	2.86
Abstraction - Buildings/Civil works	1.25	2.5
Lifting and fresh water stations		
- Buildings/Civil works	1.75	3.5
- General plant	7.5	15
- Specific plant	6	12
- Fresh water plant	4	8
- Disinfection plant	2.5	5
- Transformers	2	4
- Pumps	3.34	6.67
- Tanks	1.25	2.5
- Filtration plant and filters	2.78	5.56
- Generators and blowers	2.28	4.55
- Building works	1.43	2.86
Tanks	2	4
- Disinfection plant	2.5	5
- Building works	1.11	2.22
Pipelines and distribution network	2.5	5
Distribution network in steel, cast iron or spheroidal cast iron	1	2
Distribution network in reinforced cement-PE-PVC	1.43	2.86
Outlets/Intakes and connections	2.22	5
Meters	4	10
Electricity substations - Specific plant	3.5	7
Road vehicles	10	20

Electricity production and distribution service	min %	max %
Land	0	0
Buildings	1.5	3
MV underground and overhead distribution network	2	4
LV underground and overhead distribution network	2.5	8
HV/MV - LV/MV transformers	2.86	7
- station transformers	2	4
- pole transformers	2.5	5
Connections	2.5	8
Meters	4	10
Tables	1.66	5
Limiting devices	1.66	5
Masonry and single-pole stations	1.66	3.57
Polyfers	1.25	2.5
Receiver stations	1.66	3.33

Waste management services	min %	max %
Land	0	0
Buildings	1.5	3
Secondary building units (warehouse)	1.5	3
General plant	7.5	15
Specific IR plant	5	10
- land	0	0
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- external building works	1.66	3.33
- electric production plants	2	4
- general plant	2.5	5
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.5	5
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity production	2.5	5
- waste-to-energy line control systems	5	10
Specific BIOGAS plant. storage + IRE	5	10
- land	0	0
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- external building works	1.66	3.33
- electric production plants	2.5	5
- CDR packing	2.5	5
- selection. chopping. feeding and sorting plant	2.5 - 3.33	5 - 6.67
- ventilation plant	3.33	6.67
- general plant – stabilisation plant – storage tanks	2.5	5
- control systems	5	10
- containers and bins	5 - 10	10 - 20
- internal handling equipment	4.16	8.33
Specific waste composting plant	5	10
- land	0	0
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- external building works	1.66	3.33
- general plant and lifting equipment	3.33	6.67
- pre-selection plant	2.5	5
- mixing plant	3.33 - 5	6.67-10
- palleting plant	5	10
- energy recovery plant	2.5	5
- screening and refining plant	1.33 - 4.16	6.67-8.33
- weighing plant	2.25	5
- deoxidization / organic treatment systems	3.33	6.67
- second maturing	5	10
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10	20
Waste containers and equipment	5	10
General equipment	5	10
Snow service equipment	5	10
Sanitary equipment	5	10
Light construction	5	10
Motor vehicles	12.5	25
Controlled landfills	0	0

As required by IAS 16, the estimated useful lives of tangible fixed assets are reviewed each year so as to assess the need to revise them. In the event that the estimated useful lives no longer provide a truthful representation of the expected future economic benefits, the relative depreciation schedule must be redefined according to the new assumptions. These changes are made prospectively to the income statement.

In particular, during 2010, following a check of the useful lives of the tangible assets in order to better represent the useful lives of the relevant assets consistent with the benefits expected from them, we proceeded to update the depreciation schedules relating to the Gas, District heating and Electricity sectors. The new useful lives, applied as from 1 January 2010, are documented by the technical report prepared by a major expert (see comment under note 9 “Amortisation, depreciation and allocations”).

Land is not depreciated.

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

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

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

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

Advertising expenses are charged directly to the income statement.

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

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

As further explained in the paragraph "Accounting standards, Amendments and Interpretations Applicable from 1 January 2010," in line with the requirements of IFRIC 12, the intangible fixed asset model was applied to concessions in existence for the distribution of gas, the integrated water cycle, public lighting and, insofar as electricity distribution is concerned, the infrastructures relating to the Imola region which are managed under a business unit lease with Con.Ami Spa.

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

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

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

The expenses related to the combination are generally recognized in the income statement at the time they are incurred.

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

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

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

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

Business combinations that took place prior to 1 January 2010 are recognised according to the provisions of the previous version of IFRS 3.

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

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

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

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

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

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

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

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

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

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

Management determines their classification when they are first recorded.

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

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

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

Receivables and loans

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

Financial assets held to maturity

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

Financial assets available for sale

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

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

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

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

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

The bonds held to meet the company's requirement are recorded as assets at cost. The environmental bonds assigned free of charge are initially recorded at a nil value. If the bonds in the portfolio prove to be insufficient to meet the need, a liability is recorded to guarantee adequate coverage when the bonds are delivered to the operator.

Securities held for trading are recognized as assets and valued through recognition at fair value in the income statement.

In fact, physical and financial buying and selling activities are started within the Group involving commodities (commented on in the paragraph "derivative financial instruments") and regarding environmental bonds such as emission shares, green certificates and white certificates.

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

Trade receivables – Trade receivables are recorded at amortised cost, adjusted for impairment. Financial assets are recognised and reversed on the financial statements on the basis of the date of transaction; furthermore, these assets are eliminated in the event of sale which transfers all risks and benefits associated with their management to third parties.

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

When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred.

When it is probable that the total contract costs will be greater than the contractual revenues, the expected loss is immediately stated at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Specifically:

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

Financial income and charges – Financial income and charges are recognised in accordance with the accruals principle.

Dividends from "other companies" are recorded in the income statement, at the time the right to receive payment is established. Should these dividends derive from the distribution of reserves that were pre-existing on the date the Group acquired control, they are recognised in the income statement and the equity investment is checked for impairment.

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

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

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

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

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

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

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

Accounting standards, amendments and interpretations applicable from 1 January 2010

On 1 January 2010, the Group adopted the following accounting standards, amendments and interpretations issued by IASB and adopted by the European Union. The application of these standards did not produce significant effects except for the interpretation of IFRIC 12 "Service concession arrangements" and IAS 27 revised "Consolidated and Separate Financial Statements", as reported below.

Application of the interpretation of IFRIC 12 "Service concession arrangements".

The Hera Group began application of the interpretation of IFRIC 12 "Service concession arrangements" on 1 January 2010. This interpretation is applied to the arrangements for service concession arrangements from the public to the private sector provided the following terms are abided by:

- the grantor controls or regulates what services the concessionaire must provide using the infrastructure, to whom and at what price,
- the grantor controls - through its ownership or in another way - any residual interest in the infrastructure at the end of the term of the arrangement.

If the above conditions are met, the concessionaire must not treat the infrastructures as owned property, plant and machinery; this is because the service concession agreement grants the use of the infrastructures, but when the concession expires, they will no longer be available. Therefore, these infrastructures must be treated as financial assets, or intangible assets, according to whether or not the concessionaire has an unconditional right to receive contractually guaranteed cash flows, irrespective of the actual use of the infrastructure. In essence, the so-called "financial asset model" must be applied only when the concessionaire is not exposed to demand risk and, therefore, every time the cash flows set forth in the concession agreement allow for recovering credit/investment, irrespective of the actual use of the infrastructure by customers.

After having analysed concession arrangements in force with Grantors, the Group considers it necessary to apply the interpretation to all gas distribution, integrated water cycle and public lighting assets. As regards electricity distribution, the interpretation is applicable to the infrastructures in the area of Imola managed by way of a business unit lease agreement with Con.Ami Spa.

The "intangible asset model" was prospectively applied to all cases, since it was considered that the underlying concession arrangements do not guarantee the existence of an unconditional right in favour of the concessionaire to receive cash or other financial assets. Therefore, the involved infrastructures were reclassified from tangible assets to intangible assets under the item "concessions", re-exposing the statement of financial position as at 31 December 2009. The explanatory notes show the values of this reclassification, also in consideration of the different availability regimes to which the goods are subject. The financial-technical amortisation rates, representing the expectation of obtaining future economic benefits from the use and residual value of the infrastructure, as set forth by the reference regulatory framework, are still the same already being used within the Group, also taking into account current agreements. As regards electricity distribution assets, the business unit lease contract with Con.Ami Spa requires that the lessee/concessionaire be paid an adjustment calculated based on a dedicated assessment prepared according to financial-technical criteria.

The implementation of IFRIC 12 made it necessary to apply IAS 11 “Construction Contracts” to the same infrastructures, since if the concessionaire constructs or improves an infrastructure that it does not control, the relative construction and improvement services carried out on behalf of the grantor are classified as construction contracts. Therefore, also in this case, the income statement for 2009 was reclassified in order to allow for an appropriate comparison to the data as at 31 December 2010; the explanatory notes highlight the results of this reclassification. IAS 11 requires that, during the construction phase, the constructor of the assets report the revenue and costs of the project in proportion to the stage of completion of contract activity. So, considering that most works are contracted out externally and that on construction activities carried out internally the margin cannot be identified individually from the benefits included in the remuneration for the service, these infrastructures are reported based on costs actually incurred, net of any contributions paid by the entities and/or private customers.

Application of IAS 27 revised

Starting from 1 January 2010, the Group applied IAS 27 revised. The amendment sets out that modifications to a shareholding which do not result in a loss of control shall be considered as transactions between shareholders (i.e. equity transactions) and shall therefore have a counter-entry to shareholders’ equity. The option of recording this transaction in the income statement is therefore eliminated. It is also set out that, when the parent company cedes the control in an investee, but still holds a minority interest in the company, this investment must be maintained at fair value in the balance sheet and any profits or losses deriving from the loss of control shall be charged to income statement.

The application of this standard affected the previously mentioned transactions relating to the merger of Aspes Gas into Hera Comm Marche Srl, the sale of 25% of Herambiente Spa and the acquisition of 17.5% of Acantho Srl and the effects on the minority shareholders were recognized directly in shareholders’ equity.

Other major changes

IFRS 3 Revised – Business Combinations. The amended standard introduces a number of significant innovations, in particular. Especially, the following can be highlighted: the possible entering of the goodwill is acknowledged, also with reference to third party portions (full goodwill method); recording ways of assets and liabilities are modified in case the subsidiary is acquired in more than one phase (goodwill is determined as the difference between the value of equity investments immediately before the acquisition, the amount of the transaction and the fair value of net assets acquired); moreover, recognition of all costs connected with the business combinations in the income statement becomes mandatory, while it is also required that consideration subject to conditions be considered in the purchase price.

Amendments to IFRIC 9: Recalculation of the value of the incorporated derivatives and to IAS 39- Financial Instruments: Recognition and Measurement. The changes regulate specific reference dates for the valuation and criteria for the valuation of the same with regard to embedded derivatives.

IFRIC 15 – Agreements for the Construction of Real Estate. The interpretation supplies clarifications and inputs as to timing according to which revenues from the construction of real estate should be recognised if an agreement for the building is included in the application of IAS 11 Long-Term Construction Contracts or IAS 18 Revenue.

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation. The interpretation clarifies the methods of applying the international accounting standards IAS 21 and IAS 39 in the cases in which an entity hedges the exchange risk deriving from own net equity investments in a foreign operation.

IFRIC 17 – Distribution of Non-Cash Assets to Owners. The interpretation disciplines the recording of dividends disbursed in different ways with respect to cash and cash equivalents.

IFRIC 18 – Transfers of Assets from Customers. The interpretation disciplines the recording of amounts collected from customers carried out via assets other than cash and cash equivalents.

Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards. It is established among other things that bodies with oil and gas assets that adopt IFRS are authorised to use the accounting values determined based on previous accounting standards. It is appropriate that the bodies that elect this exemption be held to valuating liabilities for dismantling, clean-up and similar liabilities regarding activities related to oil and gas according to what is set forth by IAS 37 Provisions, Contingent Liabilities and Contingent Assets and to reporting in retained profits any difference between that amount and the book value of those liabilities. The amendments to IFRS 1 also pertain to reassessing determinations pertaining to lease contracts.

Amendments to IFRS 2 - Share-Based Payment. The amendment provides clarifications on recording share-based payment transactions in which the supplier of goods or services is paid in cash and the obligation is contracted by another group entity (share-based payment transactions regulated by cash within a group).

Amendments to IAS 39 – elements qualifiable as hedges. This amendment provides additional information with which to identify elements constituting a hedge.

In April 2009, the International Accounting Standards Board (IASB) published “Improvements to the International Financial Reporting Standards,” subsequently adopted by the European Union under Regulation 243/2010. These Improvements include amendments to the existing International Accounting Standards:

Improvement to IFRS 2 – Share-Based Payment. The improvement sets forth that this standard must not be applied to transactions in which the entity acquires assets following a business combination or within the context of a combination/ establishment of a joint venture.

Improvement to IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations. The change clarifies the information to be provided within the context of non-current assets (or groups of assets) classified as held for sale or as discontinued operations.

Improvement to IFRS 8 - Operating segments. The change requires entities to disclose the value of total segment assets for each segment reported on if this amount is regularly provided to the highest operating decision-making level.

Improvement to IAS 1 – Presentation of the Financial Statements. The update requires that an entity classify a liability as "current" when:

- a) it is expected that it will be extinguished within the entity's normal operating cycle;
 - b) it is mainly held for trading;
 - c) it must be extinguished within twelve months from the year-end closing date;
 - d) it does not have an unconditional right to defer payment for at least twelve months from the year-end closing date.
- Other liabilities which do not meet these conditions must be classified as "non-current".

Improvement to IAS 7 – Statement of cash flows. The improvement requires that only cash flows associated with expenses that result in recognising an asset in the equity and financial position can be classified in the cash flow statement as deriving from investment activities.

Improvement to IAS 17 – Leases. The amendment specifies that, if the leasing includes both land and buildings, the entity must separately evaluate the classification of each element as a finance or operating lease. In determining if land is an operating or finance lease, it is important to consider whether the land normally has an undefined economic life. The change is applicable as of 1 January 2010 and at the adoption date, all land subject to already existing lease contracts which have not yet expired must be evaluated separately, with a possible retrospective accounting recognition with the financial type. This improvement did not have any effect on the Group's financial statements since leased land and buildings were already recorded independently.

Improvement to IAS 36 – Impairment of Assets. The update sets forth that each operating unit (or group of units) subject to goodwill allocation for the purpose of impairment tests must not be larger than an operating segment, determined in accordance with paragraph 5 of IFRS 8 before the combination.

Improvement to IAS 38 - Intangible Assets. It was necessary to update this standard following the adoption of the revised IFRS 3 which made it possible to evaluate the fair value of an intangible asset acquired during a business combination. Furthermore, the valuation techniques for determining the fair value of intangible assets for which there is no active market were clarified.

Improvement to IAS 39 – Financial instruments: Recognition and Measurement. The improvement restricts the non-applicability exception to forward contracts between a purchaser and a selling shareholder for the purpose of selling a company ceded in a business combination at a future purchase date if the completion of the business combination does not depend on further actions from one of the two parties, but only on the lapse of an adequate period of time. The improvement furthermore sets forth that the implicit penalties for the early redemption of loans must be considered strictly related to the loan contract that imposes them and therefore shall not be recorded separately. Finally, it was set forth that profits or losses on a hedged financial instrument must be reclassified from net shareholders' equity to the income statement in the period in which the expected hedged cash flow affects the income statement.

The accounting standards already in force and not amended, adopted in the year ended 31 December 2010, are unchanged with respect to the previous year.

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

Starting from 1 January 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 changes 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 objective of the amendments is to eliminate an undesired consequence of IFRIC 14 if the entity, subject to a minimum funding requirement, prepays contributions for which under specific circumstances the entity which makes the prepayment would have to record an expense. If a defined pension plan is subject to a minimum funding requirement, the change to IFRIC 14 sets forth that this prepayment be accounted for as an asset, as for any other prepayment.

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

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

- Improvement to IFRS 3 – Business Combinations. This amendment clarifies that third party equity interests which do not give the holders the right to receive a proportional share of the subsidiary's shareholders' equity must be measured at fair value or as required by the applicable accounting standards. The issue of share based payments which are replaced as part of a business combination is also further clarified, with a specific guide for their accounting treatment.

- Improvement to IFRS 7 – Financial instruments - Disclosures: the amendment provides clarifications on the interaction between disclosures of a qualitative and of a quantitative nature in regard to the risks inherent in financial instruments. Furthermore the requirement for disclosure of expired financial assets that have been renegotiated or written-down has been eliminated.
- Improvement to IAS 1 – Presentation of the Financial Statements: the amendment requires that a reconciliation of the changes in the individual components of equity be presented in the notes or financial statements.
- Improvement to IAS 34 – Interim Financial Reporting: this amendment contains clarifications about additional disclosures required for the preparation of the interim financial statements.

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

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.

Risk management

Credit risk

The Group operates in business areas with low levels of credit risk given the nature of its activities and due to the fact that its credit exposure is spread over a large number of customers. The reference market is the Italian market. Assets are recognised in the financial statements net of any write downs determined on the basis of the default risk of the counterparties, taking into account the information available on solvency and the historical data.

Liquidity risk

Liquidity risk for the Group may arise from difficulties in obtaining financing to support its operations within good time. Cash flows, financing needs and the liquidity of the Group's companies are centrally monitored or managed, under the control of the Group's Treasury Department, for the purpose of ensuring an efficient and effective management of financial resources.

The financial planning of requirements, focused on medium-term borrowings, and the availability margins on credit facilities, allow an efficient management of liquidity risk.

Exchange rate risk and interest rate risk

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

Fair Value Hierarchy

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

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

Significant estimates and valuations

Use of estimates

Arrangement of the consolidated financial statements and related notes requires the use of estimates and valuations by the directors, with regard to the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below.

Specific information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

Impairment of goodwill

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

Allocations to provisions for risks

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

Disclosure of revenues

Revenues for the sale of electricity, gas and water are recognised and accounted for at supply and include the allocation for services rendered between the date of the last reading and the ending of the financial year. This allocation is based on estimated of the customer's daily consumption, based on the historic profile, adjusted to reflect the weather conditions or other factors which might affect consumption under evaluation.

Deferred tax assets

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

Depreciation and amortisation

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

Summary of reclassifications

Below you will find the effects on the statement of financial position as at 31 December 2009 and on the income statement of financial year 2009 generated by:

1. application of IFRIC 12 interpretation,
2. representation of the works carried out between companies operating within the Group for the realisation of plants and other works.

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

thousands of €	31-Dec-2009	2009 IFRIC 12 changes	2009 Executions of plants amongst group companies	31-Dec-2009 Published
BALANCE SHEET				
Non-current assets				
Tangible assets	1,765,225	-1,491,478	991	3,255,712
Intangible assets	1,688,092	1,491,478		196,614
Total Non-current assets	3,453,317	0	991	3,452,326
Current assets				
Contract work in progress	18,913		-991	19,904
Total Current assets	18,913	0	-991	19,904
Total Assets	3,472,230	0	0	3,472,230
INCOME STATEMENT				
Revenues				
Change in inventories of finished products and work in progress	-2,869		-991	-1,878
Other operating income	234,667	151,912		82,755
	231,798	151,912	-991	80,877
Costs				
Use of raw materials and consumables (net of changes to raw materials inventories and stocks)	-2,777,567	-2,702		-2,774,865
Service costs	-765,258	-109,958	-21,859	-633,441
Other operating costs	-37,725	-281		-37,444
Capitalised costs	63,869	-38,971	22,850	79,990
	-3,516,681	-151,912	991	-3,365,760
Total	-3,284,883	0	0	-3,284,883

4 Revenues

	2010	2009	Changes
Revenues from sales and services	3,668,563	4,204,204	-535,641
Change in inventories of work in progress, semifinished and finished products and contract work in progress	86	11	75
Change in contract work in progress	-1,751	-2,880	1,129
Other income and revenues	210,431	234,667	-24,236
Total	3,877,329	4,436,002	-558,673

Please see the Directors' Report for the analysis of sales trends by business sector and the note providing information by business area. At this time we wish to point out the reduction of revenues from sales and services. It is mainly attributable to the reduced trading of electricity and the fall of the prices of raw materials on the sale of gas.

The following table provides the reclassifications carried out on several items of financial year 2009 compared to what is published, as previously analysed in the first paragraph:

	2009 published	reclassification	2009 reclassified
Change in contract work in progress	-1,889	-991	-2,880
Other revenues and income - long-term construction contracts	82,755	151,912	234,667
Total	80,866	150,921	231,787

5 Other operating income

	2010	2009	Changes
Long-term contracts	135,169	151,912	-16,743
Termination of lease contracts of the gas and district heating business units	0	16,841	-16,841
White certificates	15,478	10,938	4,540
Use and re-assessment of provisions	14,950	5,154	9,796
Operating grants and grants for separated waste collection	14,844	13,133	1,711
Capital gains on sales of goods	6,088	7,379	-1,291
Capital grants	3,674	3,255	419
Grey certificates	3,632	0	3,632
Costs reimbursed	2,897	2,199	698
Leases	1,458	1,757	-299
Insurance reimbursements	1,211	4,150	-2,939
Sale of materials and stock to third parties	793	630	163
Brokerage for waste treatment	0	5,048	-5,048
Other revenues	10,237	12,271	-2,034
Total	210,431	234,667	-24,236

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

"Long-term construction contracts": include revenues generated from the construction or improvement of infrastructures held in concession.

"Termination of lease contracts of the gas and district heating networks" refers to the contingent asset recorded in 2009 as part of the share capital increase of the parent company following the transfer of the gas and district heating networks by the asset companies: Area Asset Spa and Con.Ami.

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

"Use and re-assessment of provisions": mainly includes uses of the provision for doubtful debts, Euro 8,000 thousand, and the landfill post-closure provision, Euro 6,502 thousand, concerning labour, leachate and resource hour costs.

"Operating grants and grants for separated waste collection": shows an increase of Euro 1,711 thousand over the previous year mainly due to grants made for the higher quantities of packaging coming from the separated waste collection (cardboard, iron, plastic and glass) sold to the consortiums of the Conai chain and electric and electronic equipment waste taken to the RAEE Coordination Centre.

"Capital gains on sales of goods": mainly recorded for the disposal of the real estate complex in Bologna (Via Ranzani) and in Sassuolo (Via Brigata Folgore), which respectively generated capital gains of Euro 3,234 thousand and Euro 2,343 thousand, respectively, as well as of resources, waste disposal bins and sundry equipment totalling Euro 353 thousand.

"Insurance reimbursements": record a decrease of Euro 2,939 thousand. Financial year 2009 includes reimbursements received following damages sustained by the plants:

- fire at the WDF and IRE plants in Ravenna (Euro 1,363 thousand)
- fire at the WTE of Ferrara (Euro 624 thousand)
- fire at the WTE of Modena (Euro 510 thousand)

"Waste treatment brokerage": bringing the figure to zero for 2010 is attributable only to a different classification of this item (amongst the "revenues from sales and services").

6 Use of raw materials and consumables (net of changes to raw materials inventories and stocks)

	2010	2009	Changes
Electricity ready for sale	1,212,962	1,835,585	-622,623
Methane ready for sale and LPG net of change in stocks	800,972	838,740	-37,768
Maintenance materials: management and spare parts net of change in stocks	60,853	51,910	8,943
Water	35,501	34,281	1,220
Chemical products	14,313	13,931	382
Charges and revenues from certificate valuation	-13,433	-21,413	7,980
Fuels and lubricants	13,164	11,281	1,883
Methane for industrial use	4,051	5,175	-1,124
Electricity for industrial use	6,797	18,238	-11,441
Charges and revenues from derivatives	-2,399	-17,692	15,293
Heat management combustible materials	1,763	3,371	-1,608
Consumables and sundry	5,926	4,160	1,766
Total	2,140,470	2,777,567	-637,097

Please refer to the information provided in the report on operations for an analysis of the costs of raw materials and consumables, and to note 22 of the statement of financial position for the item "Charges and revenues from derivatives".

The following table contains the reclassifications for some items of financial year 2009 compared to what has been published, in addition to those already analysed in the first paragraph.

	2009 published	reclassification	2009 reclassified
Electricity ready for sale	1,814,172	21,413	1,835,585
Charges and revenues from certificate valuation	0	-21,413	-21,413
Maintenance materials: management and spare parts net of changes in stocks - IFRIC 12 classification	49,208	2,702	51,910
Total	1,863,380	2,702	1,866,082

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

"Electricity ready for sale": the reduction recorded in financial year 2010 was previously commented on in the corresponding note on Revenues.

This item includes the cost for purchasing white, green and grey certificates for Euro 26,671 thousand (Euro 28,273 thousand as at 31 December 2009), particularly the certificates:

- grey, Euro 5,462 thousand (Euro 3,622 thousand as at 31 December 2009)
- green, Euro 9,250 thousand (Euro 18,696 thousand as at 31 December 2009)
- white, Euro 11,959 thousand (Euro 5,955 thousand as at 31 December 2009)

"Charges and revenues from certificate valuation": includes the results of the measurement of the certificates:

- green, for Euro 11,276 thousand (Euro 19,892 thousand as at 31 December 2009)
- grey, for Euro 2,157 thousand (Euro 1,521 thousand as at 31 December 2009).

7 Service costs

	2010	2009	Changes
Charges for works and maintenance	253,600	260,807	-7,207
Waste transportation, disposal and collection services	169,457	159,582	9,875
Energy transport and storage	135,789	103,589	32,200
Fees paid to local authorities	69,486	73,542	-4,056
Technical, organisation, legal and tax assistance consultancy	23,071	21,820	1,251
IT and data processing services	19,379	11,190	8,189
Rents and leases payable	18,607	18,561	46
Technical services	17,614	14,068	3,546
Postal and telephone costs	15,470	16,192	-722
Recruitment, training and other staff costs	11,713	10,822	891
Insurances	11,253	13,174	-1,921
Bank fees and charges	7,593	7,436	157
Announcements and advertising	7,238	6,032	1,206
Meter readings	5,097	5,259	-162
Remuneration to Statutory Auditors, Directors, Area Committees	5,022	5,299	-277
Cleaning and security costs	4,575	5,379	-804
Laboratory analysis	3,898	3,569	329
Fees payable	3,895	3,108	787
Industrial utilities (water, methane, heat and electrical energy)	3,260	3,354	-94
Transportation	1,821	2,170	-349
Other service costs	22,904	20,305	2,599
Total	810,742	765,258	45,484

The most substantial changes by comparison with last year follow:

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

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

"Fees paid to local authorities": the reduction compared to the previous year is mainly due to the lower fees paid to:

- Con.Ami for the gas service amounting to EUR 934 thousand
- Municipality of Bologna for fees regarding the sewage service totalling EUR 2,384 thousand.

"Technical services": the considerable increase over the previous year is mainly due to a different classification of costs, again in connection with application of the IFRIC 12.

"IT and data processing services": the EUR 8,189 thousand increase is mainly due to a restatement of costs for telephony to other operators services, for EUR 6,425 thousand (these costs in 2009 were classified among the "Charges for works and maintenance").

The following table shows the reclassifications made in some 2009 items compared to what has been published, as already analysed in the first paragraph.

	2009 published	reclassification	2009 reclassified
Charges for works and maintenance	128,992		128,992
Charges for works and maintenance - construction of plants among Group companies	0	21,859	21,859
Charges for works and maintenance - IFRIC 12 classification	0	109,956	109,956
Total Charges for work and maintenance	128,992	131,815	260,807

8 Personnel costs

	2010	2009	Changes
Wages and salaries	253,904	247,800	6,104
Social security contributions	85,983	81,514	4,469
Employee leaving indemnity and other benefits	917	875	42
Other costs	21,127	21,855	-728
Total	361,931	352,044	9,887

The increase in labour costs compared to 2009 is mainly due to changes in contractual dynamics.

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

	2010	2009	Changes
Managers	126	125	1
Middle Management	331	323	8
Employees	3,275	3,142	133
Workers	2,784	2,891	-107
Average number	6,516	6,481	35

In aggregate, the average pro capita labour cost for 2010 was equal to Euro 55 thousand, up 2.2% compared to the figures registered in the corresponding period of the previous year.

As at 31 December 2010, the effective number of employees was 6,491 units.

9 Amortisation, depreciation and allowances

	2010	2009	Changes
Depreciation of tangible fixed assets	121.138	115.927	5.211
Amortisation of intangible fixed assets	103.088	108.587	-5.499
Bad debt provisions	37.083	26.352	10.731
Provisions for risks and charges	30.577	25.135	5.442
Total	291.886	276.001	15.885

The evident fluctuation of the "Depreciation of tangible fixed assets and amortisation of intangible fixed assets" and "Other allocations" (provision for the restoration of assets) items is mainly attributable to the process of reappraising the useful life and therefore the depreciation rates of the assets (gas, electricity and district heating) started and completed during 2010. The appraisal in question, conducted with the help of a primary external consultancy firm, in most cases led to an extension of the average useful life and a resulting decrease of the depreciation rate of the plants in question, which on the whole brought about lower depreciation, equal to about EUR 15 million.

For further information on the items, please see comments under "tangible fixed assets", "intangible assets", "trade receivables" and "provisions for risks and charges".

Reclassifications for some 2009 items with respect to what has already been published, are shown in the table below:

	2009 published	reclassification	2009 reclassified
Depreciation of tangible fixed assets - IFRIC 12 reclassification	177,900	-61,973	115,927
Amortisation of intangible fixed assets - IFRIC 12 reclassification	46,614	61,973	108,587
Total	224,514	0	224,514

10 Other operating costs

	2010	2009	Changes
Special landfill levy	11,404	10,741	663
Taxation other than income taxes	8,065	7,226	839
State rentals	3,578	3,050	528
Membership fees and other fees	3,644	3,480	164
Capital loss on the sale of assets	3,202	3,188	14
Losses on receivables	0	35	-35
Other minor charges	8,928	10,005	-1,077
Total	38,821	37,725	1,096

In commenting this note, we wish to point out only the "Capital loss on the sale of assets" generated by the following disposals:

- various areas in the real estate complex in Bologna - in Viale Berti Pichat and Via Ranzani (warehouse, stores, fuel pump, etc.) for Euro 1,381 thousand;
- electricity meters, Euro 1,185 thousand;
- resources, waste disposal bins and other equipment for Euro 287 thousand.

The following table shows the reclassifications for some 2009 items compared to what has already been published.

	31-Dec-2009 published	reclassification	31-Dec-2009 reclassified
State rentals	5,275	-2,225	3,050
Taxation other than income taxes	5,001	2,225	7,226
Other minor charges	9,724		9,724
Other minor charges - IFRIC 12 classification		281	281
Total Other minor charges	20,000	281	20,281

11 Capitalised costs

	2010	2009	Changes
Increases of fixed assets for internal works	81,903	63,869	18,034
Total	81,903	63,869	18,034

Increases for internal works mainly include directly chargeable labour capitalised on works carried out, and directly chargeable financial charges, calculated at the average rate of 4%, and other charges, such as outbound inventory movements and motor car hours. The increase compared to the previous year is due to the increased works carried out among companies operating within the Group for the realisation of plants and other works.

The following table shows the reclassifications for the 2009 item "Increases of fixed assets for internal works" compared to what has been published, as previously analysed in the first paragraph.

	2009 published	reclassification	2009 reclassified
Increases of fixed assets for internal works	79,990		79,990
Increases of fixed assets for internal works - IFRIC 12 reclassifications	0	-38,971	-38,971
Increases of fixed assets for internal works - construction of plants amongst Group companies	0	22,850	22,850
Total Increases of fixed assets for internal works	79,990	-16,121	63,869

12 Portion of profits (losses) pertaining to associated companies

	2010	2009	Changes
Portions of profits	7,744	4,412	3,332
Portions of losses	-1,876	-491	-1,385
Total	5,868	3,921	1,947

The "portions of profits (losses) pertaining to associated companies" include the effects generated from measurement using the equity method. The increase compared to 2009 is mainly ascribable to the results of the associated companies Set Spa and Aimag Spa. As regards the item "Losses", it is noted that the Oikothen Scarl equity investment was written down due to the extraordinary losses recorded by the company (EUR 1,421 thousand).

13 Financial income and charges

	2010	2009	Changes
Interest rate and foreign exchange derivatives	63,265	1,465	61,800
Income from valuation at fair value of financial liabilities	20,861	8,657	12,204
Customers	4,324	4,007	317
Banks	963	822	141
Capital gains on equity investments and dividends from other companies	129	5,696	-5,567
Other financial income	1,479	2,320	-841
Total financial income	91,021	22,967	68,054

	2010	2009	Changes
Bond loans	77,913	51,037	26,876
Charges from valuation at fair value of financial liabilities	46,955		46,955
Interest rate and foreign exchange derivatives	46,862	27,735	19,127
Discounting of provisions and financial leases	13,569	17,129	-3,560
Mortgages	10,325	15,866	-5,541
Bank current account overdrafts	2,920	8,010	-5,090
Capital losses and write-downs of equity investment	16	54	-38
Other financial charges	8,082	20,413	-12,331
Total financial charges	206,642	140,244	66,398

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

The most significant changes are remarked on below.

The items "Interest rate and foreign exchange derivatives", "Income from valuation at fair value of financial liabilities", and "Charges from valuation at fair value of financial liabilities" are commented on in note 22 of the statement of financial position.

"Other financial income" decreased compared to the previous year, since 2009 included Euro 1,400 thousand of income generated by the renegotiation of the Put Extendable bond, totalling Euro 200 million.

The financial charges regarding "Bond loans" comprises:

- Euro 62,459 thousand in financial charges actually paid (Euro 37,677 thousand in 2009);
- Euro 15,154 thousand related to the application of amortised cost (Euro 13,360 thousand in 2009). With regard to the method used, please note that in the recalculation, the maximum duration for the loans was assumed, and it was also assumed that the put options would not be exercised for the duration of the same loans, within the terms set out in the contract.

The increase compared to last year is due to the issue, during the second half of 2009, of a 15-year bond loan for the amount of 20 billion Japanese Yen (for a value of EUR 150 million), the issue of the Euro 500 million, fixed rate of 4.5%, bond loan effective as from November 2009, and the issue of the convertible bond loan of a par value of Euro 140 million effective as from November 2010.

The decrease of the "Capital gains on equity investments and dividends from other companies" compared to 2009 is due to a 2009 dividend on account paid by Energia Italiana Spa in December 2009 (Euro 5,015 thousand).

As for "Other financial charges", the item mainly includes the charges borne for transfer of credits without recourse (Euro 6,286). The reduction by comparison with the previous year is due to the fact that in 2009 the item included Euro 12,254 thousand in financial charges paid after the recovery for the fiscal moratorium. To this purpose, for a more thorough description see note 15 regarding taxes.

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

	2010	2009	Changes
Landfill post-closure provision	7,104	5,675	1,429
Restoration of third party assets	4,495	7,514	-3,019
Employee leaving indemnity and other similar benefits	1,427	3,030	-1,603
Financial leasing	543	910	-367
Total	13,569	17,129	-3,560

The decrease in financial charges concerning the "Restoration of third party assets" is mainly attributable to the renegotiation of the lease agreement with Con.Ami, expiring on 31 December 2010, for another 30 years. The agreement regards management of the Tre Monti plant in Imola.

14 Other non-operating costs

	2010	2009	Changes
Other non-operating costs	0	15,319	-15,319
Total	0	15,319	-15,319

In 2009, this item included costs for taxes paid in relation to the "tax moratorium" described in note 15 below.

15 Income taxes

	2010	2009	Changes
Current, deferred and prepaid taxes	63,575	77,637	-14,062
Total	63,575	77,637	-14,062

The taxes for the financial year 2010 amount to Euro 63,575 thousand and include the non-recurring positive effects of Euro 25,061 thousand against the sheltering by substitute tax of the higher values recorded on the balance sheet following extraordinary transactions already carried out in financial year 2009 pursuant and consequent to art. 176, subsection 2-ter, of the Italian Income Tax Code regarding taxes for the year 2009 totalling Euro 77,637 thousand.

The impact of income taxes on the pre-tax profit is 30.9%, compared to 47.7% in 2009.

In calculating the taxes for the year, the effects deriving from the IAS tax reform introduced by Italian Law No. 244 of 24 December 2007 and by the relevant implementation decree, Ministerial Decree no. 48 of 1 April 2009 were duly considered, and in particular the enhanced principle of derivation set forth under Article 83 of the Consolidation Act on Income Taxes that now envisages that “the criteria of qualification, time allocation and classification in the financial statements envisaged by the international accounting standards” apply to parties that apply the international accounting standards, also in derogation of the provisions of the Consolidation Act on Income Taxes.

Information on the tax moratorium

In accordance with Law Decree no. 10 of 15 February 2007, subsequently converted into Law no. 46 of 6 April 2007, governing the terms for reimbursement of government aid declared illegitimate by the Ruling of the European Commission no. 2003/193 dated 5 June 2002, on 6 April 2007 Hera Spa (with respect to the position regarding the former Seabo Spa) was served the notices/orders issued by the Inland Revenue office responsible for the area, demanding the payment of a total amount of Euro 22,313 thousand for the four tax periods involved in the recovery. On 31 May 2007 the Hera Spa submitted an appeal against these notices/orders to the Bologna Province Tax Commission, also asking for a suspension of the enforcement of the payment orders. On 6 July 2007, the Bologna provincial tax commission issued ordinances accepting the suspension requests made by the company, scheduling a hearing of the case for 13 December 2007. On 19 April 2008, notification was made that the appeals had been rejected, except for that relating to the tax period 1997. In this case, the commission recognised the legitimacy of the deduction of tax withheld and of the tax credit carried over from previous years. Partial relief having been obtained on 2 May 2008 for the 1997 tax period, after recognition of the aforementioned retentions and credits, for Euro 3,738 thousand, a total payment of Euro 17,400 thousand was made. 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 above-mentioned rulings. On 29 January 2010 the rulings, issued on 21 January 2010, were filed. Based on these rulings, the Emilia Romagna Tax Commission rejected the appeals submitted by Hera Spa and reformed the first-instance rulings, rejecting the deduction made in the income tax returns submitted and related to withholding taxes paid. To this regard, please note that on 30 August 2010 the relevant payment requests were notified, for which Euro 7,455 thousand in capital, interest, collection fees and notification costs were paid on 27 October 2010. The petitions to the Supreme Court were presented on 29 April 2010.

Please also note that, under the terms of agreements made between shareholders (and specifically reported in the IPO prospectus) at the time of the incorporation giving rise to the creation of Hera Spa, local authorities undertook *“to compensate Hera Spa for any cost, loss or damage sustained by the same in relation to mandatory regulatory measures revoking tax benefits that the company and the companies taking part in the incorporation have enjoyed”*. Consequently no cost has been booked in this regard. It is also worth noting that on 31 December 2007, some Municipality Shareholders set up suitable guarantees in favour of the Company through the prepayments of amounts due to Hera Spa. Following the negative outcome of the first instance judgement and following payment of the tax assessments, debit/credit positions were therefore defined with respect to each Municipality.

On 31 December 2010, outstanding receivables for collection, related to all payments made by Hera Spa for the position related to the former Seabo, up to 27 October 2010, amounted to Euro 2,029 thousand.

Regarding the former Meta Modena, merged into Hera with effect as from 31 December 2005, for which there was no indemnity mentioned above, pursuant to and in accordance with the Law Decree no. 10 of 15 February 2007, on 10 May 2007 the Inland Revenue Office of Modena served Hera Spa with notices and injunctions for the recovery of state aid relating to the tax periods 1997, 1998 and 1999. On 6 June 2007, Hera Spa filed self-defence petitions requesting the amendment of the notices and injunctions. On 11 June 2007 the Inland Revenue office of Modena issued partial self-defence measures relating to the communicated notices/orders, requesting the Company, as a way of settling the issue, the payment of a minimal amount resulting from the failure to acknowledge withholding taxes suffered.

Updates 2008 – Law Decree no. 185/2008

Art. 24 of Law Decree no. 185 of 29 November 2008, converted with amendments into Law no. 2 of 28 January 2009, charged the Inland Revenue Office to recover aid equivalent to unpaid taxes and related interest "in order to totally implement" the afore-mentioned decision of the commission on 5 June 2002. As for this provision, on 30 April 2009, the Emilia Romagna Regional Management - Large Taxpayers Office, sent three assessment notices on the position of the former Meta for the 1997, 1998 and 1999 tax periods, taking due account of indications contained in the opinion expressed by the Presidency of the Council of Ministers on 28 April 2009, shared with the Attorney General, with special reference to the exclusion from the taxable basis of the following:

- profits, which were reissued into the public circuit, as they were distributed, under the form of dividends, to public bodies shareholders.
- the portion of income regarding the electricity segment (net of profits distributed and related to the electricity segment itself).

On 8 May 2009, the amount of Euro 4,823 thousand was paid. On 7 July 2009, the company lodged appeals against the assessment notices at the Bologna provincial tax commission, asking for their cancellation. The hearing to discuss the case, already scheduled for 17 May 2010, has been postponed to 14 February 2011 while waiting for the meeting for the proceedings to discuss the supplemental assessment notices, pending before another section of the same provincial tax commission, commented on hereunder.

Always with reference to Art. 24 of the above-mentioned Law Decree no. 185 of 29 November 2008, as regards the position related to the former Seabo, on 12 June 2009 Hera filed before the Inland Revenue Office - Bologna 3 Office - and the Emilia Romagna Regional Management - Large Taxpayers Office, a request for partial cancellation of the notices and injunctions received on 6 April 2007 regarding tax recovery for years 1997, 1998 and 1999 on the de-taxation of profits distributed to Public Bodies, according to instructions contained in the opinion issued on 28 April 2009 by the Presidency of the Council of Ministers. As of today, the hearing to discuss on the request of cancellation has not been scheduled yet.

For more exhaustive information, it should be noted that on 11 June 2009 the First-Instance Court of the European Community issued rulings regarding the appeals filed by the Italian Government, together with some companies (A2A, Acea, Iride, etc.) against the decision of the European Commission 2003/193/EC. The decisions of the European Community court rejected, or declared not receivable, all appeals filed, thus confirming the legitimacy of the above-mentioned decision of the European Commission. Hera Spa did not take part in the ruling in question for none of the positions mentioned above.

Updates 2009 – Law Decree no. 135/2009

Art. 19 of the Law Decree no. 135 of 25 September 2009, published in the O.G. no. 223 of 25 September 2009, added subsection 1-bis to Art. 24 of the Law Decree no. 185 of 29 November 2008, setting out the following:

- while calculating the tax basis, in order to recover aid equivalent to unpaid taxes and related interest, capital gains resulting from extraordinary transactions are not relevant;
- for the purposes of a correct calculation of the taxable basis, assessments issued by the Inland Revenue office can be however supplemented or increased through new notices;
- the payment of amounts due based on the above-mentioned supplementary assessments should be made within the fifteenth day after the notification date of these assessments.

On 2 October 2009, the Emilia Romagna Regional Management – Large Taxpayers Office – 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 due to the distribution to public bodies shareholders, and the further portion of profits made in the electricity segment. The amounts required total Euro 22,751 thousand, of which Euro 12,590 thousand related to the capital and Euro 10,161 thousand related to interest.

On the same date, the Emilia Romagna Regional Management - Large Taxpayers Office – sent four assessment notices for the former company Seabo Spa, regarding the 1997, 1998, 1999 tax periods – first half year and 1999 – second half year, 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 the Law Decree no. 10 of 15 February 2007 granted the Inland Revenue Office powers of “simple settlement” of the income returns submitted by the taxpayer.

The amounts required for the former company Seabo, amounted to Euro 759 thousand, of which Euro 386 thousand was for the capital and Euro 373 thousand was for interest.

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

On 27 November 2009, the Company filed all appeals to the Bologna provincial tax commission to cancel all assessment notices of 2 October 2009, regarding the positions of both former Seabo and former Meta.

The appearance before the court for the six proceedings mentioned above took place on 1 December 2009 and the public hearing was held on 26 January 2011 for the positions of the former Seabo and on 14 February 2011 for all of the reunified positions of the former Meta, with all proceedings adjourned.

Except for the still-outstanding disputes, aimed at recovering what has already been paid, the entire "tax moratorium" situation shall be considered concluded, since future disbursements which create financial impacts on the Group's accounts are not expected.

Report on the assessment notices issued in 2010

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

The observations basically concerned a mere error that took place in financial year 2005 in the intercompany costs accounting between Hera Ferrara Srl and Hera Spa, which caused a double recording of the same cost amounting to about Euro 200,000 thousand. Nevertheless, after said error of double recording of the same cost was discovered in the following financial year 2006, it was corrected by recording a contingent asset of the same amount, duly subject to taxation. It ensued that in force of the consolidated taxation system, the effect of the double deduction of the cost during tax year 2005 was eliminated by the recording, and subsequent taxation, of the cost as a contingent asset.

On 13 January 2011 assessment motions were proposed with adherence to the Emilia Romagna Regional Management, Large Taxpayers Office, pursuant to art. 6, subsection 2, of Legislative Decree no. 218 of 1997, and the debate with the office is currently in progress. It is believed that it can have a positive effect for the company.

Three assessment notices for IRES, IRAP and VAT concerning tax year 2005 were issued to Hera Spa on 29 December 2010 following the tax audit on tax year 2005 that was completed with the report dated 1 October 2010 drawn up by the Financial Police, Bologna Tax Police Squad. The subject matter of the report is a finding regarding intercompany services (so-called management expenses regarding use of the trademark) supplied by Hera S.p.a. in its capacity of parent company of the Hera Group to the Territorial Operating Company subsidiary of Forlì-Cesena, Hera Forlì-Cesena Srl.

Although it found the cost split criteria initially established by the intercompany contracts legitimate, the Tax Authorities question the subsequent reduction of the recharge percentages of the management expenses, generally called management fees, following a subsequent agreement that the parties entered into which adjusted the criteria initially envisaged. In the opinion of the Tax Authorities, said adjustment reducing fees due for the services that the holding company supplied entailed a tax dodging on the part of 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 inherence principle. Likewise, the failure to charge the fee for using the "Hera Group" trademark would have brought about a lower revenue for Hera S.p.a. compared to what was originally foresee in the intercompany agreement, and so IRES, IRAP and VAT tax dodging allegedly occurred in this case as well in the opinion of the office.

The company proposed an assessment in February 2011 with adherence to the Emilia Romagna Regional Management, Large Taxpayers Office, pursuant to art. 6, subsection 2, of Legislative Decree no. 218 of 1997 and is currently waiting to receive the invitation to appear to open the debate.

The Company decided it did not have to make any allocation to the provision for risks for the assessment notices in question as it considers the alleged violations charged against the Company groundless, and in particular considering the fiscal damage due to unpaid taxes inexistent as it believes it should consider the tax dodging the company is accused of as being inexistent; this is based on the circumstance that the companies involved adhered to the Group taxation system for the period in question pursuant to articles 117 et seq. of the Italian Income Tax Code, according to which the tax actually due to the Tax Authorities is liquidated in the income tax return of the consolidation, based on the algebraic sum total of the taxable incomes of the individual companies adhering to the system. It is therefore believed none of the individual companies can be found to have committed tax dodging, possibly only on the fiscal unit level. With regard to all of the above, it was decided to not make any allocation to the provision for risks for the years of assessment in question after having also consulted the Group's lawyers.

15.1 Earnings per share

	2010	2009
Group profits (losses) for the period (A) (thousands of €):	117.218	71.052
Weighted average number of shares in circulation		
- base (B)	1.110.853.551	1.050.897.499
- diluted (C)	1.110.853.551	1.050.897.499
Profit (loss) per share (in €)		
- base (A/B)	0,106	0,068
- diluted (A/C)	0,106	0,068

The base earnings per share is calculated on the economic result attributable to holders of ordinary shares of the parent company. Diluted earnings per share are equal to base earnings per share because no other categories of share, apart from ordinary shares, exist, and nor do any instruments convertible to shares at the reporting date. The average weighted number of the issued shares during the 2010 financial year, compared with the corresponding period of 2009, increased as a result of the share capital increase resolved by the parent company's Shareholders' Meeting held on 21 October 2009, for the amount of Euro 82,276,052, through the issue of new ordinary shares, reserved to shareholders: Municipality of Ferrara, Holding Ferrara Servizi Spa, Con.Ami Spa and Area Asset Spa as part of the transfer of the respective business units.

16 Tangible assets

	31-Dec-2010	31-Dec-2009	Changes
Land and buildings	368,693	315,050	53,643
General plant and machinery	1,145,330	974,679	170,650
Other moveable assets	114,631	116,749	-2,118
Work in progress and advance payments	211,578	358,747	-147,168
Total	1,840,232	1,765,225	75,007

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	Plant and machinery	Other moveable assets	Investments in progress	Total tangible fixed assets
Purchase cost						
Balance as at	31/12/2009	373.510	1.514.162	336.311	358.747	2.582.730
Increases		15.766	56.371	22.500	101.984	196.621
Disinvestments		(9.752)	(2.929)	(18.238)	(2.726)	(33.645)
Change in scope of consolidation			5.473	1.359		6.832
Other changes		59.448	181.155	9.229	(246.427)	3.405
Balance as at	31/12/2010	438.972	1.754.232	351.161	211.578	2.755.943
Accumulated depreciation						
Balance as at	31/12/2009	58.460	539.483	219.562		817.505
Depreciation for the year		8.851	84.356	26.930		120.137
Disinvestments		(2.497)	(1.332)	(13.767)		(17.596)
Change in scope of consolidation			1.537	900		2.437
Other changes		5.465	(15.142)	2.905		(6.772)
Balance as at	31/12/2010	70.279	608.902	236.530		915.711
Net value						
Balance as at	31/12/2009	315.050	974.679	116.749	358.747	1.765.225
Balance as at	31/12/2010	368.693	1.145.330	114.631	211.578	1.840.232

Please bear in mind the reclassifications compared to what was published as at 31 December 2009 already analysed in the first paragraph, especially as far as the categories "Land and buildings" and "Plants and machinery" are concerned.

The breakdown and major changes within each category are instead commented on hereunder.

"Land and buildings", totalling Euro 368,693 thousand, consist of Euro 285,421 thousand in buildings and Euro 83,272 thousand in land. These 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 in Modena on Via Razzaboni, execution of the building works on the Cogeneration Plant in Imola, purchase of land earmarked for landfills from the Municipality of Ravenna, and building works on the 4th line of the waste-to-energy plant in Modena. Of the reductions, what is mostly worthy of note is the disposal of the real estate complex in Sassuolo in Via Brigata Folgore and the real estate complex in Bologna in Via Ranzani (warehouses, stores, fuel pump, etc.).

"Plants and machinery", totalling Euro 1,145,329 thousand as at 31 December 2010, 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 of the year for the most part reflects the operational start-up of the Cogeneration Plant in Imola on Via Casalegno, the 4th WTE line in Modena and extraordinary maintenance works carried out on the WTE plant in Bologna. Lastly, several expansion works of the landfills are to be pointed out, including the putting on-stream of the new 5th sector at the 1C landfill in Ravenna and the third lot at the "Tre Monti" landfill in Imola. The decreases also include the disposal of electricity meters and of some company's assets which were damaged by fire.

"Other moveable assets", equal to Euro 114,632 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, what are to be particularly highlighted 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 211,578 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 31 December 2010 (the WTE plant in Rimini, revamping of the 3d WTE line in Modena and the Forlì Cesena WTE plant). Other significant interventions under execution regard the new "Disidrat" sludge treatment plant in Ravenna. The 4th waste-to-energy line in Modena came on-stream during 2010, for which the appropriate reclassifications were applied from "work in progress and advance payment" to the items "land and buildings" and "plants and machinery".

17 Intangible assets

The composition and changes in intangible assets are as follows:

	31-Dec-2010	31-Dec-2009	Changes
Patents and know-how	30,385	38,614	-8,229
Licences, trademarks and similar rights	80,777	95,709	-14,932
Public services under concession	1,416,811	1,323,004	93,807
Work in progress and advance payments for public services under concession	139,614	168,474	-28,860
Work in progress and advance payments	33,828	31,898	1,931
Other	27,083	30,393	-3,311
Total	1,728,498	1,688,092	40,406

The composition and changes in intangible assets are as follows:

		Industrial patent rights	Licences, trademarks and similar rights	Public services under concession	Work in progress and advance payments for public services under concession	Work in progress and advance payments	Other	Total intangible assets
Purchase cost								
Balance as at	31/12/2009	154,927	241,495	1,698,731	168,474	31,898	68,591	2,364,116
Increases		3,039	302	76,570	58,282	13,595	2,616	154,404
Disinvestments		-	(71)	(7,764)	-	(290)	(20)	(8,145)
Change in scope of consolidation		-	-	(9,339)	-	-	(1)	(9,340)
Other changes		7,703	(3,010)	91,745	(87,142)	(11,375)	276	(1,803)
Balance as at	31/12/2010	165,669	238,716	1,849,943	139,614	33,828	71,462	2,499,232
Accumulated amortisation								
Balance as at	31/12/2009	116,313	145,786	375,727	-	-	38,198	676,024
Depreciation for the year		17,783	13,928	65,606	-	-	5,771	103,088
Disinvestments		-	(55)	(735)	-	-	(19)	(809)
Change in scope of consolidation		-	-	(9,339)	-	-	(1)	(9,340)
Other changes		1,188	(1,720)	1,873	-	-	430	1,771
Balance as at	31/12/2010	135,284	157,939	433,132	-	-	44,379	770,734
Net value								
Balance as at	31/12/2009	38,614	95,709	1,323,004	168,474	31,898	30,393	1,688,092
Balance as at	31/12/2010	30,385	80,777	1,416,811	139,614	33,828	27,083	1,728,498

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

Item “Patents and know-how”, totalling Euro 30,385 thousand, mainly relates to costs incurred for the purchase and implementation of IT systems SAP R/3 ECC6 and related application systems, in addition to the purchase of IT systems used in waste flow management. These costs are amortised over five years.

Item “Licences, trademarks and similar rights”, amounting to Euro 80,777 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 mainly 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 Gaggio Montano, Grizzana, Marzabotto, Vergato and Sala Bolognese as well as assets related to the gas service in the Municipality of Sala Bolognese, as provided under the related contracts on reaching the expiry dates of said concessions.

“Public services under concession”, equal to Euro 1,416,810 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 only the Imola area. 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). For information on the reclassification of amounts as at 31 December 2009, please refer to the comments in note 16 “Tangible assets”, and to the first paragraph.

“Work in progress and advance payments for public services under concession”. These are the same assets as in the previous point, which had not been completed at the balance sheet date.

“Work in progress and advance payments”, equal to Euro 33,829 thousand, essentially comprise still incomplete IT projects.

Item “Other”, equal to Euro 27,083 thousand, mainly relates to the expenses incurred for the mapping, Geographical Information System (GIS), other sundry long-term charges, 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.

18 Goodwill

	31-Dec-2010	31-Dec-2009	Changes
Goodwill	320,791	321,838	-1,047
Goodwill from consolidation procedure	56,788	56,736	52
Total	377,579	378,574	-995

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 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 decrease compared with the previous year amounting to Euro 1,047 thousand, is due to the following transactions:

- exact allocation to the item “goodwill” of the value of assets which were transferred to Marche Multiservizi Spa (composting and landfill plants) during 2009, Euro 1,451 thousand (decreased)
- goodwill included in the “Discarica Cà Guglielmo” business unit, transferred to the Marche Multiservizi Group, during 2010, for Euro 404 thousand (increase).

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 increase in the consolidation difference, equal to Euro 52 thousand compared with the previous year, is attributable to the proportional consolidation of the company Flam Energy. This value, as at 31 December 2009, was included in the value of the equity investment.

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

As required by the accounting standards of reference (IAS 36) goodwill undergoes impairment testing. The following table shows the allocation of this item to the cash generating unit or group of units in accordance with the maximum aggregation limits that may not exceed the business segment identified in accordance with IFRS 8.

(millions of €)	
Gas	107.2
Electricity	43.1
Integrated water cycle	41.2
Waste management	174.5
Other services	10.0
Structure	1.6
Total goodwill	377.6

The impairment therefore involved gas, electricity, integrated water cycle, waste management and other services business areas. The recoverable value of the cash generating units, to which the separate goodwill was attributed, was reviewed by determining the value in use, meant as the current value of the discounted cash flows (duly discounted according to the discounted cash flow method) taken from the business plan prepared for the 2010-2014 period, approved by the Board of Directors of the parent company. The current value of an irredeemable debenture, calculated based on last year flows and taking account, for the water cycle only, the gradual achievement of the full capital payment, as provided for by the current regulations. In the developed hypothesis, the non-renewal of concessions was taken into consideration, in an estimated percentage of 20%. At the same time, a similar percentage was considered to determine the flow, equal to the net accounting value of assets, which will be redeemed.

While drawing up the Business Plan, which consolidates the Group perspective activities, assumptions consistent with those used in previous plans were used. These assumptions were defined based on final figures, projections internally processed and compared with external sources.

The development of revenues was processed based on the evolution of tariffs for the businesses governed by business unit regulations and/or agreements with the competent Authorities. In particular, revenues from the gas distribution market are projected based on evidence arising from Resolution no. 159/08 and, as for electricity distribution, based on Resolution no. 348/07 of the Italian Authority for Electricity and Natural Gas. Revenues on the sale of gas and electricity on the non-eligible market were projected to 2014, based on Resolutions no. 64/09 and 156/07, respectively, of the Italian Authority for Electricity and Natural Gas. As for the water cycle, revenues were projected based on both the immobility of volumes distributed and the fees referring to agreements signed, or being signed when the Plan was drawn up, with the single local AATOs. As for urban hygiene, the assumption of full tariff coverage was formulated over the term of the plan on all local areas supplied, pursuant to law.

Changes in the prices of gas and electricity sold and purchased on the free market were processed based on business opinions expressed by internal bodies in charge of analysing these factors, and in compliance with the energy scenario set forth when the business plan was started. The latter was drawn up by a panel of institutional observers according to the best forecasts.

The development of plants for the disposal and recover activities in the waste management cycle is consistent with estimates made in the plans in the provinces where the Hera Group operates. The scheduling for the realisation of investments and the following start-up of the new plants is the result of the best estimate of technical structures, in compliance with each planning process.

Cost evolution was consistent with the projected inflation considered in the economic and financial Planning Document and, as regards staff, with indications contained in the various work contracts. Effectiveness and synergies were planned in compliance with operations that the Group has carried out over the last few years.

The investment plan is consistent with the maintenance requirements of plant efficiency. This plan is supplemented by investment and development expectations in both initiatives which grant full economic benefit at full production within the term of the Plan, and development initiatives which will grant an economic return after the term of the Plan. The single “relevant” investments were specifically evaluated as for the economic return and strategic importance in the pertaining industrial sector.

The definition process of the Plan underwent, as in past years, a wide involvement process of each single company and a deep sharing with management at various organization levels, over a period of more than 5 months.

According to the aforementioned remarks, the basic assumptions that underlined the development of the impairment test, were formulated by the management, bearing in mind the remaining lifetimes of the reference concessions, on the basis of medium/long term growth rates differentiated by single asset, which take into account the expected growth in the respective generating unit sectors (2% on average).

The rate used to discount back the flows is 6.62% after taxes.

As the test results were positive, it was unnecessary to adjust the recorded values provided above. It is worth noting that the outcome of the above mentioned procedures has been specially approved by the Board of Directors of the parent company, as recommended by provisions set forth by Consob, Bank of Italy and ISVAP.

19 Equity investments

	31-Dec-2010	31-Dec-2009	Changes
Subsidiary companies			
Calor Più Italia Srl	6	6	0
Consorzio Akhea		200	-200
Consorzio Energia Servizi BO	5	5	0
Consorzio Frullo	4	4	0
Hera Servizi Comiteriali Srl	20		20
Ingenia Srl	63	63	0
Total	98	278	-180
Associated companies			
Aimag Spa	35,992	35,030	962
Dyna Green Srl	35	147	-112
Enomondo Srl	5,592	0	5,592
Feronia Srl	826	883	-57
FlamEnergy Trading Gmbh		1,985	-1,985
Ghirlandina Solare Srl	20	0	20
Modena Network Spa	1,207	1,177	30
Refri Srl	2,422	2,440	-18
Set Spa	34,972	31,048	3,924
Sgr Servizi Spa	15,232	11,720	3,512
Sei Spa	702	702	0
So.Sel Spa	475	414	61
Tamarete Energia Srl	3,890	4,150	-260
Other minor companies	487	374	113
Total	101,852	90,070	11,782
Other companies			
Calenia Energia Spa	9,073	9,073	0
Energia Italiana Spa	13,233	13,233	0
Galsi Spa	10,524	8,022	2,502
Other minor companies	564	567	-3
Total	33,394	30,895	2,499

Equity investments in non-consolidated subsidiary companies

The main change compared to 31 December 2010 regards Consorzio Akhea Fondo Consortile, which became operational in January 2010 and was fully consolidated.

Equity investments in associated companies

The main differences compared to 31 December 2009 relate to:

- Enomondo Srl – with effect from 31 December 2010 the Group purchased 40% of the company's share capital from Caviro Società Cooperativa Agricola. The company is consolidated with the equity method
- Set Spa, Aimag Spa, Sgr Spa and Oikothen Scarl – the changes reflect the receipt of the pertaining portion of final profit/loss of the respective companies,
- FlamEnergy Trading GmbH, jointly controlled by Hera Trading Srl (50%) and VNG-Erdgascommerz GmbH (50%), is being consolidated using the proportional method starting from this year.

Equity investments in other companies

The increase in this item is mainly due to the equity investment owned by the company Galsi Spa, after the share capital increase resolved by the Extraordinary Shareholders' Meeting held on 15 October 2009 and to be implemented within 31 December 2010. With reference to this resolution, on 19 January 2010 and 15 September 2010, the payment of the first tranche and second tranches were made, with a share capital increase from Euro 34,838,000 to Euro 37,242,300.

The increase in the equity investment reflects the pro-quota payment by the Group through the subsidiary Hera Trading Srl.

20 Financial assets

	31-Dec-2010	31-Dec-2009	Changes
Loan receivables from associated and other companies	10,029	10,109	-80
Receivables for mortgages to be collected and advanced commissions	574	425	149
Fixed-income securities	309	1	308
Total	10,912	10,535	377

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

	2010	2009	Changes
Set Spa	5,964	4,815	1,149
Sei Spa	2,828	2,530	298
Oikothen Scarl	277	1,804	-1,527
Modena Network Spa	960	960	0
Total	10,029	10,109	-80

The decrease in the loan granted to the associated company Oikothen Scarl, equal to Euro 1,527 thousand, is to be noted after the Parent Company relinquished it within the hedging of losses and formation of the share capital. The loans granted to the companies Sei Spa and Set Spa increased by Euro 298 thousand and Euro 1,149 thousand compared with 2009.

The "fixed-income securities" regarding bonds maturing in 2013 to guarantee loans payable acquired with the "Discarica di Ca' Guglielmo" business unit transferred to the Marche Group have increased.

21 Deferred tax assets

	31-Dec-2010	31-Dec-2009	Changes
Receivables for prepaid taxes	74,361	60,432	13,929
Receivables for IAS/IFRS prepaid taxes	9,929	13,164	-3,235
Total	84,290	73,596	10,694

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.

The balance as at 31 December 2010 includes EUR 2,903 thousand in prepaid taxes classified as current assets (EUR 5,431 thousand as at 31 December 2009). This particularly regards the substitute tax paid for the tax sheltering of 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.

	31-Dec-2010	31-Dec-2009	Changes
Ias 38 Intangible Assets	100	328	-228
IAS 37 Restoration of third-party assets and post-closure of landfills	1,373	1,161	212
IAS16 Fixed Assets	138	44	94
IAS17 Financial Leasing	13	15	-2
IAS19 Employee leaving indemnity and other employee benefits	972	1,108	-136
IAS39 Derivatives	7,323	9,231	-1,908
IAS32 Spin-Off Costs	10	15	-5
IFRS 3 Business Combinations	0	1,262	-1,262
Total	9,929	13,164	-3,235

22 Financial instruments - derivatives

Non-current Assets /Liabilities thousands of €	Fair Value Hierarchy	Hedged underlying	31-Dec-2010			31-Dec-2009		
			Notional amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities
Interest rate derivatives								
- Interest rate Swap	2	Loans	14.2 M	169		48.8 M	419	
- Interest rate Swap	2	Loans	913.2 M		42,817	692.5 M		30,270
- Interest rate Option	2	Loans	18.8 M		1,265	22.5 M		1,686
Exchange rate derivatives (financial transactions)								
- Cross Currency Swap	2	Loans	JPY 20 bn	39,902		JPY 20 bn		8,438
Total				40,071	44,082		419	40,394

Current Assets/ Liabilities thousands of €	Fair Value Hierarchy	Hedged underlying	31/12/2010			31/12/2009		
			Notional amount	Fair Value Assets	Fair Value Liabilities	Notional amount	Fair Value Assets	Fair Value Liabilities
Interest rate derivatives								
- Interest rate Swap	2	Loans	11.5 M	27				
- Interest rate Swap	2	Loans	13.8 M		71			
Commodity derivatives								
- Swap	2	Crude Oil	516,650 BBL	1,607		290,050 BBL	1,863	
- Swap	2	Commodities	59,900 TON	2,959		230,400 TON	9,866	
- Swap	2	Electricity formula	3,037,342 MWh	7,916		4,679,454 MWh	35,564	
- Swap	2	Fuel formula	22,080 MWh	118		882,360 MWh	2,226	
- Swap	2	Foreign gas hubs				1,054,080 MWh		790
- Swap	2	Crude Oil	512,300 BBL		389	241,700 BBL		1,690
- Swap	2	Commodities	13,200 TON		765	193,100 TON		8,553
- Swap	2	Electricity formula	3,349,812 MWh		10,747	6,210,055 MWh		40,450
- Swap	2	Fuel formula				394,200 MWh		2,490
Foreign exchange derivatives (commercial transactions)								
- Swap	2	EUR/USD exchange rate	USD 6.0 M	170		USD 32.0 M	680	
- Swap	2	EUR/USD exchange rate	USD 50.5 M		1,617	USD 28.6 M		660
Total				12,796	13,589		50,199	54,633

Derivative financial instruments classified under non-current assets amount to Euro 40,071 thousand, (Euro 419 thousand as at 31 December 2009); Euro 169 thousand refer to interest rate derivatives, and Euro 39,902 thousand refer to foreign exchange derivatives relating to financing transactions. Derivative financial instruments classified under non-current liabilities amount to Euro 44,082 thousand, (Euro 40,394 thousand as at 31 December 2009), and all refer to interest rate derivatives.

With regard to interest rate derivatives as at 31 December 2010, the Group net exposure is negative by Euro 43,913 thousand, compared with an exposure, negative as well, of Euro 31,537 thousand as at 31 December 2009. The reduction in fair value, compared with the previous year, was mainly due to the subscription of new hedging derivatives which, as at 31 December 2010, showed a negative fair value, as compared to their subscription date. Specifically, in the first half of 2010, two interest rates swaps were negotiated with leading credit institutions to hedge the fair value of fixed rate financial liabilities, for a total notional value of Euro 500 million. This decrease was partly offset by the full realisation of three derivative contracts subscribed in the previous years, which had a negative fair value as at 31 December 2009.

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 31 December 2010 is positive by Euro 39,902 thousand, compared with a negative value, equal to Euro 8,438 thousand, as at 31 December 2009. The significant change in fair value is mainly due to the strengthening of the Japanese Yen compared to the Euro.

Derivative financial instruments classified under current assets amount to Euro 12,797 thousand (Euro 50,199 thousand as at 31 December 2009) and represent derivative contracts which are expected to be concluded in the following year. Euro 27 thousand refers to interest rate derivatives, Euro 12,600 thousand to commodity derivatives and Euro 170 thousand to foreign exchange derivatives relating to commercial transactions.

Derivative financial instruments classified under current liabilities amount to Euro 13,589 thousand (Euro 54,633 thousand as at 31 December 2009) and represent derivative contracts which are expected to be concluded in the following year. Euro 71 thousand refers to interest rate derivatives, Euro 11,901 thousand to commodity derivatives and Euro 1,617 thousand to foreign exchange derivatives relating to commercial transactions.

The remarkable reduction in the fair value of commodity derivatives, both positive and negative, compared with 31 December 2009, is mainly due to the reduction in the trading business in the electricity sector, generated by a careful policy of credit risk management that led to a more careful and prudent measurement of the related counterparties, which translated into a decrease in the opening of new positions, within a context of general economic crisis that has been lasting since 2009. The performance of the market in the gas area had a significantly smaller effect. It was characterised by much smaller price fluctuations compared to the previous year, which were the result of smaller price differentials.

The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices; in the absence prices quoted on active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. The fair value of the commodity derivatives is calculated using input directly observable on the market. All derivative contracts entered by the Group are with leading institutional counterparties.

Interest rate and foreign exchange derivative instruments held as at 31 December 2010, subscribed in order to hedge loans, can be classed into the following two categories (figures in thousands of €):

Interest rate/foreign exchange derivatives (financial transactions)	Underlying	31-Dec-2010					31-Dec-2009				
		Notional amount	Fair Value Assets	Fair Value Liabilities	Income	Charges	Notional amount	Fair Value Assets	Fair Value Liabilities	Income	Charges
- Cash Flow Hedge	Loans	410.7 M	0	23,086	21	20,145	655.6 M	0	30,690	666	17,159
- Fair Value Hedge	Loans	649.8 M	39,902	20,308	62,346	25,597	149.8 M	0	8,438	0	9,688
- Non Hedge Accounting	Loans	60.8 M	196	759	898	1,120	108.2 M	419	1,266	799	888
Total			40,098	44,153	63,265	46,862		419	40,394	1,465	27,735

Interest rate derivatives identified as cash flow hedges show a residual notional amount of Euro 410.7 million (Euro 655.6 million as at 31 December 2009) against variable 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 31 December 2010 the breakdown of net charges relating to derivatives classified as cash flow hedges, amounting to Euro 20,124 thousand, is as follows:

Cash Flow Hedges	31-Dec-2010	31-Dec-2009
(thousand of €)	Income/(Charges)	Income/(Charges)
- Cash Flows realised	-20,598	-12,211
- Accrued Interest	805	-3,831
- Ineffective portion	-331	-451
Total	-20,124	-16,493

The increase in net financial charges compared with the same period in the previous year (see Note 13 Financial income and charges) is predominantly due to the unfavourable trend (in the context of hedges entered into) in interest rates. In 2010, the benchmark Euribor rate remained at very low levels, generating a negative effect on fixed rate hedges. It should be added that this effect was partially offset by the progressive reduction in the notional amount of some derivatives, which are being concluded or have already been concluded.

The degree of ineffectiveness of this class of interest rate derivative led to the recording of net charges totalling Euro 331 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 12,407 million, 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 (Euro 149.8 million as at 31 December 2009), 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 issued in November 2009, which has been hedged starting from June 2010. These derivatives led to the recording of financial income of Euro 62,346 thousand and financial charges of Euro 25,597 thousand. In parallel, however, a fair value assessment of the underlying loan was performed, recording financial income for Euro 20,861 thousand and financial charges for Euro 46,955 thousand.

As at 31 December 2010 the breakdown of income and charges relating to derivatives classified as fair value hedges and the related underlying liabilities was as follows:

Fair Value Hedges (thousands of €)	31-Dec-2010			31-Dec-2009		
	Income	Charges	Total	Income	Charges	Total
- Valuation of derivatives	46,955	-20,861	26,094	0	-8,438	-8,438
- Accrued Interest	1,937	0	1,937	0	0	0
- Cash Flows realised	13,454	-4,736	8,718	0	-1,250	-1,250
- Ineffective portion	0	0	0	0	0	0
Total effect of derivatives on the income statement	62,346	-25,597	36,749	0	-9,688	-9,688
Valuation of underlyings	20,861	-46,955	-26,094	8,657	0	8,657
Total	83,207	-72,552	10,655	8,657	-9,688	-1,031

The increase in financial income and charges associated with this type of hedge reflects the changes in fair value of the financial instruments illustrated above, specifically with reference to the new derivatives subscribed and the changes in the fair value of foreign exchange derivatives (now positive, but negative in the previous year), in addition to positive final cash flows.

The remaining **interest rate derivatives not in the hedge accounting** have a notional residual value of Euro 60.8 million (Euro 108.2 million as at 31 December 2009); some of these contracts are the result of mirroring transactions carried out in previous years as part of a restructuring of the derivatives portfolio. The remaining contracts which, under the criteria envisaged by the international accounting standards, cannot be accounted for under hedge accounting, were however put in place for hedging purposes only.

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

Commodity derivative instruments held as at 31 December 2010 can be classed into the following categories (figures in thousands of €):

Commodity/foreign exchange derivatives (commercial transactions)	Underlyings	31-Dec-10				31-Dec-10			
		Fair Value Assets	Fair Value Liabilities	Income	Charges	Fair Value Assets	Fair Value Liabilities	Income	Charges
- Cash Flow Hedge	Electricity formulas	0	0	3,697	2,441	0	0	5,055	3,285
- Non Hedge Accounting	Commodity transactions	12,770	13,518	66,099	64,957	50,199	54,633	383,617	367,980
Total		12,770	13,518	69,796	67,398	50,199	54,633	388,672	371,265

Commodity derivatives recorded under hedge accounting were all closed as at 31 December 2010.

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 2010, the commodity derivatives generated Euro 69,796 thousand in income and Euro 67,398 thousand in charges, for a net gain to the income statement of Euro 2,398 thousand, compared to a net gain of Euro 17,692 thousand as at 31 December 2009. The significant change in the net effect on the income statement was linked to the change in fair value, 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.

Sensitivity Analysis

In conjecturing an instant shift of -50 basis points in the interest rate curve with respect to the interest rate effectively applied for the assessments as at 31 December 2010, at like-for-like exchange rates, the potential increase in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly Euro 26.3 million. Likewise, conjecturing an instant shift of +50 basis points in the interest rate curve, there would be a potential decrease in fair value of about Euro 24.8 million.

These fair value changes would have no effect on the income statement if it were not for the potential ineffective portion of the hedge, as they refer to financial derivative instruments classified under hedge accounting. As for the effects on Shareholders' Equity, in the event of a negative shift in the curve, the change in Cash Flow Hedge reserves would be negative for Euro 4.9 million, net of tax, while in the event of a positive shift, the change would be positive for Euro 4.7 million, net of tax.

As for derivatives designated as fair value hedges, these fair value changes would have no effect on the income statement, except for that limited to the ineffective portion of the hedge, since they are offset by a change in the fair value of the underlying liabilities being hedged, in the opposite sign.

The effects on the income statement of the fair value changes of the instruments not in hedge accounting, as they almost entirely undergo mirroring transactions, would be insignificant.

In conjecturing an instant rise of 10% in the EUR/JPY exchange rate, with no change in interest rates, the potential increase in the fair value of derivative financial instruments held as at 31 December 2010 would amount to approximately Euro 21.2 million. Likewise, an instant fall of 10% in the exchange rate would bring about a potential increase in the fair value of the instruments of around Euro 25.9 million. As these are exchange rate derivatives regarding financing transactions, fully designated as fair value hedges, these changes would have no effect on the income statement, except for that of the potentially ineffective portion of the hedge, since they are offset by a change in the fair value of the underlying liability being hedged, in the opposite sign.

Market risk and currency risk on commercial transactions

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

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

Though these transactions are substantially put in place for hedging purposes, in order to realise all possible synergies and decrease operating costs, they are concretely implemented by deconstructing the indices included in the underlying contracts and reaggregating them by individual type and net external exposure. As a result, in most cases,

the direct correlation of the hedging transactions with the related underlyings is lost, thereby making these transactions non-compliant with the requirements of IAS 39 for hedge accounting.

Sensitivity Analysis

In conjecturing an instant 10 dollar-per-barrel rise in the Brent price, with no change in the Euro/Dollar exchange rate, and no change in the curve of the national standard price, the potential increase in the fair value of derivative financial instruments held as at 31 December 2010 would amount to approximately Euro 9.7 million. Likewise, an instant fall in the same amount would bring about a potential decrease in the fair value of the instruments of around Euro 9.7 million.

In conjecturing an instant rise in the exchange rate of 0.05 dollars per Euro, with no change in the Brent price, and no change in the national standard price, the potential decrease in the fair value of derivative financial instruments held as at 31 December 2010 would amount to approximately Euro 5 million. Likewise, an instant fall in the same amount would bring about a potential increase in the fair value of the instruments of around Euro 5 million.

In conjecturing an instant +5 €/MWh change in the national standard price curve, with no change in the Euro/Dollar exchange rate, and no change in the Brent price, the potential increase in the fair value of derivative financial instruments held as at 31 December 2010 would amount to approximately Euro 3.8 million. On the contrary, an instant change of -5 €/MWh would bring about a potential decrease in the fair value of the instruments of around Euro 3.5 million.

23 Inventories

	31-Dec-2010	31-Dec-2009	Change
Raw materials and stock	47,918	41,185	6,733
Intermediate goods	46	132	-86
Finished products	744	823	-79
Advance payments	5,172	4,928	244
Total	53,880	47,068	6,812

Inventories, stated net of an obsolescence provision amounting to Euro 564 thousand (Euro 661 thousand as at 31 December 2009) are mainly comprised of raw materials and stocks. Specifically, these are mainly spare parts and equipment used for the maintenance and running of operating plants in addition to gas stocks. The change, compared with 31 December 2009, is attributable to higher stocks of gas destined to the domestic market with the beginning of the thermal season. Item "Advance payments", amounting to Euro 5,172 thousand, relates to advance payments on gas supply.

24 Trade receivables

	31-Dec-2010	31-Dec-2009	Change
Trade receivables	611,348	516,410	94,938
Trade receivables for invoices to be issued	504,365	607,869	-103,504
Receivables from associated companies	18,783	12,797	5,986
Total	1,134,496	1,137,076	-2,580

Trade receivables as at 31 December 2010 amounted to Euro 1,134,496 thousand (Euro 1,137,076 thousand as at 31 December 2009) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2010. The balances are stated net of the provisions for doubtful receivables amounting to Euro 77,294 thousand (Euro 66,624 thousand as at 31 December 2009) which is considered to be fair and prudent in relation to the estimated realizable value of said receivables.

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

	31-Dec-2009	Change in the scope of consolidation	Provisions	Drawdowns and other movements	31-Dec-2010
Provisions for doubtful receivables	66,624	107	37,083	-26,520	77,294

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

The change in the scope of consolidation refers to the contribution of the "Discarica Cà Guglielmo" (Cà Guglielmo landfill) business unit to the Marche Multiservizi Group as illustrated in the notes to the section "Changes in the scope of consolidation".

Credit risk

The book value of the trade receivables shown in the financial statements is the maximum theoretical exposure to credit risk for the Group as at 31 December 2010. 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 writedown is provided. With regard to the receivables that do not undergo individual writedowns, 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).

With regard to customers as at 31 December 2010, trade receivables, mainly achieved in Italy, can be broken down into the following classes:

	Institutions	Business	Mass Market	Total
Amount	87,087	290,587	233,674	611,348
Incidence	14%	48%	38%	100%

With regard to customers as at 31 December 2009, trade receivables, mainly achieved in Italy, can be broken down into the following classes:

	Institutions	Business	Mass Market	Total
Amount	83,245	197,268	235,897	516,410
Incidence	16%	38%	46%	100%

25 Contract work in progress

	31-Dec-2010	31-Dec-2009	Change
Contract work in progress	17,228	18,913	-1,685
Total	17,228	18,913	-1685

Contract work in progress as at 31 December 2010 relates to long-term orders for plant works.

The following table reports the reclassification of the 2009 item "Contract work in progress" compared to what has been published, as already analysed in the first paragraph.

	31/12/2009 published	reclassification	31/12/2009 reclassified
Contract work in progress	19,904	-991	18,913
Total	19,904	-991	18,913

26 Financial assets

	31-Dec-2010	31-Dec-2009	Change
Receivables for mortgages to be collected	1,098	376	722
Financial receivables from associated companies	29,313	13,384	15,929
Portfolio securities and financial policies	7,221	7,274	-53
Receivables for loans given to others	8,452	756	7,696
Total	46,084	21,790	24,294

The composition and main changes with respect to 31 December 2009 are commented on below.

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

- Tamarete Energia Srl, Euro 23,736 thousand;
- Enomondo Srl, Euro 4,100 thousand;
- Refri Srl, Euro 181 thousand;
- Modena Network Spa, Euro 900 thousand;
- Ghirlandina Solare Srl, Euro 396 thousand

The increase of Euro 15,929 thousand is mainly attributable to additional/new loans granted to the following companies: Tamarete Energia Srl, Euro 11,252 thousand, and Enomondo Srl, Euro 4,100 thousand.

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

The increase in “receivables for loans given to others”, amounting to Euro 7,696 thousand, equals a credit position vis-à-vis customers, already collected in January 2011.

27 Other current assets

	31-Dec-2010	31-Dec-2009	Changes
Energy efficiency bonds and emissions trading	67,744	51,843	15,901
Guarantee deposits	23,924	21,857	2,067
Equalisation fund for the electricity and gas sectors, for equalisation and service continuity income	21,693	20,959	734
Sundry tax receivables	7,316	9,807	-2,491
Contributions	5,694	6,994	-1,300
Insurance costs	5,494	5,933	-439
Receivables due from asset companies	4,880	4,699	181
Costs advanced for leases and rentals	3,905	3,555	350
Advances for direct taxes	3,813	1,182	2,631
Advances to suppliers/employees	3,707	6,181	-2,474
VAT, excise and surtaxes	2,300	16,239	-13,939
Receivables due from municipalities for tax moratorium	2,029	1,082	947
Receivables due from Social Security Institutions	677	805	-128
Costs advanced for substitute tax	0	5,431	-5,431
Other receivables	28,431	22,325	6,106
Total	181,607	178,892	2,715

The breakdown and changes in the main items are described compared with 31 December 2009.

“Energy efficiency bonds and emissions trading”, include:

- green certificates, Euro 39,058 thousand (Euro 27,691 thousand as at 31 December 2009);
- white certificates, Euro 15,478 thousand (Euro 19,786 thousand as at 31 December 2009);
- grey certificates, Euro 13,208 thousand (Euro 4,366 thousand as at 31 December 2009);

As regards green certificates, the Group accounted for the green certificates regarding the WTE of Ferrara, for a total amount accrued for years 2008, 2009 and 2010, equal to Euro 18,117 thousand, based on provisions envisaged by Art. 1, paragraphs 1117 and 1118 of Law no. 296/2006 (2007 Finance Bill). 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 body recognises the incentives in favour of electricity power plants from renewable sources and sources assimilated to renewable sources, without making any distinction between organic and inorganic portion of waste, safeguarding the purchase right of plants, as the one located in Ferrara, which was compliant with all terms provided for by the finance act itself (1 January 2007). In particular: a) signature of the appropriate agreement with GSE b) nearly completed plant and c) necessary authorisations.

“Security deposits”, composed mainly of:

- the deposit made to Acosea Impianti Srl for Euro 12,000 thousand;
- other minor deposits in favour of public institutions and companies, Euro 3,881 thousand (Euro 3,417 thousand as at 31 December 2009);
- deposits in favour of the Property Valuation Office, Euro 2,099 thousand (Euro 2,100 thousand as at 31 December 2009) to guarantee the payment of revenue tax collected from customers;
- deposits in favour of GSE, Euro 5,944 thousand (Euro 4,340 thousand as at 31 December 2009).

The item “Sundry tax receivables”, equal to Euro 7,316 thousand (Euro 9,807 thousand as at 31 December 2009) mainly comprises tax credits on district heating. The decrease compared to the 31 December 2009 is mainly attributable to the offsetting of the 2009 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”.

The item “Contributions”, amounting to Euro 5,694 thousand, down compared with 31 December 2009, chiefly relates to receivables for payments to a sinking fund by various Entities, but still to be collected.

The Item "VAT, excise and additional taxes", amounting to Euro 2,300 thousand, consists of VAT credits, for Euro 2,233 thousand, and of excise and regional surtaxes of Euro 67 thousand. The change, compared with 31 December 2009, is due to a decrease in receivables for excise and additional regional taxes amounting to Euro 13,481 thousand (Euro 13,548 thousand as at 31 December 2009) and receivables for VAT, amounting to Euro 458 thousand (Euro 2,691 thousand as at 31 December 2009). These changes are to be related to changes shown in liabilities, in the item "tax liabilities" - note 36. To understand these changes, particularly with regards to excise duties and surtaxes, note must be taken of the procedures that regulate financial relations with the Tax Authorities. In particular, advance payments during the year were calculated according to quantities of gas and electricity billed in the previous year, while debt positions, reflected in the financial statements, feel the effects of the actual volumes of turnover. Using these methods, credit/debit positions can be generated with differences that are also significant between one period and another. In particular, the increased volumes of gas and electricity invoiced in 2010 over 2009 brought about the considerable increase of the debt position and cancellation of the credit position.

“Advances for direct taxes” (Ires and Irap – corporate income tax and regional business tax) amount to Euro 3,813 thousand (Euro 1,182 thousand as at 31 December 2009) regard advances paid for 2010 with respect to the debt accrued.

Some reclassifications made in the corresponding items as at 31 December 2009 are provided below:

	31/12/2009 published	reclassification	31/12/2009 reclassified
Receivables due from asset companies	1,731	2,968	4,699
Insurance costs	2,469	3,464	5,933
Withholdings on interest	91	-91	0
Insurance reimbursements	59	-59	0
Other receivables	28,607	-6,282	22,325
Total	32,957	0	32,957

28 Cash and cash equivalents

As at 31 December 2010, cash and cash equivalents totalled Euro 538,226 thousand (Euro 350,332 thousand as at 31 December 2009) and include cash, cash equivalents, and bank cheques and drafts held in centralised and decentralised accounts for a total of Euro 133 thousand. They also include bank and financial institution deposits available for current transactions and post office accounts totalling Euro 538,093 thousand. The increase compared with the previous year is attributable to the financial resources provided by the convertible bond issued at the end of the year, plus revenues generated by the sale of 25% of Herambiente Spa. To get a better grasp of the financial trends in 2010, please refer to the cash flow statement and the comments shown in the report on operations.

Classification of financial assets and liabilities pursuant to IFRS 7

The following table illustrates the composition of Group assets by measurement class. The fair value of the derivatives is instead itemised in Note 22.

31/12/2010 thousands of €	Fair value in income statement	Loans and receivables	Held to maturity	Available for sale	Total
Non-current assets	0	10,603	0	309	10,912
Financial assets measured at fair value				309	309
Non-current receivables due from related parties		10,029			10,029
Receivables		574			574
Current assets	48,634	1,306,332	0	7,221	1,362,187
Trade receivables		1,134,496			1,134,496
Financial assets measured at fair value				7,221	7,221
Current receivables due from related parties		29,313			29,313
Financial receivables		9,550			9,550
Other assets	48,634	132,973			181,607

31/12/2009 thousands of €	Fair value in income statement	Loans and receivables	Held to maturity	Available for sale	Total
Non-current assets	0	10,534	0	1	10,535
Financial assets measured at fair value				1	1
Non-current receivables due from related parties		10,108			10,108
Receivables		426			426
Current assets	32,057	1,298,427	0	7,274	1,337,758
Trade receivables		1,137,076			1,137,076
Financial assets measured at fair value				7,274	7,274
Financial receivables		14,516			14,516
Other assets	32,057	146,835			178,892

With regard to "non-current assets", please see the details in Note 20.

With regard to "current assets", please see the details in Notes 24, 26 and 27.

The following table illustrates the composition of Group liabilities by measurement class. The fair value of the derivatives is instead itemised in Note 22.

31 dic-2010 euro migliaia	<i>Fair value</i> a conto economico	Elementi coperti (<i>fair value hedge</i>)	Costo ammortizzato	Totale
<i>Passività non correnti</i>	0	662.370	1.660.234	2.322.604
Finanziamenti		662.370	1.651.352	2.313.722
Debiti per locazioni finanziarie			8.882	8.882
<i>Passività correnti</i>	3.143	0	1.440.346	1.443.489
Finanziamenti			147.837	147.837
Debiti per locazioni finanziarie			4.599	4.599
Debiti commerciali			1.061.003	1.061.003
Altre passività	3.143		226.907	230.050

31 dic-2009 euro migliaia	<i>Fair value</i> a conto economico	Elementi coperti (<i>fair value hedge</i>)	Crediti e finanziamenti	Totale
<i>Passività non correnti</i>	0	141.111	2.013.125	2.154.236
Finanziamenti		141.111	2.003.746	2.144.857
Debiti per locazioni finanziarie			9.379	9.379
<i>Passività correnti</i>	0	0	1.391.729	1.391.729
Finanziamenti			113.039	113.039
Debiti per locazioni finanziarie			7.148	7.148
Debiti commerciali			1.048.214	1.048.214
Altre passività			223.328	223.328

With regard to "non-current liabilities", please see the details in Notes 30 and 34.

With regard to "current liabilities", please see the details in Notes 30, 34, 35 and 37.

29 Share capital and reserves

The statement of changes in shareholders' equity is shown in section 2.01.04 of these consolidated financial statements.

Share capital

The share capital at 31 December 2010 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 5,940 thousand; it reflects the number of treasury shares in the portfolio as at 31 December 2010 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 a negative value of Euro 47 thousand and a negative value of Euro 3,058 thousand, respectively. These reserves, established in compliance with the accounting standards of reference, reflect the treasury shares transactions carried out as at 31 December 2010. The change during the year generated capital gains amounting to Euro 9 thousand, and a capital loss, equal to Euro 265 thousand, respectively credited and debited to the above-mentioned reserves.

Reserves

The item "Reserves", equal to Euro 514,662 thousand, includes the following reserves:

- "legal" for Euro 25,548 thousand,
- "extraordinary" for Euro 13,593 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 41,976 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 Euro 138,579 thousand, generated after adoption of international accounting standards;
- "reserve for dividends received on treasury shares" for Euro 525 thousand.

Cash Flow-Hedge Reserve

As at 31 December 2010, this reserve had a negative balance of Euro 12,407 thousand following changes determined by fair value valuation of reference derivatives.

30 Payables to banks and medium/long- and short-term loans

As at 31 December 2010, medium/long term loans totalled Euro 2,313,722 thousand (Euro 2,144,857 thousand as at 31 December 2009), and relate to mortgages and loans of Euro 506,778 thousand and the bond issues of Euro 1,806,944 thousand.

Medium/long-term amounts due to banks also include loans subscribed by the subsidiary Fea Srl for a total of Euro 55,900 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 31 December 2010, stated at their residual nominal value (millions of €), with an indication of the portion expiring within and after 5 years:

Type	Residual amount 31/12/2010	Portion due within one year	Portion due within 5 years	Portion due after 5 years
Bond	1,250		500	750
Convertible Bond	140		140	
Puttable Bond/Loan	540			540
Amortising	175	50	93	32
Amortising backed by collateral security	66	10	26	30
Bullet	180	0	180	0
Total	2,350	60	938	1,352

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

Puttable Bonds and Loans		Term (years)	Expiry	Nominal value		Coupon	Annual rate
Convertible Bond	Luxembourg stock exchange	3	01/10/13	140		Fixed, annual	1.75%
Eurobond	Luxembourg stock exchange	10	15/02/16	500		Fixed, annual	4.13%
Eurobond	Luxembourg stock exchange	10	03/12/19	500		Fixed, annual	4.50%
Bond (ex put bond)	In 2010 the holder has the possibility of requesting redemption at par	13	17/11/20	100		For first 3 years, 3-month Euribor minus 29 cents. For the next 10 years, fixed rate 4.593% plus 10-year credit spread.	6.32%
Put Loan	From 2010 the holder has the possibility of requesting redemption at par every two years	13	22/11/20	70		For the first 3 years, 3-month Euribor minus 45 cents. For the next 10 years, fixed rate of 4.41% plus a 2-year credit spread.	4.86%
Put Loan	From 2010 the holder has the possibility of requesting redemption at par every two years	13	06/12/20	70		For the first 3 years, 3-month Euribor minus 46 cents. For the next 10 years, fixed rate of 4.44% plus a 2-year credit spread.	4.89%
Bond	Cross Currency Swap 150 €mln	15	05/08/24	20000 JPY		Fixed, half-yearly	2.93%
Put Bond	From 2012 the holder has the possibility of requesting redemption at par every two years	23	10/10/31	200		For the first 3 months, fixed rate of 4.20%. For the next 20 years, fixed rate of 4.65% plus a 5-year credit spread.	4.20%
Put Bond	From 2011 the holder has the possibility of requesting redemption at par every two years	27	49164	200		For the first 5 years, 3-month Euribor minus 45 cents. For the next 22 years, fixed rate of 4.85% plus a 2-year credit spread.	Euribor 3m - 0.45%

It should be noted that, on 11 November 2010, a “€ 140,000,000 1.75 per cent. Equity-Linked Bonds due 2013” maturing 1 October 2013 was issued and placed on the Luxembourg Stock Exchange’s EURO MTF market on 21 January 2011. The bond issue became convertible into ordinary Hera shares on 27 January 2011 following the approval by the extraordinary shareholders’ meeting of the share capital increase with exclusion of the purchase option. Please refer to the Director’s Report for more information on this transaction.

In relation to the puttable loans, the options expiring in 2010 were not exercised. As a result, the € 100 million Put Bond with maturity in November 2020 no longer contains any options, representing, for all intents and purposes, a plain vanilla bond, while future maturities in respect of exercising the option of two put loans of Euro 70 million each are placed until the end of 2012.

The puttable bonds and loans incorporate put options which meeting the criteria to be independently valued according to the instructions given in IAS 39, paragraph AG30, letter g.

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 31 December 2010, short term loans totalled Euro 147,837 thousand (Euro 113,039 thousand as at 31 December 2009) 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 31 December 2010, there are unused credit lines totalling more than Euro 1,300 million.

31 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 techniques and discounting future liabilities to the balance sheet date. These liabilities comprise the matured receivables of the employee at the presumed date of leaving the company.

The item "Gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly 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-2009	Provisions		Uses and other movements	Changes in scope of consolidation	31-Dec-2010
		provisions	financial charges			
Employee leaving indemnity prov.	92,558	435	1,262	-6,905	307	87,657
Tariff reduction provision	3,400	238	78	-376		3,340
Premugas Fund	2,585	198	52	-451		2,384
Gas discount	2,474	46	35	-293		2,262
Total	101,017	917	1,427 -	8,025	307	95,643

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

The "change in the scope of consolidation" includes the value of employee leaving indemnity as at 1 August 2010 of the branch called "Discarica Cà Guglielmo" ("Cà Guglielmo Landfill") conferred to the Marche Multiservizi Group.

The main assumptions used in the actuarial estimate of the employee benefits are as follows:

	31-Dec-2010	31-Dec-2009
Average discount rate	4.65%	4.52%
Average rate of increase in cost of labour	3.50%	3.50%

32 Provisions for risks and charges

	31-Dec-2009	Provisions		Uses and other movements	Changes in scope of consolidation	31-Dec-2010
		Provisions	Financial charges			
Provision for the restoration of third-party assets	69,905	7,423	4,495	-491		81,332
Landfill closure and post-closure cost provision	85,357	7,691	7,104	-6,449	1,325	95,028
Provision for staff disputes and legal costs	16,423	7,662		-3,374		20,711
Other provisions for risks and charges	14,515	7,910		-8,528		13,897
Total	186,200	30,686	11,599	-18,842	1,325	210,968

The **provision for the restoration of third party assets**, equal to Euro 81,332 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. Pursuant to IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The **landfill closure and post-closure costs provision**, equal to Euro 95,028 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 6,449 thousand, as follows:

- “uses” for Euro 13,036 thousand, of which Euro 6,502 thousand booked as a contra entry to “other revenues” (please refer to note 5 of the income statement),
- “other movements”, relating to a Euro 7,623 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;
- “other movements”, of Euro 1,035 thousand relating to a decrease in the provision determined by the accurate allocation of the item “goodwill” to the value of the assets transferred in 2009 by the Comunità Montana Alto e Medio Metauro to Marche Multiservizi Spa, (composting plants and landfill).

The **provision for staff disputes and legal costs** amounting to Euro 20,711 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees. The provision includes Euro 8 million relating to ongoing litigation with the INPS over the payment of contributions on social security benefits (CIG, CIGS, Mobility) and on the reduction of contribution rates for family allowances (CUAF) and for the maternity contribution with regard to employees governed by the electricity sector collective labour agreement in the Modena area.

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

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

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

The Group 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 Employment Tribunal 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. However, an additional proceeding is pending in the Supreme Court, unrelated to the Hera Group, from the Court of Appeal of Genoa. 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 State Council.

Despite this, in the last few months of 2010, some first instance rulings were handed down, rejecting the company's claims in relation to CIG, CIGS and Mobility contributions. The rulings will be appealed. This situation led to the provision being supplemented with an additional Euro 3.7 million, taking into account the size of the CIG, CIGS and Mobility contributions with a judgment still pending.

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

Regarding the contribution for family allowances (CUAF) and the maternity contribution, this type of litigation only concerns the INPDAP personnel regulated by the electricity sector collective labour agreement, and is based on the interpretation of Article 41 of Law 488/1999 (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 (reimbursement that then was actually made between 2001 and 2002).

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

This higher rate penalises the "former municipal enterprises" severely by comparison with other market operators. Confservizi has brought this failed contribution harmonisation consequent to Law 335/1995 to the attention of the Employment Ministry several times, which in turn has consulted the Council of State. The Council deemed a special legislative initiative necessary (circular no. 88 of 31 May 2004), which rules out the possibility of an administrative solution. In spite of Confservizi's efforts to push through this legislative initiative, as of today no result is yet to be seen. Also for this type of contribution, it is appropriate to point out that INPS shall not file any new claims regarding CIG, CIGS or Mobility, following the new classification of almost all Group companies in the Service sector from 2010.

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

In view of the information reported above, an allocation of Euro 8 million was made to the aforementioned provision, which takes into account the filings already paid for and any liabilities deriving from the suspended filings currently received, amounting to approximately Euro 20.7 million. This amount refers to the contributions contained in the filings by way of CIG, CIGS Mobility, CUAF and Maternity, excluding however the portion by way of Unemployment and Sickness contributions for the above reasons. This fund is deemed to be appropriate, in view of both the likely development of the litigation and the opinions of the appointed legal advisors.

The **provision for risks and charges**, amounting to Euro 13,897 thousand, comprises provisions made against sundry risks. The main items are summarised below:

- Euro 2,574 thousand for the “MIS quota, charges for electrical service continuity and equal distribution”;
- Euro 2,158 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 1,267 thousand relates to the provision made in relation to customer compensation for water service leaks;
- Euro 376 thousand, relating to the "Valle Savio fund", established to address the works for the community adjacent to the Busca landfill, in the municipality of Cesena, as required by the concession contract;
- Euro 1,044 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 of a subsidiary;
- Euro 2,212 thousand relates to the provision made in relation 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 31 December 2010, corresponds to the most prudential scenario in relation to the amount which may be paid to final customers.

33 Deferred tax liabilities

	31-Dec-2010	31-Dec-2009	Changes
Deferred tax liabilities	6,022	42,350	-36,328
Other IAS/IFRS deferred liabilities	70,121	90,451	-20,330
Total	76,143	132,801	-56,658

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. In particular, said payables refer to the application of the following standards:

	31-Dec-2010	31-Dec-2009	Changes
IAS 38 Intangible Assets	47	5	42
IAS 37 Restoration of third-party assets and landfill post-closure	23,461	25,929	-2,468
IAS 16 Fixed assets	36,551	35,656	895
IAS 17 Financial Leasing	4,023	4,305	-282
IAS 19 Employee leaving indemnity and other employee benefits	5,442	5,304	138
IAS 39 Derivatives	597	1,691	-1,094
IFRS 3 Business Combinations	0	17,561	-17,561
Total	70,121	90,451	-20,330

The item "IFRS 3 Business Combinations", as at 31 December 2009, refers to the transfer of business units by Area Asset Spa and Con.Ami Spa, resulting in the posting of higher or lower values in assets which are not recognised for tax purposes.

The decrease in "Deferred tax liabilities" compared to the previous year, Euro 56,658 thousand, is attributable for Euro 50,486 to the reversal to the income statement of deferred tax liabilities recorded in the previous year, the item "IFRS 3 Business Combinations", for Euro 17,561 thousand and to the item "Deferred tax payables", for Euro 32,925 thousand) due to the effect of the tax sheltering of higher values recognised in the 2009 financial statements through the payment of substitute tax. In this regard, see Note 15 to the income statement.

34 Financial leasing payables

	31-Dec-2010	31-Dec-2009	Changes
Financial leasing payables	13,481	16,527	-3,046
Total	13,481	16,527	-3,046

This item represents the recording of payables arising from the accounting of leasing transactions using the financial method. The change compared with the previous year is due to the payment of the rentals accrued during the period and the early redemption of some contracts regarding a Group company.

The balance as at 31 December 2010 is shown below, broken down between the short-term and long-term portions.

	Residual amount	Short-term portion	Long-term portion
Financial leasing payables	13,481	4,599	8,882
Total	13,481	4,599	8,882

35 Trade payables

	31-Dec-2010	31-Dec-2009	Changes
Trade payables	527,667	500,154	27,513
Payables due to suppliers for invoices to be issued	513,683	521,305	-7,622
Payables for advances received	14,477	9,570	4,907
Payables due to non-consolidated subsidiaries	81	175	-94
Payables due to associates	5,095	17,010	-11,915
Total	1,061,003	1,048,214	12,789

“Trade payables”, all of a commercial nature and inclusive of sums set aside to cover invoices due, total Euro 1,041,350 thousand as at 31 December 2010 compared to Euro 1,021,459 thousand as 31 December 2009.

“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:

- Modena Network Spa, Euro 791 thousand;
- Set Spa, Euro 1,543 thousand;
- SoSel Spa, Euro 1,753 thousand;
- Estense Global Service Scarl, Euro 200 thousand;
- Service Imola Srl, Euro 785 thousand.

The decrease compared to 31 December 2009 is mainly due to the consolidation of Flame Energy Trading GmbH and to the reduced debt exposure to Set Spa.

36 Income tax liabilities

	31-Dec-2010	31-Dec-2009	Changes
Excise and additional regional taxes	44,013	25,741	18,272
Substitute tax	25,434	7,220	18,214
Income tax due	13,682	9,273	4,409
Value added tax	11,075	9,492	1,583
Withholding tax at source	10,340	9,869	471
Sewage fee	570	569	1
Other tax liabilities	19,388	18,049	1,339
Total	124,502	80,213	44,289

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

“Excise and additional regional taxes” payables increased compared to 31 December 2009. For an explanation please see note 27 of the assets “other current assets”, and particularly the mechanism that governs the financial relations with the Tax Authority.

For “Substitute tax”, please refer to note 15 on income taxes. The payable as at 31 December 2009 related mainly to the option set out in art. 1, paragraph 48 of Law no. 244/2007 which Hera Spa has already adhered to from 31 December 2007, a payable fully settled in 2010.

As regards “Income tax due”, the increase compared to 31 December 2009 is attributable to the setting aside of taxes accrued on the income generated during the period.

37 Other current liabilities

	31-Dec-2010	31-Dec-2009	Changes
Capital grants	64,130	61,923	2,207
Guarantee deposits	61,652	60,614	1,038
Personnel	26,442	24,177	2,265
Payables due to social security and welfare institutions	22,215	17,669	4,546
Payables due to shareholders for dividends	5,894	7,364	-1,470
Equalisation Fund for electricity service	5,587	2,123	3,464
Payables due to municipalities for environmental disruption and establishment of guarantees	5,572	6,004	-432
Third-party project and study work	4,804	6,823	-2,019
Insurance and deductibles	2,911	4,681	-1,770
Customers	1,354	1,394	-40
Directors, Statutory Auditors and Committees for the Territory	180	237	-57
Other liabilities	29,309	30,319	-1,010
Total	230,050	223,328	6,722

Comments are provided below on the most significant items and the associated changes as at 31 December 2009:

The increase in “capital grants” is mainly due to the completion of some investments in the Integrated Water Cycle. This item will decrease in future periods in proportion to the amount of depreciation calculated on the assets referred.

Payables for “guarantee deposits” reflect the sums paid by customers for gas, electricity, and water administration agreements. The increase compared to 31 December 2009 is attributable almost entirely to the acquisition of new customers.

The item “Personnel” relates to holidays accrued but not yet taken as at 31 December 2010, productivity bonus and accrued salaries recorded.

“Payables due to social security and welfare institutions” relate to contributions due to these institutions for the month of December.

“Payables due to shareholders for dividends” refer to the Parent Company Hera Spa (Euro 1,288 thousand) and to the subsidiary Fea Srl (Euro 4,606 thousand) towards the minority shareholder.

As regards the Equalisation Fund for electricity service, the increase compared to the previous year mainly concerns the equalisation of the electricity sector.

As regards “Insurance and deductibles”, the decrease is in line with the fall in costs (see note 7 “Service costs”).

IFRS 8

Income statement for 2010

	Gas	Elect.	Water Cycle	Waste Managemen t	Other Services	Structure	Total	Consolidated Financial Statements
Direct revenues	1,182.2	1,393.8	562.0	619.3	75.1	44.9	3,877.3	3,877.3
Infra-cycle revenues	43.4	70.6	7.8	51.9	23.4	12.7	209.7	
Total direct revenues	1,225.6	1,464.4	569.8	671.2	98.5	57.6	4,087.0	3,877.3
Indirect revenues	11.6	3.9	9.4	31.9	0.9	-57.6	0.0	
Total revenues	1,237.1	1,468.3	579.2	703.1	99.4	0.0	4,087.0	3,877.3
EBITDA	193.9	59.8	142.0	195.1	16.4	0.0	607.3	607.3
Direct Deprec., Amort. and Prov.	49.9	28.0	61.6	97.0	18.0	37.4	291.9	291.9
Indirect Deprec., Amort. and Prov.	9.0	5.2	10.7	11.1	1.4	-37.4		
Total Deprec., Amort. and Prov.	58.9	33.2	72.3	108.2	19.3	0.0	291.9	291.9
EBIT	135.0	26.6	69.7	86.9	-2.9	0.0	315.4	315.4

Income statement for 2009

	Gas	Elect.	Water Cycle	Waste Managemen t	Other Services	Structure	Total	Consolidated Financial Statements
Direct revenues	1,202.0	1,929.7	564.5	580.6	86.9	72.2	4,436.0	4,436.0
Infra-cycle revenues	75.8	74.0	9.0	38.3	22.8	4.3	224.2	
Total direct revenues	1,277.8	2,003.7	573.5	618.9	109.7	76.5	4,660.2	4,436.0
Indirect revenues	12.9	28.8	10.2	23.1	1.5	-76.5	0.0	
Total revenues	1,290.7	2,032.5	583.7	642.1	111.2	0.0	4,660.2	4,436.0
EBITDA	174.4	53.0	131.4	187.3	21.1	0.0	567.3	567.3
Direct Deprec., Amort. and Prov.	52.5	21.1	60.8	82.9	17.9	40.8	276.0	276.0
◆Indirect Deprec., Amort. and Prov.	10.0	5.6	11.5	12.1	1.6	-40.8		
Total Deprec., Amort. and Prov.	62.5	26.7	72.3	95.0	19.5	0.0	276.0	276.0
EBIT	111.9	26.3	59.1	92.3	1.6	0.0	291.3	291.3

Balance Sheet December 2010

	Net Working Capital	Net Fixed Assets	Provisions	Shareholders' equity	Net Financial Position	Consolidated Financial Statements
Total Assets	1,400.0	4,186.4	0.0	0.0	614.8	6,201.2
Financial assets and cash and cash equivalents					614.8	614.8
Tax assets	30.7	84.3				115.0
Non-allocated Group assets		338.4				338.4
Sector Assets	1,369.3	3,763.7	0.0	0.0	0.0	5,133.0
- 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
Waste Management	247.6	1,129.5				1,377.0
Other Services	49.1	137.0				186.0
Total Liabilities	1,429.1	44.1	382.8	1,870.2	2,475.0	6,201.2
Financial assets 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
Sector Liabilities	1,304.6	0.0	304.8	0.0	0.0	1,609.4
- of which:						
GAS	422.0		72.1			494.2
Electricity	356.0		14.9			370.9
Water Cycle	192.9		63.5			256.4
Waste Management	290.0		147.6			437.6
Other Services	43.7		6.6			50.3
Grand Total	-29.1	4,142.3	-382.8	-1,870.2	-1,860.2	0.0

Balance Sheet December 2009

	Net Working Capital	Net Fixed Assets	Provisions	Shareholders' equity	Net Financial Position	Consolidated Financial Statements
Total Assets	1,432.1	4,027.1	0.0	0.0	382.7	5,842.0
Financial assets and cash and cash equivalents					382.7	382.7
Tax assets	40.9	73.6				114.5
Non-allocated Group assets		319.1				319.1
Sector Assets	1,391.2	3,634.4	0.0	0.0	0.0	5,025.7
- of which:						
GAS	462.1	883.0				1,345.0
Electricity	406.8	498.5				905.4
Water Cycle	182.8	1,026.1				1,208.9
Waste Management	286.7	1,083.0				1,369.7
Other Services	52.8	143.8				196.7
Total Liabilities	1,406.4	40.4	420.0	1,700.7	2,274.4	5,842.0
Financial assets and loans					2,274.4	2,274.4
Tax liabilities	80.2		132.8			213.0
Non-allocated Group liabilities		40.4	2.4	1,700.7		1,743.6
Sector Liabilities	1,326.2	0.0	284.8	0.0	0.0	1,611.0
- of which:						
GAS	506.1		61.6			567.7
Electricity	329.1		14.1			343.2
Water Cycle	171.4		59.4			230.8
Waste Management	284.4		141.1			425.5
Other Services	35.3		8.6			43.8
Grand Total	25.8	3,986.8	-420.0	-1,700.7	-1,891.8	0.0

Guarantees provided

	31-Dec-2010	31-Dec-2009
Bank sureties and guarantees:	370,591	357,995
Insurance sureties and guarantees:	301,777	269,690
Total	672,368	627,685

As regards bank sureties and guarantees, the value as at 31 December 2010 is broken down as follows:

- Euro 219,250 thousand for sureties to Public Institutions (Ministry of the Environment, Emilia Romagna Region, various Provinces and Municipalities) to guarantee the correct management of plants for the treatment of waste, landfills and depositaries, for the proper execution of services relating to the disposal of waste, reclamation works and managerial and post-operating activities;
- Euro 92,081 thousand for sureties issued on behalf of Hera Comm and Hera Trading to guarantee the timely payment for supplies of raw materials;
- Euro 9,074 thousand for sureties issued on behalf of subsidiaries Acantho Spa, Gal.A Spa, Medea Spa, Asa Spa, Hera Servizi Funerari Srl to third parties, to guarantee the correct fulfilment of contractual commitments;
- Euro 48,750 thousand for the guarantee issued by the Parent Company to associate Set Spa, to guarantee a loan granted by the same Banca Infrastrutture Innovazione e Sviluppo Spa;
- Euro 856 thousand for sureties issued to the Inland Revenue for the reimbursement of VAT credits on behalf of subsidiary Romagna Compost Srl;
- Euro 580 thousand for the surety issued in the interest of associate Oikothen Scarl to guarantee a loan granted by Banca BNP Paribas.

As regards bank sureties and guarantees, the value as at 31 December 2010 is broken down as follows:

- Euro 301,777 thousand for sureties issued to Public Institutions (various Provinces and Municipalities in the Emilia Romagna and Marche Regions, Ministry of the Environment) and third parties, to guarantee the correct management of public utility services, waste disposal services, the proper execution of crossing works with company operators on privately owned roads, reclamation works, plant managerial activities for waste treatment (including post-operating) and waste landfill activities.

With regard to the other commitments, we note the following:

	31-Dec-2010	31-Dec-2009
Commitments		
Third party assets in use by the Hera Group	1,222,165	1,229,572
Collateral security in favour of third parties	171,837	234,253
Other	5,595	5,342
Total	1,399,597	1,469,167

- Third party assets in use by the Hera Group may be broken down as follows:
 - Euro 1,114,170 thousand for assets used by the Parent Company by way of concession or lease of business unit;
 - Euro 88,168 thousand for assets used by the Marche Multiservizi Group by way of lease of a business unit for the gas service;
 - Euro 15,690 thousand for assets used by subsidiary Medea by way of concession for the gas networks of the Municipality of Sassari;
 - Euro 4,137 thousand for assets leased from Herambiente by CON.AMI and the associated plant engineering of the Tre Monti landfill in Imola (Bo).
- “Collateral security to third parties” includes:
 - Mortgages and special liens on land, plants and machinery recorded by the subsidiary Fea Srl in favour of the pool of banks that subscribed the project financing for Euro 150,000 thousand;
 - Mortgages guaranteeing the loan of the subsidiary Nuova Geovis Srl for Euro 4,156 thousand;
 - Mortgages on the building of the Marche Multiservizi Spa Group, due to the financial institution awarding the loan for Euro 17,681 thousand;
- “Other commitments”, equal to Euro 5,595 thousand, include salary-backed loans and small employee loans.

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) since 1 July 2006.

Other public utilities (including urban heating, heat management and public illumination) are carried out under the market system or through specific agreements with relevant local bodies. 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.

It should be noted that, since 1 January 2009, the transfer to Romagna Acque of a business unit for the management of water production plants in the AATO territories of Forlì-Cesena, Ravenna, Rimini was completed. This transaction was made possible based on art. 14 of regional law no. 25 of 6 July 1999, which establishes that if a company, whose majority shareholders are the local agencies, and that owns collection, primary supply and distribution plants, and is a wholesale supplier of integrated water service of more than one environmental agency (AATO), the latter can assume direct management of said plants and networks.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, implementing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the Directors' Report. Hera Spa has longer residual terms than those set out for managing entities that have promoted partial privatisations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing.

The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. The gas distribution tariffs are set in accordance with the regulations in force and with the deliberations adopted from time to time by the Italian Authority for 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 (expiry of the concession in the year 2030 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 the tariffs set by regulations in force and resolutions adopted by the Italian Authority for Electricity and Natural Gas to the consumers. The regulatory tariffs currently in force are contained in 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 services, 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 to service provision. 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, must be approved 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 relationships with users are mainly governed by regulations applicable in the sector, measures laid out by the regional legislator and the Agencies for the area. The operator's obligations in terms of service quality and resources, as well as the rights of users, are described in the relevant service charters drawn up by the operator, according to a scheme of reference approved by the Agencies.

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, 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.

Values shown in the table as at 31 December 2010, refer to the related parties hereunder:

Group A. Related parties – subsidiary companies which are not consolidated:

Ingenia Srl
Hera Servizi Cimiteriali Srl
Consorzio Frullo in liquidation
Consorzio Energia Servizi Bologna in liquidation;
Calorpiù Italia Scarl in liquidation

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

Italcic Srl
Modena Network Spa
Aimag Spa
Natura Srl
Tamarete Energia Srl
Enomondo Srl
Adriatica Acque Srl
Estense Global Service Soc.Cons.a r.l.
So.Sel Spa
Oikothen Scrl
Service Imola Srl
Set Spa
Refri Srl
Sgr Servizi Spa
Dina Green Srl
Feronia Srl
Sei Spa
Ghirlandina Solare Srl
VNG Verbundnetz Gas Aktiengesellschaft

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
Cic Consorzio Italiano Compostatori
Galsi Spa
Ambiente Arancione Cooperatief U.A.

2.04 Net financial indebtedness

2.04.01 Consolidated net financial indebtedness

(in millions of €)		31-Dec-10	31-Dec-09
a	Cash	538.2	350.3
b	Other current financial receivables	44.3	20.7
	Current bank liabilities	-58.4	-22.5
	Current portion of bank indebtedness	-71.1	-75.1
	Other current financial liabilities	-16.6	-14.3
	Financial leasing payables – maturing within the next year	-4.6	-7.1
c	Current financial indebtedness	-150.7	-119.1
d=a+b+c	Net current financial indebtedness	431.8	251.9
e	Non-current financial receivables	10.3	10.1
	Non-current bank liabilities	-345.8	-394.0
	Bonds issued	-1,787.3	-1,631.5
	Other non-current financial liabilities	-160.4	-118.9
	Financial leasing payables – maturing beyond the next year	-8.8	-9.4
f	Non-current financial indebtedness	-2,302.3	-2,153.8
g=e+f	Net non-current net financial indebtedness	-2,292.0	-2,143.7
h=d+g	Net financial indebtedness	-1,860.2	-1,891.8

2.04.02 Net financial indebtedness – resolution no. 15519 of 2006

(millions of €)		31-dic-10	of which related				31-dic-09	of which related			
			A	B	C	D		A	B	C	D
a	Cash	538.2					350.3				
b	Other current financial receivables	44.3					20.7				
	<i>of which Related Parties</i>										
	Current bank liabilities	-58.4					-22.5				
	Current portion of bank indebtedness	-71.1					-75.1				
	Other current financial liabilities	-16.6					-14.3				
	Financial leasing payables maturing within the next year	-4.6					-7.1				
c	Current financial indebtedness	-150.7					-119.1				
d=a+b+c	Net current financial indebtedness	431.8					251.9				
e	Non-current financial receivables	10.3					10.1				
	<i>of which Related Parties</i>										
	Non-current bank liabilities	-345.8					-394.0				
	Bonds issued	-1,787.3					-1,631.5				
	Other non-current financial liabilities	-160.4					-118.9				
	Financial leasing payables maturing beyond the next year	-8.8					-9.4				
f	Non-current financial indebtedness	-2,302.3					-2,153.8				
g=e+f	Net non-current financial indebtedness	-2,292.0					-2,143.7				
	<i>of which Related Parties</i>										
h=d+g	Net financial indebtedness	-1,860.2					-1,891.8				
	<i>of which Related Parties</i>										

Changes to related parties:

Hera Spa has granted an interest-bearing loan to Tamarete Energia Srl	23.7	12.5
Herambiente has granted an interest-bearing loan to società Refri Srl	0.2	
Herambiente has granted an interest-bearing loan to Enomondo Srl	4.1	
Acantho Spa has granted an interest-bearing loan to Modena Network Spa	0.9	0.9
Hera Spa has granted an interest-bearing loan to Modena Network Spa	1.0	1.0
Hera Spa has granted an interest-bearing loan to Oikothén Scrl	0.3	1.8
Hera Spa has granted an interest-bearing loan to Set Spa	5.9	4.8
Hera Spa has granted an interest-bearing loan to Sei Spa	2.8	2.5
Hera Energie Rinnovabili Spa has granted an interest-bearing loan to Ghirlandina Solare Srl	0.4	
	39.3	23.5

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

2.05 Equity investments

2.05.01 List of consolidated companies

Subsidiary companies

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Parent Company: Hera Spa	Bologna	1,115,013,754			
Acantho Spa	Imola (Bo)	22,500,000	79.94%		79.94%
Acque Srl	Pesaro	102,700		40.64%	40.64%
Akron Spa	Imola (Bo)	1,152,940		43.13%	43.13%
ASA Scpa	Castelmaggiore (Bo)	1,820,000		38.25%	38.25%
Consorzio Akhea Fondo Consortile	Bologna	200,000		59.38%	59.38%
Eris Scrl	Ravenna	300,000		51.00%	51.00%
Famula On-line Spa	Bologna	4,364,030	100.00%		100.00%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Gal.A. Spa	Bologna	300,000		45.00%	45.00%
HeraAmbiente Spa	Bologna	271,148,000	75.00%		75.00%
Hera Comm Srl	Imola (Bo)	53,136,987	100.00%		100.00%
Hera Comm Marche Srl	Urbino (Pu)	1,458,332		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 Spa	Bologna	2,218,368	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%
SIS Società Intercomunale di Servizi Spa	Pesaro	103,300		16.97%	16.97%
Sotris Spa	Ravenna	2,340,000	5.00%	52.50%	57.50%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%

Associated companies

Name	Registered office	Share capital	% 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%
Dyna Green Srl	Milan	30,000		33.00%	33.00%
Enomondo Srl	Faenza (Ra)	14,000,000		30.00%	30.00%
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%
Oikothen Scarl	Syracuse	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	Milan	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

Jointly controlled companies

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
FlamEnergy Trading Gmbh	Vienna	3,000,000		50.00%	50.00%

2.05.02 List of significant investments

Direct equity investments of Hera Spa as at 31.12.10

	Equity investments in Euro	Equity investments in %
ACANTHO SpA share capital EUR 22,500,000 fully paid in– an investee company of Hera Spa since 2000		
REGISTERED OFFICE: Via Molino Rosso no. 8 - 40026 IMOLA (BO)		
Shareholders		
Hera Spa	14.048.053	62,44%
<i>Hera Spa entered into an agreement on 31 December 2010, undertaking to acquire Infracom Italia Spa's entire interest in Acantho Spa, thereby increasing its investment to 79.936% of the share capital.</i>		
AIMAG Spa share capital EUR 78,027,681 fully paid in, comprised of 67,577,681 ordinary shares and 10,450,000 related shares - an investee company of Hera SpA since 10 November 2009		
REGISTERED OFFICE: Via Maestri del Lavoro no. 38 - 41037 Mirandola (MO)		
Ordinary shareholders		
Hera Spa	16.894.420	25,00%
CALENIA ENERGIA SpA share capital EUR 100,000 fully paid in – an investee company of Hera Spa since 23 September 2004		
REGISTERED OFFICE: Via Antica Fiumara no. 6 - GENOA		
Shareholders		
Hera Spa	15.000	15,00%
ENERGIA ITALIANA Spa share capital EUR 26,050,000 fully paid in - an investee company of HERA Spa since 2001		
REGISTERED OFFICE: Via V. Viviani no. 12 - 20124 MILAN		
Shareholders		
Hera Spa	2.865.500	11,00%
FAMULA ON-LINE Spa share capital EUR 4,364,030 fully paid in - an investee company of HERA Spa since 2001		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 BOLOGNA		
Shareholders		
HERA Spa	4.364.030	100,00%
HERAMBIENTE SpA share capital EUR 271,148,000 fully paid in - an investee company of Hera Spa since October 2004.		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 BOLOGNA		
Shareholders		
HERA Spa	203.361.000	75,00%
HERA COMM Srl share capital EUR 53,136,987.42 fully paid in - an investee company of HERA Spa since 2001		
REGISTERED OFFICE: Via Molino Rosso no. 8 - 40026 IMOLA (BO)		
Shareholders		
HERA Spa	53.136.987	100,00%

HERA ENERGIE RINNOVABILI Spa share capital EUR 1,832,000 fully paid in - an investee company of HERA Spa since 27 April 2005.

REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 BOLOGNA

Shareholder
HERA Spa

1.832.000 100,00%

HERA LUCE Srl- Share capital Euro 1,000,000 fully paid in - an investee company of Hera Spa since 2000

REGISTERED OFFICE: Via Due Martiri no. 2 - 47030 S. MAURO PASCOLI (FC)

Shareholders
HERA Spa

895.807 89,58%

HERA SERVIZI FUNERARI Srl share capital EUR 10,000 fully paid in - an investee company of HERA Spa since 22 December 2005

REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 BOLOGNA

Shareholder
HERA Spa

10.000 100,00%

HERA SERVIZI CIMITERIALI Srl share capital EUR 20,000 fully paid in - an investee company of HERA Spa since 22 December 2010

REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 BOLOGNA

Shareholder
HERA Spa

20.000 100,00%

HERASOCREM Spa share capital EUR 2,218,368 fully paid in - an investee company of HERA Spa since 10 July 2003

REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 BOLOGNA

Shareholders
HERA Spa

1.131.368 51,00%

HERA TRADING Srl share capital EUR 22,600,000 fully paid in - an investee company of HERA Spa since 2001

REGISTERED OFFICE: Via Molino Rosso no. 8 40026 IMOLA (BO)

Shareholder
HERA Spa

22.600.000 100,00%

MARCHE MULTISERVIZI Spa share capital EUR 13,450,012 fully paid in - an investee company of HERA Spa since 2002

REGISTERED OFFICE: Via dei Canonici no. 144 - 61100 Pesaro (PU)

Shareholders
HERA Spa

5.466.565 40,64%

MEDEA Spa share capital EUR 4,500,000 fully paid in - an investee company of HERA Spa since 1 July 2003

REGISTERED OFFICE: Via Torres no. 4 - 07100 SASSARI

Shareholder
HERA Spa

4.500.000 100,00%

MODENA NETWORK Spa share capital EUR 3,000,000 fully paid in - an investee company of HERA Spa since 31 December 2005

REGISTERED OFFICE: Via Razzaboni no. 80 - 41100 MODENA

Shareholders
HERA Spa

420.000 14,00%

OIKOTHEN Scarl share capital EUR 1,101,730 fully paid in - a company owned by HERA Spa since 9 November 2007

REGISTERED OFFICE: Via Augusta no. 17 - 96100 SIRACUSA

Shareholders
HERA Spa

507.892 46,10%

SEI Spa share capital EUR 120,000 fully paid in - an investee company of HERA Spa since 9 May 2008

REGISTERED OFFICE: Via Uberti no. 37 - 20129 MILAN

Shareholders		
HERA Spa	24.000	20,00%

SERVICE IMOLA Srl share capital EUR 10,000 fully paid in - an investee company of HERA Spa since 1 November 2002

REGISTERED OFFICE: Via Allende no. 39 - 40021 BORGIO TOSSIGNANO (BO)

Shareholders		
HERA Spa	4.000	40,00%

SET Spa share capital EUR 120,000 fully paid in - an investee company of HERA Spa since 15 December 2004

REGISTERED OFFICE: Viale Bianca Maria no. 15 - 20122 MILAN

Shareholders		
HERA Spa	46.800	39,00%

TAMARETE ENERGIA Srl share capital EUR 3,600,000 fully paid in - an investee company of HERA Spa since 16 December 2008

REGISTERED OFFICE: Contrada Tamarete s.n.c. - ORTONA (CH)

Shareholders		
HERA Spa	1.152.000	32,00%

UNIFLOTTE Srl share capital EUR 2,254,177 fully paid in - an investee company of HERA Spa since 2001

REGISTERED OFFICE: Viale Masini no. 42 - 40126 BOLOGNA

Shareholders		
HERA Spa	2.186.551	97,00%

Indirect equity investments

Equity investment of Acantho Spa:		
WIMAXER Spa share capital EUR 500,000 fully paid in. An investee company of ACANTHO Spa since 6 May 2008		
REGISTERED OFFICE: Via Molino Rosso no. 8 - 40026 IMOLA (BO)		
Shareholders	Equity investments in Euro	Equity investments in %
Acantho Spa	125,000	25.00%
Equity investment of Herambiente Spa:		
A.S.A. Scpa share capital EUR 1,820,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Via Saliceto no. 43/A - 40013 CASTEL MAGGIORE (BO)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	928,200	51.00%
AKRON Spa share capital EUR 1,152,940 fully paid in. An investee company of HERAMBIENTE Spa since 10 July 2009		
REGISTERED OFFICE: Via Molino Rosso no. 8 - 40026 IMOLA (BO)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	662,940	57.50%
ENOMONDO Srl share capital EUR 14,000,000 fully paid in. An investee company of HERAMBIENTE Spa since 31 December 2010		
REGISTERED OFFICE: Via Convertite no. 12 - 48018 Faenza (RA)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	5,600,000	40.00%
FERONIA Srl share capital EUR 2,430,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Piazza Verdi no. 6 - 41034 Finale Emilia (MO)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	972,000	40.00%
FRULLO ENERGIA AMBIENTE Srl share capital EUR 17,139,100 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 BOLOGNA		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	8,740,941	51.00%
GAL.A Spa share capital EUR 300,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 BOLOGNA		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	180,000	60.00%
NUOVA GEOVIS Spa share capital EUR 2,205,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Via Romita no. 1 - 40019 Sant'Agata Bolognese (BO)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	1,124,550	51.00%
REFRI Srl share capital EUR 6,800,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Via Meuccio Ruini no. 10 - 42100 REGGIO EMILIA		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	1,360,000	20.00%
ROMAGNA COMPOST Srl share capital EUR 3,560,002 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: Via Cesare Spinelli no. 60 - 47023 CESENA (FC)		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	2,136,004	60.00%
SOTRIS Spa share capital EUR 2,340,000 fully paid in. An investee company of HERAMBIENTE Spa since 1 July 2009		
REGISTERED OFFICE: S.S. 309 Romea Km. 2.6 no. 272 - 48100 RAVENNA		
Shareholders	Equity investments in Euro	Equity investments in %
HERAMBIENTE Spa	1,638,000	70.00%
HERA Spa	117,000	5.00%

Equity investment of Hera Comm Srl:

ADRIATICA ACQUE Srl share capital EUR 89,033 fully paid in. An investee company of HERA COMM Srl since 23 November 2005

REGISTERED OFFICE: Via Circonvallazione Meridionale no. 56 - 47900 RIMINI

Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM Srl	19,872	22.32%
Marche Multiservizi Spa	6,838	7.68%

ERIS Scarl share capital EUR 300,000 fully paid in. An investee company of HERA COMM Srl since 28 September 2004

REGISTERED OFFICE: Via Romea Nord 180/182 - 48100 RAVENNA

Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM Srl	153,000	51.00%

ESTENSE GLOBAL SERVICE Scarl share capital EUR 10,000 fully paid in. An investee company of HERA COMM Srl since 27 September 2007

REGISTERED OFFICE: Via M.N. Plattis no. 5/c - 44100 FERRARA

Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM Srl	2,300	23.00%

HERA COMM MEDITERRANEA Srl share capital EUR 250,000 fully paid in. An investee company of HERA COMM Srl since 5 February 2007

REGISTERED OFFICE: Zona Industriale ASI Nord - 81032 Carinara (CE)

Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM Srl	125,025	50.01%

HERA ENERGIE Srl share capital EUR 926,000 fully paid in. An investee company of HERA COMM Srl since 30 June 2005

REGISTERED OFFICE: Via dell'Elettricista 2 - 40138 BOLOGNA

Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM Srl	472,260	51.00%

HERA COMM MARCHE Srl share capital EUR 1,458,332 fully paid in. An investee company of HERA COMM Srl since 28 July 2008

REGISTERED OFFICE: Via Sasso no. 120 - 61029 Urbino (PU)

Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM Srl	875,000	60.00%

SGR Servizi Spa share capital EUR 5,982,262 fully paid in. An investee company of HERA COMM Srl since 17 May 2005

REGISTERED OFFICE: Via Chiabrera no. 34/b - 47900 RIMINI

Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM Srl	1,771,062	29.61%

SINERGIA Srl share capital EUR 579,600 fully paid in. An investee company of HERA COMM Srl since 19 December 2005

REGISTERED OFFICE: Via Righi no. 1 - 47100 FORLI' (FC)

Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM Srl	341,964	59.00%

SO.SEL Spa share capital EUR 240,240 fully paid in. An investee company of HERA COMM Srl since 15 September 2009

REGISTERED OFFICE: Via Bellinzona no. 37/F - 41100 MODENA

Shareholders	Equity investments in Euro	Equity investments in %
HERA COMM Srl	62,462	26.00%

Equity investment of Hera Energie Rinnovabili Spa:		
Ghirlandina Solare Srl share capital EUR 60,000 fully paid in. An investee company of Hera Energie Rinnovabili Spa since 19 July 2010		
REGISTERED OFFICE: Via A. Grandi no. 39 - Concordia sulla Secchia (MO)		
Shareholders	Equity investments in Euro	Equity investments in %
Hera Energie Rinnovabili Spa	19,800	33.00%
Equity investment of Hera Trading Srl:		
GALSI Spa share capital EUR 37,242,300 fully paid in. An investee company of HERA Trading Srl since 2003		
REGISTERED OFFICE: Foro Buonaparte no. 31 - 20100 MILAN		
Shareholders	Equity investments in Euro	Equity investments in %
Hera Trading Srl	3,874,920	10.40%
DYNA GREEN Srl share capital EUR 30,000 fully paid in. An investee company of HERA Trading Srl since 22 November 2005		
REGISTERED OFFICE: Via Boschetti no. 6 - 20121 MILAN		
Shareholders	Equity investments in Euro	Equity investments in %
Hera Trading Srl	10,000	33.33%
FlameEnergy Trading GmbH share capital EUR 3,000,000 fully paid in. An investee company of HERA Trading Srl since 19 April 2006		
REGISTERED OFFICE: VIENNA (Austria)		
Shareholders	Equity investments in Euro	Equity investments in %
Hera Trading Srl	1,500,000	50.00%
Equity investment of Marche Multiservizi Spa:		
ACQUE Srl share capital EUR 102,700 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 1996		
REGISTERED OFFICE: Via dei Canonici no. 144 - 61100 Pesaro (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
MARCHE MULTISERVIZI Spa	102,700	100.00%
MMS Ecologica Srl share capital EUR 95,000 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 25 November 2009		
REGISTERED OFFICE: Via dei Canonici no. 144 - 61100 Pesaro (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
MARCHE MULTISERVIZI Spa	95,000	100.00%
SIS Società Intercomunale di Servizi Spa share capital EUR 103,300 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 1 November 2002		
REGISTERED OFFICE: Piazza Municipio no. 1 - 61020 Montecalvo in Foglia (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
MARCHE MULTISERVIZI Spa	43,128	41.75%
NATURAMBIENTE Srl share capital EUR 50,000 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 14 July 2010		
REGISTERED OFFICE: Via dei Canonici no. 144 - 61100 Pesaro (PU)		
Shareholders	Equity investments in Euro	Equity investments in %
MARCHE MULTISERVIZI Spa	50,000	100.00%

Direct and indirect equity investments in liquidation as at 31 December 2010

Equity investments of Hera Spa:		
INGENIA Srl share capital EUR 52,000 fully paid in. An investee company of HERA Spa since 1 November 2002		
In liquidation since 18 December 2009		
REGISTERED OFFICE: Via Correcchio no. 4 - 40026 IMOLA (BO)		
Shareholders	Equity investments in	Equity investments in
	Euro	%
HERA Spa	38,480	74.00%
ITALCIC Scarl share capital EUR 90,000 fully paid in. An investee company of HERA Spa since 31 December 2005		
In liquidation since 20 October 2009		
REGISTERED OFFICE: Via Razzaboni no. 80 - 41100 MODENA		
Shareholders	Equity investments in	Equity investments in
	Euro	%
HERA Spa	30,000	33.33%
Equity investments of Hera Comm Srl:		
CALORPIU' ITALIA Scarl share capital EUR 10,000 fully paid in. An investee company of HERA COMM Srl since 26 September 2006		
In liquidation since 1 January 2009		
REGISTERED OFFICE: Via Razzaboni no. 80 - 41100 MODENA		
Shareholders	Equity investments in	Equity investments in
	Euro	%
HERA COMM Srl	5,100	51.00%
Equity investments of Marche Multiservizi Spa:		
Acquagest Srl share capital EUR 51,480 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 1 January 2008		
In liquidazione		
REGISTERED OFFICE: Via degli Abeti no. 120 - 61100 PESARO (PU)		
Shareholders	Equity investments in	Equity investments in
	Euro	%
MARCHE MULTISERVIZI Spa	10,296	20.00%
Provincia Fiorita Srl share capital EUR 25,000 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 1 January 2008		
In liquidation since 10 June 2010		
REGISTERED OFFICE: Via Sasso no. 62 - 61043 Cagli (PU)		
Shareholders	Equity investments in	Equity investments in
	Euro	%
MARCHE MULTISERVIZI Spa	7,500	30.00%
NATURA Srl share capital EUR 10,000 fully paid in. An investee company of MARCHE MULTISERVIZI Spa since 1 January 2008		
In liquidation since 5 August 2010		
REGISTERED OFFICE: Via Don Minzoni no. 44 - 61043 Cagli (PU)		
Shareholders	Equity investments in	Equity investments in
	Euro	%
MARCHE MULTISERVIZI Spa	4,600	46.00%

2.05.03 Financial statement highlights of subsidiaries and associated companies

Subsidiary companies

Subsidiaries	Fixed assets	Working assets	Share capital	Reserves	Profit+ Loss	Provisions	Provision for employee leaving indemnities	Payables
Acantho Spa	41,533	41,696	22,500	925	51	100	641	59,012
Akron Spa	9,619	30,150	1,153	3,314	5,148	234	458	29,462
ASA S.P.A	4,570	13,308	1,820	1,094	7	13,387	128	1,442
Consorzio Akhea Fondo Consortile	-	228	200	-	-	-	-	28
Eris Srl	2,487	4,259	300	555	319	7	-	5,565
Famula On-line Spa	6,160	38,814	4,364	7,941	231	137	1,219	31,082
Frullo Energia Ambiente Srl	113,892	21,647	17,139	11,080	14,466	6	1,254	91,595
Gal.A. Spa	10,722	586	300	60	31	1,392	-	9,525
Hera Comm Srl	62,228	891,803	53,137	650	13,382	3,559	5,450	877,854
Hera Comm Marche Srl	366	28,211	1,458	728	2,272	171	8	23,939
Hera Comm Mediterranea Srl	60	26,452	250	12	161	-	32	26,057
HERA Energie Rinnovabili Spa	10,230	2,799	1,832	-53	70	-	-	11,180
Hera Energie Srl	4,763	7,949	926	1,150	935	-	16	9,686
Hera Luce Srl	8,750	23,187	1,000	4,943	3,150	9,461	961	12,423
Hera Servizi Funerari Srl	184	1,258	10	2	473	-	7	950
Herasocrem Spa	42	1,780	2,218	-449	-289	-	110	231
Hera Trading Srl	19,075	636,701	22,600	1,727	19,481	280	168	611,520
Herambiente Srl	835,465	172,328	271,148	31,907	30,964	53,919	6,364	613,492
Marche Multiservizi Spa	92,627	39,428	13,450	5,493	4,092	19,349	7,294	82,378
Medea Spa	15,738	5,613	4,500	-1,443	206	870	152	17,065
Nuova Geovis Spa	13,240	8,506	2,205	2,439	807	415	254	15,626
Romagna Compost Srl	9,880	3,018	3,560	395	931	-	17	7,995
Sinergia Srl	2,311	5,658	580	2,469	1,002	-	198	3,719
Sotris Spa	11,381	12,182	2,340	3,732	835	9,873	80	6,704
Uniflotte Srl	2,695	13,982	2,254	353	688	399	3,036	9,947
Acque Srl	346	1,123	103	37	243	-	465	622
MMS Ecologica Srl	1,746	6,911	95	17	35	4,850	236	3,422
Naturambiente Srl	4,790	4,526	50	-	25	1,844	320	7,077
SIS Società Intercomunale di Servizi Spa	145	207	103	197	-	17	-	35

Cont.d

Subsidiaries	Value of production	Costs of production	Financial income (+) and charges (-)	Value adj. to assets	Extraordinary income (+) and charges (-)	Tax for the year	Net profit	
Acantho Spa	39,998	-39,195	-216	-	-	23	-514	51
Akron Spa	44,903	-37,246	-157	-		140	-2,492	5,148
ASA S.P.A	6,761	-6,950	95	-		110	-10	7
Consorzio Akhea Fondo Consortile	111	-111	1	-	-	-1		-
Eris Scrl	12,088	-11,630	-28	-		47	-158	319
Famula On-line Spa	39,078	-38,498	-15	-		117	-452	231
Frullo Energia Ambiente Srl	50,778	-24,940	-2,687	-		215	-8,901	14,466
Gal.A. Spa	1,462	-1,221	-175	-	-	-36		31
Hera Comm Srl	1,704,367	-1,688,013	3,835	-		796	-7,604	13,382
Hera Comm Marche Srl	67,277	-63,395	222	-		-10	-1,821	2,272
Hera Comm Mediterranea Srl	43,171	-42,728	77	-	-	-360		161
HERA Enegie Rinnovabili Spa	872	-655	106	-	-	-42		70
Hera Energie Srl	14,438	-13,077	79	-		-2	-503	935
Hera Luce Srl	42,508	-37,776	15	-	-	-1,598		3,150
Hera Servizi Funerari Srl	2,503	-1,810	-	-	-	-220		473
Herasocrem Spa	620	-1,026	15	-		-6	108	-289
Hera Trading Srl	1,699,788	-1,667,387	189	-418	-	-12,692		19,481
Herambiente Srl	336,938	-281,646	-9,686	-	-	-14,643		30,964
Marche Multiservizi Spa	90,527	-84,030	1,679	-631	276	-3,730		4,092
Medea Spa	7,447	-6,960	-355	-	193	-118		206
Nuova Geovis Spa	12,251	-10,858	-221	-	5	-370		807
Romagna Compost Srl	4,061	-2,431	-177	-	-50	-472		931
Sinergia Srl	8,922	-7,428	11	-	0	-503		1,002
Sotris Spa	11,220	-10,030	-17	-	146	-483		835
Uniflotte Srl	27,028	-25,784	48	-	19	-623		688
Acque Srl	2,195	-1,747	-2	-	-2	-201		243
MMS Ecologica Srl	8,625	-8,517	-8	-	-1	-64		35
Naturambiente Srl	1,575	-1,494	-2	-	-	-54		25
SIS Società Intercomunale di Servizi Spa	56	-49	-	-	-4	-3		-

Associated companies

Subsidiaries	Fixed assets	Working assets	Share capital	Reserves	Profit+ Loss -	Provisions	Provision for employee leaving indemnities	Payables
Adriatica Acque Srl	24	846	89	- 23	- 1	-	32	773
Aimag Spa*	171,026	48,001	78,028	36,807	7,474	19,319	4,270	73,129
Dyna Green Srl	-	166	30	82	- 8	-	-	62
Enomondo Srl	56,218	548	14,000	0	- 19	496	-	42,288
Estense Global Service S.c.a.r.l	30	3,745	10	0	-	-	-	3,764
Feronia	2,792	474	2,430	- 242	- 143	-	-	1,222
Modena Network Spa	8,124	3,115	3,000	- 925	67	-	-	9,097
Oikothen S.c.a.r.l	4,740	1,155	1,102	0	- 170	-	-	4,964
Refri Srl*	5,211	1,344	6,800	- 924	- 92	-	4	767
Service Imola Srl	43	1,166	10	41	250	-	17	890
Set	225,632	47,683	120	86,441	55	-	-	186,699
Sgr*	8,263	68,665	5,982	12,996	3,743	51	464	53,692
Sosel	2,032	6,073	240	1,292	296		1,644	4,633
Tamarete	70,053	3,796	3,600	9,197	- 1,457	-	-	62,510

Cont.d

Subsidiaries	Value of production	Costs of production	Financial income (+) and charges (-)	Value adj. to assets	Extraordinary income (+) and charges (-)	Tax for the year	Net profit
Adriatica Acque Srl	524 -	484 -	29	- -	8 -	5 -	1
Aimag Spa*	74,118 -	62,956	321 -	259	44 -	3,794	7,474
Dyna Green Srl	- -	12 -	0	-	-	3 -	8
Enomondo Srl	- -	19 -	0	-	-	- -	19
Estense Global Service S.c.a.r.l	6,454 -	6,403 -	0	- -	32 -	19	-
Feronia	0 -	140 -	12	-	-	9 -	143
Modena Network Spa	1,483 -	1,231 -	168	-	- -	16	67
Oikothén S.c.a.r.l	-	172	2	- -	0	- -	170
Refri Srl*	1,145 -	1,323	10 -	308	475 -	91 -	92
Service Imola Srl	2,063 -	1,622 -	2	-	6 -	195	250
Set	122,579 -	114,038 -	7,013	- -	466 -	1,007	55
Sgr*	147,071 -	140,467	263 -	38 -	87 -	3,000	3,743
Sosel	12,072 -	11,309 -	14	- -	26 -	427	296
Tamarete	396 -	906 -	1,010	-	63	- -	1,457

* Companies marked by an asterisk show the figures of the last approved set of financial statements (31.12.2009)

Jointly controlled companies

Subsidiaries	Fixed assets	Working assets	Share capital	Reserves	Profit+ Loss -	Provisions	Provision for employee leaving indemnities	Payables
FlamEnergy Trading Gmbh		3,057	1,500	232	644			681

Cont.d

Subsidiaries	Value of production	Cost of production	Financial income (+) and charges (-)	Value adj. to assets	Extraordinary income (+) and charges (-)	Tax for the year	Net profit
FlamEnergy Trading Gmbh	6,244 -	5,393	7		-	215	644

2.06 Art. 149 duodecies of the Issuers' Regulations – table

	2,010
Financial statement certification service	782
Performance of other services aimed at the issuing of a certification (undbundling)	515
Other services	150
Total	1,447

2.07 Declaration for the Consolidated Financial Statements in accordance with Art. 154 bis of Legislative Decree 58/98

1 – The undersigned Mr Maurizio Chiarini in his capacity as Managing Director, and Mr Luca Moroni in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154-bis, paragraphs 3 and 4, of the legislative decree no. 58 dated 24 February 1998:

- the adequacy with reference to the nature of the company and
- the actual application

of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements over 2010.

2 – We further declare that:

2.1 – the consolidated 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 Directors' Report includes a reliable analysis of the trend and of the operating profit, and of the situation of the issuer and of all of the companies included in the consolidation, together with the description of the major risks and uncertainties to which they are exposed.

The Managing Director

Maurizio Chiarini

The Manager in charge
of the corporate accounting statements
Luca Moroni

Bologna, 24 March 2011

2.08 Report of the Independent Auditing Firm and the Board of Statutory Auditors

2.08.01 Report of the Independent Auditing Firm

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010**

To the Shareholders of
Hera SpA

- 1 We have audited the financial statements of Hera SpA as of 31 December 2010, which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes. The directors of Hera SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements show as comparatives the amounts of the prior year's financial statements. As illustrated in the explanatory notes, the comparative amounts of the prior year's financial statements, which we audited and on which we reported on 13 April 2010, were restated by the directors to reflect the changes in financial reporting introduced by the first application of the interpretation IFRIC 12 "Service concession arrangements". We have reviewed the method applied to restate the amounts and the related disclosure in the explanatory notes for the purposes of issuing our report on the financial statements as of 31 December 2010.
- 3 In our opinion, the financial statements of the Hera SpA as of 31 December 2010 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, the result of operations and the cash flows of the Hera Group for the year then ended.
- 4 The directors of Hera SpA are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the specific section on corporate governance and shareholder structure limited to the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98, with the financial

PricewaterhouseCoopers SpA

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statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard No. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations and the information provided in compliance with paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 included in the specific section of the report on operations are consistent with the financial statements of Hera SpA as of 31 December 2010.

Bologna, 7 April 2011

PricewaterhouseCoopers SpA

Signed by
Edoardo Orlandoni
(Partner)

This report has been translated from the original, which was issued in accordance with Italian legislation, solely for the convenience of international readers. We have not examined the translation of the financial statements referred to this report

2.08.02 Report of the Board of Statutory Auditors

Report by the Board of Auditors on the Consolidated Financial Statements of the company Hera Spa (art. 41 of Legislative Decree 127/1991)

To the Shareholders' Meeting of the Company Hera Spa,

The consolidated financial statements of the company Hera Spa as at 31 December 2010, which are placed at your disposal as information, were delivered to us according to the law and comply with the provisions that discipline their drafting methods.

The consolidated financial statements of the company Hera Spa were submitted to legal auditing by the Independent Auditing Firm PriceWaterhouseCoopers Spa, which released its report on 7 April 2011, attached to the financial statements. The Board of Auditors points out that it results from the report of the Independent Auditing Firm that the financial statements under review were prepared in application of Regulation (EC) No. 1606/2002 of 19 July 2002, in observance of the IAS/IFRS International Accounting Standards approved by the European Commission, supplemented by the relevant interpretations (Standard Interpretations Committee - SIC and International Financial Reporting Interpretation Committee - IFRIC) issued by the International Accounting Standard Board (IASB), as well as the provisions enacted in implementing art. 9 of Legislative Decree no. 38/2005.

Specifically:

The Board of Directors illustrated the consolidated business activities of the Group and the summary of the global profit and loss trends in its consolidation report.

The Independent Auditing Firm, with which the Board of Auditors was in contact, confirmed that it ascertained the regularity and agreement of the statement of financial position and income statement deriving from consolidation with the accounting results of the company and with the information sent by the subsidiary companies included in the consolidation, and to have also ascertained that there is full correlation between the contents of the consolidated financial statements and the information and clarifications that can be drawn from the explanatory notes and Directors' Report.

As for what falls within our province, we can state the following:

- The consolidated financial statements of the Hera Group include the financial statements as at 31 December 2010 of the parent company Hera Spa and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, in such a way as to obtain benefits from the company's activity.
- Subsidiary companies whose size is insignificant, where the voting rights are subject to serious and long term restrictions are excluded from the scope of line-by-line consolidation and are valued at their cost.
- Equity investments comprising fixed assets in large-scale associated companies are valued under the equity method. Those of an insignificant size are instead carried at cost.
- Companies held exclusively for future sale were excluded from consolidation and valued at cost or fair value, whichever is the lesser. These equity investments are recorded as separate items.

- Equity investments in joint ventures, in which the Hera Group exercises joint control with other companies, are consolidated with the proportional method reporting the assets, liabilities, revenues and costs on a line-by-line basis in a measure that is proportional to the Group's investment.
- The financial statements used for the preparation of the consolidated statement of financial position and income statement schedules were those which the companies included within the scope of consolidation reclassified and adjusted (on the basis of specific instructions issued by the parent company) for the purposes of consistency with the accounting standards and principles of the Group. With regard to associated companies, adjustments to shareholders' equity values were considered in order to adapt them to IAS/IFRS principles.
- When drawing up the consolidated statement of financial position and income statement schedules, the assets and liabilities as well as the income and expenses of the consolidated companies are included on a line-by-line basis. However, the receivables and payables, income and expenses, gains and losses resulting from operations carried out between companies included in the scope of consolidation have been eliminated. The book value of the equity investments is eliminated against the corresponding portion of the subsidiary's shareholders' equity.
- On initial consolidation, the positive difference between the book value of the equity investments and the fair value of the assets and liabilities acquired, was allocated to the asset and liability items and on a residual basis to goodwill. The negative difference was immediately recorded in the income statement, as illustrated in the following section "business combinations". This negative difference is recorded in the consolidation reserve only if it related to acquisitions prior to 31 March 2004.
- The total of capital and reserves of subsidiaries pertaining to minority interests is recorded within minority shareholders' equity and reserves in the account "minority interests". The portion of the consolidated result relating to minority interests is recorded in the account "minority shareholders".
- Dividends recorded under financial income of the consolidated companies are eliminated during the consolidation process of the relevant companies, against the retained earnings reserves under shareholders' equity. Dividends received from companies measured with the equity method reduce the book value of the investment. Dividends declared by companies assessed at cost remained accounted for under financial income.
- **The valuation of the financial statement items has been carried out on the basis of the general criteria of prudence and accruals, with a view to the business as a going-concern. For the purposes of the accounting entries, priority is given to the economic substance of the transactions rather than their legal form.**
- The same standards and policies applied in the previous accounting period were followed in preparing these consolidated financial statements, taking into account the new accounting standards, amendments and interpretations applicable from 1 January 2010. As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end dates, while account has been taken of the risks and losses even if known after said date.
- Transactions with minority shareholders are recorded as equity transactions so in the case of acquisitions of additional shares after control is reached, the difference between cost of acquisition and book value of the minority shares acquired is charged to the shareholders' equity of the Group.
- All of the information contained in the consolidated financial statements and in the relevant accompanying documents refer to calendar year 2010.
- As far as the evaluation criteria are concerned, they comply with the statutory rules and are however fully explained in the explanatory notes.

- The consolidated financial statements also state the amount of the guarantees, commitments and risks.
- The consolidated financial statements close with a profit of EUR 142,054 thousand and group shareholders' equity amounting to EUR 1,727,503 thousand.

The Shareholders' Meeting must take the consolidated financial statements and its accompanying documents into account only for information purposes as they form a document not subject to approval.

However, in our opinion these financial statements correctly express the statement of financial position and income statement of the Group for the financial period that closed on 31 December 2010 in conformity with the rules that govern the drawing up of consolidated financial statements.

Bologna, 07 April 2011

Board of Auditors

Chairman, Board of Auditors	Sergio Santi

Standing auditor	Antonio Venturini

Standing auditor	Fernando Lolli

A large, stylized orange number '3' is positioned on the left side of the page, extending from the top to the bottom. It has a thick, rounded stroke.

3
hera spa
financial
statements
to december 31st 2010

3.01 Financial Statements

3.01.01 Income statement

	notes	2010	2009 *
Revenues	3	1,285,752,136	1,313,801,671
Change in inventories of finished products and work in progress	4	9,157,974	-2,803,121
Other operating income	5	196,382,974	219,968,377
<i>of which non-recurring</i>		16,841,415	
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-192,673,958	-193,283,186
Service costs	7	-747,468,400	-730,919,652
Personnel costs	8	-236,416,455	-244,488,496
Amortisation, depreciation and allowances	9	-159,193,274	-176,806,594
Other operating costs	10	-21,742,183	-27,975,282
Capitalised costs	11	13,407,770	19,484,096
EBIT		147,206,584	176,977,813
Portion of profit (loss) pertaining to associated companies	12	78,464,505	37,012,657
<i>of which non-recurring</i>		50,146,696	
Financial income	13	87,488,581	13,284,543
Financial charges	13	-182,469,096	-119,403,444
<i>of which non-recurring</i>		-12,254,231	
Total financial operations		-16,516,010	-69,106,244
Other non-operating costs	14		-15,319,205
Pre-tax profit		130,690,574	92,552,364
Taxes for the period	15	-6,633,215	-40,140,482
<i>of which non-recurring</i>		25,060,690	
Net profit for the period		124,057,359	52,411,882

* Figures as at 31 December 2009 were reclassified as described in the Explanatory Notes in the section "Financial Statements"

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate balance sheet format outlined in paragraph 3.02.01 of these financial statements.

3.01.02 Statement of comprehensive income

	2010	2009
Net profit/(loss) for the year	124,057,359	52,411,882
- change in cash flow hedge reserve (net of tax effect)	5,796,942	-2,273,721
Total net profit/(loss) for the year	129,854,301	50,138,161

3.01.03 Statement of financial position

	notes	31-Dec-2010	31-Dec-2009 *
ASSETS			
Non-current assets			
Tangible assets	16	894,368,204	863,730,775
Intangible assets	17	1,626,190,837	1,559,939,300
Goodwill	18	187,084,466	187,084,466
Equity investments	19	525,143,631	618,652,468
Financial assets	20	192,592,376	13,393,078
Deferred tax assets	21	45,461,881	41,430,142
Financial instruments - derivatives	22	40,071,235	419,138
Total non-current assets		3,510,912,630	3,284,649,367
Current assets			
Inventories	23	13,526,277	14,606,264
Trade receivables	24	697,923,716	710,793,515
Contract work in progress	25	18,582,455	9,424,481
Financial assets	26	46,261,898	136,809,138
Financial instruments - derivatives	22	26,704	-
Other current assets	27	140,608,687	112,035,113
Cash and cash equivalents	28	473,186,572	282,045,246
Total current assets		1,390,116,310	1,265,713,757
TOTAL ASSETS		4,901,028,940	4,550,363,124

Cont.d

	notes	31-Dec-2010	31-Dec-2009 *
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	29		
Share capital		1,115,013,754	1,115,013,754
Reserve for treasury shares at par value		-5,939,609	-2,892,876
Reserves		459,582,697	494,725,851
Reserve for treasury shares exceeding par value		-3,057,748	-1,948,145
Reserve for derivative instruments valued at fair value		-7,198,537	-12,995,479
Retained earnings (losses)		2,060,626	2,060,626
Profit (loss) for the period		124,057,359	52,411,882
Total shareholders' equity		1,684,518,542	1,646,375,613
Non-current liabilities			
Loans - maturing beyond the next year	30	1,969,754,833	1,751,202,569
Employee leaving indemnity and other benefits	31	70,984,252	74,932,434
Provisions for risks and charges	32	96,236,497	81,489,211
Deferred tax liabilities	33	58,697,676	111,407,751
Financial leasing payables - maturing beyond the next year	34	2,617,215	2,927,775
Financial instruments - derivatives	22	31,431,531	28,393,798
Total non-current liabilities		2,229,722,004	2,050,353,538
Current liabilities			
Banks and other borrowings - maturing within the next year	30	319,336,904	105,284,872
Financial leasing payables - maturing within the next year	34	2,313,325	2,731,867
Trade payables	35	473,943,613	579,238,797
Income tax liabilities	36	53,287,481	31,469,482
Other current liabilities	37	137,880,376	134,908,955
Financial instruments - derivatives	22	26,695	-
Total current liabilities		986,788,394	853,633,973
TOTAL LIABILITIES		3,216,510,398	2,903,987,511
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,901,028,940	4,550,363,124

* Figures as at 31 December 2009 were reclassified as described in the Explanatory Notes in the section "Financial Statements"

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate balance sheet format outlined in paragraph 3.02.02 of these financial statements.

3.01.04 Cash flow statement

	31-Dec-10	31-Dec-09
Operations		
Cash flow		
Net profit pertaining to Group and minority shareholders	124,057,359	52,411,882
Depreciation and write-downs of tangible assets	43,031,016	58,340,597
Amortisation and write-downs of intangible assets	86,978,225	92,464,762
Total cash flow	254,066,600	203,217,241
Changes in prepaid and deferred taxes	(58,929,814)	(10,481,432)
Employee leaving indemnity and other benefits:		
Provisions / (uses)	(3,948,182)	(2,912,214)
Provisions for risks and charges:		
Provisions / (uses)	14,747,286	(4,746,522)
Total cash flow before changes in net working capital	205,935,890	185,077,073
Working capital		
Change in trade receivables	12,869,799	158,792,224
Changes in inventories	(8,077,988)	2,981,508
Change in other current assets	(28,530,574)	(28,712,599)
Change in trade payables	(105,295,184)	(230,307,919)
Change in tax liabilities	21,814,999	(20,293,592)
Change in other current liabilities	2,970,421	(386,815)
Change in financial instruments - derivatives	(9)	
Change in working capital	(104,248,536)	(117,927,193)
Change in financial instruments - non-current derivatives	(30,817,422)	12,124,571
Liquidity generated by operations	70,869,932 a)	79,274,451 a)
Investment activities		
Disinvestment/(investment) in tangible assets,		
net of net investments/disinvestments	(73,668,445)	(265,705,155)
Disinvestment/(investment) in intangible assets,		
net of net investments/disinvestments	(124,608,762)	(16,017,896)
Goodwill		(2,154,914)
Investments in equity investments, net of disinvestments	71,117,837	(60,185,659)
(Increase)/decrease in other investments	(88,652,058)	(131,010,498)
Investments in business units		38,537,000
Liquidity generated / (absorbed) by investment activities	(215,811,428) b)	(436,537,122) b)
Financing activities		
Medium/long-term loans	215,817,264	611,997,208
Change in shareholders' equity items	(3,445,414)	23,516,756
Change in short-term bank indebtedness	213,374,032	(32,260,024)
Dividends paid out	(88,933,958)	(82,490,386)
Change in financial leasing payables	(729,102)	(2,317,168)
Liquidity generated / (absorbed) by financing activities	336,082,822 c)	518,446,386 c)
	191,141,326	161,183,715
	(a+b+c)	(a+b+c)
Change in net financial position		
Cash and cash equivalents at the beginning of the year	282,045,246	120,861,531
Cash and cash equivalents at the end of the year	473,186,572	282,045,246
	191,141,326	161,183,715

(*) Pursuant to Consob Resolution no. 15519 of 27 July 2006, the effects of relationships with related parties on the cash flow statement are disclosed in the special cash flow statement format under paragraph 3.02.03 of these financial statements.

3.01.05 Statement of changes in shareholders' equity

	Share capital	Reserves	Reserves for derivative instruments at fair value	Profit for the year	Shareholders' equity
Balance as at 31 December 2008	1,030,438	366,793	-16,125	84,523	1,465,629
Profit for the year				52,412	52,412
Other elements of the total profit/loss as at 31 December 2009:					
change in the fair value of derivatives for the period			-2,274		-2,274
Total profit for the year			-2,274	52,412	50,138
change in treasury shares in portfolio	-593	-210			-803
capital increase due to the conferral of Assets branches - Shareholders' meeting of 21 October 2009	82,276	46,931			129,207
contribution of the "waste management division" branch to Herambiente			5,404		5,404
reserve for surplus from spin-off/merger/business combination of entities subject to joint control		79,291			79,291
Allocation of 2008 profit:					
- dividends paid out				-82,490	-82,490
- allocation to reserve		2,033		-2,033	0
Balance as at 31 December 2009	1,112,121	494,838	-12,995	52,412	1,646,376

	Share capital	Reserves	Reserves for derivative instruments at fair value	Profit for the year	Shareholders' equity
Balance as at 31 December 2009	1,112,121	494,838	-12,995	52,412	1,646,376
Profit for the year				124,057	124,057
Other elements of the total profit/loss as at 31 December 2010:					
change in the fair value of derivatives for the period			5,797		5,797
Total profit for the year			5,797	124,057	129,854
change in treasury shares in portfolio	-3,047	-1,366			-4,413
gains/losses reserve from business combinations/mergers		1,635			1,635
Allocation of 2009 profit:					
- dividends paid out		-39,410		-49,524	-88,934
- retained earnings reserve		2,888		-2,888	0
Balance as at 31 December 2010	1,109,074	458,585	-7,198	124,057	1,684,518

3.02. Financial statements in accordance with Resolution 15519 of 2006 – Related parties

3.02.01 Income statement

Income statement	notes	2010	of which related parties				Total	%
			A	B	C	D		
Revenues	3	1,285,752,136	321,302,536	829,853	78,119,691	7,006,652	407,258,733	31.67%
Change in inventories of finished products and work in progress	4	9,157,974						
Other operating income	5	196,382,974	14,005,253	43,543	58,078	320,789	14,427,663	7.35%
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-192,673,958	-79,464,461	-15,923	-54,321	-34,660,126	-114,194,832	59.27%
Service costs	7	-747,468,400	-319,572,555	-2,080,793	-6,595,014	-38,470,052	-366,718,414	49.06%
Personnel costs	8	-236,416,455	-57,295			-2,070,933	-2,128,228	0.90%
Amortisation, depreciation and allowances	9	-159,193,274						
Other operating costs	10	-21,742,183	-751,789	-445	-1,412,777	-1,628,524	-3,793,535	17.45%
Capitalised costs	11	13,407,770						
EBIT		147,206,584	-64,538,312	-1,223,764	70,115,656	-69,502,194	-65,148,613	
Portion of profit (loss) pertaining to associated companies	12	78,464,505	78,755,879	-291,374			78,464,505	100.00%
Financial income	13	87,488,581	1,014,396	713,076		142,760	1,870,233	2.14%
Financial charges	13	-182,469,096	4,588,309		-6	-87	4,588,216	-2.51%
Total financial operations		-16,516,010	84,358,585	421,703	-6	142,673	84,922,954	
Other non-operating costs	14	0						
Pre-tax profit		130,690,574	19,820,273	-802,061	70,115,650	-69,359,520	19,774,341	
Taxes for the year	15	-6,633,215						
Net profit for the year		124,057,359	19,820,273	-802,061	70,115,650	-69,359,520	19,774,341	

Income statement	notes	2009	of which related parties				Total	%
			A	B	C	D		
Revenues	3	1,313,801,671	332,604,164	390,000	78,999,208	6,194,240	418,187,612	31.83%
Change in inventories of finished products and work in progress	4	-2,803,121						
Other operating income	5	79,343,905	14,731,611	5,180	11,954	523,525	15,272,270	19.25%
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-193,283,186	-104,053,632			-33,673,121	-137,726,753	71.26%
Service costs	7	-627,859,155	-274,515,561	-1,811,514	-9,784,626	-39,103,187	-325,214,888	51.80%
Personnel costs	8	-244,488,496	-192,928			-2,504,683	-2,697,611	1.10%
Amortisation, depreciation and allowances	9	-176,806,594						
Other operating costs	10	-27,702,800	-5,825,556		-1,009,475	-972,145	-7,807,176	28.18%
Capitalised costs	11	56,775,589						
EBIT		176,977,813	-37,251,902	-1,416,334	68,217,061	-69,535,371	-39,986,546	
Portion of profit (loss) pertaining to associated companies	12	37,012,657	31,420,908	105,878		5,038,649	36,565,435	98.79%
Financial income	13	13,284,543	112,406	443,729		40,323	596,458	4.49%
Financial charges	13	-119,403,444	1,756,829		-3	-275	1,756,551	-1.47%
Total financial operations		-69,106,244	33,290,142	549,607	-3	5,078,697	38,918,444	
Other non-operating costs	14	-15,319,205						
Pre-tax profit		92,552,364	-3,961,760	-866,726	68,217,058	-64,456,674	-1,068,103	
Taxes for the year	15	-40,140,482						
Net profit for the year		52,411,882	-3,961,760	-866,726	68,217,058	-64,456,674	-1,068,103	

Key of headings of related parties columns:

A subsidiaries

B associated companies

C related companies with significant influence

D other related parties

3.02.02 Statement of financial position

	notes	31-Dec-2010	of which related parties				Total	%
			A	B	C	D		
ASSETS								
Non-current assets								
Tangible assets	16	894,368,204						
Intangible assets	17	1,626,190,837						
Goodwill	18	187,084,466						
Equity investments	19	525,143,631	429,835,603	72,397,052		22,726,157	524,958,812	99.96%
Financial assets	20	192,592,376	182,436,275	9,068,381		960,000	192,464,656	99.93%
Deferred tax assets	21	45,461,881						
Financial instruments - derivatives	22	40,071,235						
Total non-current assets		3,510,912,630	612,271,878	81,465,433	0	23,686,157	717,423,468	
Current assets								
Inventories	23	13,526,278						
Trade receivables	24	697,923,716	324,006,117	2,777,274	6,672,873	13,968,890	347,425,154	49.78%
Contract work in progress	25	18,582,455						
Financial assets	26	46,261,898	21,532,278	23,736,355			45,268,633	97.85%
Financial instruments - derivatives	22	26,704						
Other current assets	27	140,608,687	15,302,035		372,957	14,508,360	30,183,352	21.47%
Cash and cash equivalents	28	473,186,572						
Total current assets		1,390,116,310	360,840,430	26,513,629	7,045,830	28,477,250	422,877,139	
TOTAL ASSETS		4,901,028,940	973,112,308	107,979,062	7,045,830	52,163,407	1,140,300,607	

	notes	31-Dec-2009	of which related parties				Total	%
			A	B	C	D		
ASSETS								
Non-current assets								
Tangible assets	16	2,269,347,479						
Intangible assets	17	154,322,596						
Goodwill	18	187,084,466						
Equity investments	19	618,652,468	523,470,458	72,272,434		22,726,157	618,469,048	99.97%
Financial assets	20	13,393,078	2,859,238	9,148,223		960,000	12,967,461	96.82%
Deferred tax assets	21	41,430,142						
Financial instruments - derivatives	22	419,138						
Total non-current assets		3,284,649,367	526,329,696	81,420,656	0	23,686,157	631,436,509	
Current assets								
Inventories	23	14,606,264						
Trade receivables	24	710,793,515	305,809,348	1,966,149	11,959,547	11,062,077	330,797,120	46.54%
Contract work in progress	25	9,424,481						
Financial assets	26	136,809,138	123,416,167	12,484,000			135,900,167	99.34%
Other current assets	27	112,035,113	11,524,396		444,946	14,620,981	26,590,323	23.73%
Cash and cash equivalents	28	282,045,246						
Total current assets		1,265,713,757	440,749,912	14,450,149	12,404,492	25,683,058	493,287,610	
TOTAL ASSETS		4,550,363,124	967,079,608	95,870,805	12,404,492	49,369,214	1,124,724,119	

Key of headings of related parties columns:

A subsidiaries

B associated companies

C related companies with significant influence

D other related parties

	notes	31-Dec-2010	of which related parties				Total	%
			A	B	C	D		
SHAREHOLDERS' EQUITY AND LIABILITIES								
Share capital and reserves								
Share capital and reserves	29	1,115,013,754						
- Reserve for treasury shares at par value		-5,939,609						
Reserves		459,582,697						
- Reserve for treasury shares exceeding par value		-3,057,748						
Reserve for derivative instruments valued at fair value		-7,198,537						
Retained earnings (losses)		2,060,626						
Profit/(loss) for the year		124,057,359						
Total shareholders' equity		1,684,518,542	0	0	0	0	0	
Non-current liabilities								
Loans - maturing beyond the next year	30	1,969,754,833						
Employee leaving indemnity and other benefits	31	70,984,252						
Provisions for risks and charges	32	96,236,497						
Deferred tax liabilities	33	58,697,676						
Financial leasing payables - maturing beyond the next year	34	2,617,215						
Financial instruments - derivatives	22	31,431,531						
Total non-current liabilities		2,229,722,004	0	0	0	0	0	
Current liabilities								
Banks and other borrowings - maturing within the next year	30	319,336,904	247,961,021				247,961,021	77.65%
Financial leasing payables - maturing within the next year	34	2,313,325						
Trade payables	35	473,943,613	169,985,183	1,078,475	4,230,686	24,376,213	199,670,557	42.13%
Income tax liabilities	36	53,287,481						
Other current liabilities	37	137,880,376	29,565			943,946	973,511	0.71%
Financial instruments - derivatives	22	26,695						
Total current liabilities		986,788,394	417,975,769	1,078,475	4,230,686	25,320,159	448,605,089	
TOTAL LIABILITIES		3,216,510,398	417,975,769	1,078,475	4,230,686	25,320,159	448,605,089	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,901,028,940	417,975,769	1,078,475	4,230,686	25,320,159	448,605,089	

	notes	31-Dec-2009	of which related parties				Total	%
			A	B	C	D		
SHAREHOLDERS' EQUITY AND LIABILITIES								
Share capital and reserves								
Share capital and reserves	29	1,115,013,754						
- Reserve for treasury shares at par value		-2,892,876						
Reserves		494,725,851						
- Reserve for treasury shares exceeding par value		-1,948,145						
Reserves for derivative instruments valued at fair value		-12,995,479						
Retained earnings (losses)		2,060,626						
Profit (loss) for the year		52,411,882						
Total shareholders' equity		1,646,375,613	0	0	0	0	0	
Non-current liabilities								
Loans - maturing beyond the next year	30	1,751,202,569						
Employee leaving indemnity and other benefits	31	74,932,434						
Provisions for risks and charges	32	81,489,211						
Deferred tax liabilities	33	111,407,751						
Financial leasing payables - maturing beyond the next year	34	2,927,775						
Financial instruments - derivatives	22	28,393,798						
Total non-current liabilities		2,050,353,538	0	0	0	0	0	
Current liabilities								
Banks and other borrowings - maturing within the next year	30	105,284,872	70,145,260				70,145,260	66.62%
Financial leasing payables - maturing within the next year	34	2,731,867						
Trade payables	35	579,238,797	283,367,327	916,407	8,755,051	24,660,915	317,699,701	54.85%
Income tax liabilities	36	31,469,482						
Other current liabilities	37	134,908,955				196,253	196,253	0.15%
Total current liabilities		853,633,973	353,512,587	916,407	8,755,051	24,660,915	387,844,960	
TOTAL LIABILITIES		2,903,987,511	353,512,587	916,407	8,755,051	24,660,915	387,844,960	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,550,363,124	353,512,587	916,407	8,755,051	24,660,915	387,844,960	

Key of headings of related parties columns:

A subsidiaries B associated companies C related companies with significant influence D other related parties

3.02.03 Cash flow statement

	31-Dec-2010	of which related parties
Operations		
Cash flow		
Profit pertaining to Group and minority shareholders	124,057,359	19,774,341
Depreciation and write-downs of tangible assets	43,031,016	
Amortisation and write-downs of intangible assets	86,978,225	
Total cash flow	254,066,600	19,774,341
Changes in prepaid and deferred taxes	(58,929,814)	
Employee leaving indemnity and other benefits:		
Provisions / (uses)	(3,948,182)	
Provisions for risks and charges:		
Provisions / (uses)	14,747,286	
Total cash flow before changes in net working capital	205,935,890	19,774,341
Working capital		
Change in trade receivables	12,869,799	(16,628,035)
Changes in inventories	(8,077,988)	
Change in other current assets	(28,530,574)	(3,593,029)
Change in trade payables	(105,295,184)	(118,029,144)
Change in tax liabilities	21,814,999	
Change in other current liabilities	2,970,421	777,258
Change in financial instruments - derivatives	(9)	
Change in working capital	(104,248,536)	(137,472,950)
Change in financial instruments - non-current derivatives	(30,817,422)	
Liquidity generated by operations	70,869,932	(117,698,609)
Investment activities		
Disinvestment/(investment) in tangible assets, net of net investments/disinvestments		
Disinvestment/(investment) in intangible assets, net of net investments/disinvestments		
Goodwill		
Investments in equity investments, net of disinvestments	71,117,837	93,510,237
(Increase)/decrease of other investments	(88,652,058)	(88,865,661)
Investments in business units		
Liquidity generated /(absorbed) by investment activities	(17,534,221)	4,644,576
Financing activities		
Medium/long-term loans	215,817,264	
Change in shareholders' equity items	(3,445,414)	
Change in short-term bank indebtedness	213,374,032	177,815,761
Dividends paid out	(88,933,958)	(21,314,746)
Change in financial leasing payables	(729,102)	
Liquidity generated /(absorbed) by financing activities	336,082,822	156,501,015
	389,418,533	43,446,982

3.03 Explanatory notes

3.03.01 Explanatory notes Hera Spa

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

The 2010 consolidated financial statements, comprised of income statement, statement of comprehensive income, statement of financial position, cash flow statement, statement of changes in shareholders' equity and explanatory notes, have been prepared in application of EC Regulation No. 1606/2002 of 19 July 2002 in observance of the IAS/IFRS International Accounting Standards (hereinafter the IFRS) approved by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee – SIC and International Financial Reporting Interpretations Committee – IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

Sufficient obligatory information to present a true and fair view of the Company's statement of financial position and of the income for the year has been provided.

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

The figures in these financial statements are comparable with the same balances of the previous financial year. Specifically, the values of the statement of financial position as at 31 December 2009 and the 2009 income statement were reclassified in order to reflect application of the IFRIC 12 interpretation.

The relevant schedules and notes give a detailed account of what is stated above. In the case of additional reclassifications, the notes commenting on the single items provide all necessary information. The non-recurrent cost and income items have been highlighted.

Corporate transactions carried out during the year are described in the paragraph below.

Financial Statements

The formats used are the same as those applied to the financial statements as at 31 December 2009. Specifically, 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, to be in line with international practice and the best representation of company results. The item "other operating costs", referring to taxes paid in connection with the "tax moratorium" for 2009 was added to provide a clearer comparison. Please refer to note 15 of the income statement for further information.

The statement of financial position format makes the distinction between assets and liabilities, current and non-current. The cash flow statement was drawn up using the indirect method, as permitted by IAS 7. The statement of comprehensive income is presented as a separate document to the income statement, as permitted by IAS 1 (revised). The statement of changes in the shareholders' equity was prepared in accordance with the provisions of IAS 1 (revised).

Moreover, referring to Consob resolution no. 15519 of 27 July 2006 on balance sheet tables, specific supplementary formats of income statement, statement of financial position and cash flow statement have been included, while highlighting the most significant relations with related parties, in order not to alter the overall clarity of the balance sheet tables.

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

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

The figures in the statement of financial position and income statement are all expressed in units of Euro, whereas the figures in the explanatory notes are expressed in thousands of Euro, except when otherwise indicated.

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

These financial statements as at 31 December 2010 were drawn up by the board of directors and approved at the meeting held on 24 March 2011.

Corporate transactions that occurred during the 2010 financial year

Mergers

Mergers by incorporation and spin-offs related to internally owned parent/subsidiary transactions were accounted for, as set forth by OPI 1 starting on 1 January 2009, in compliance with criteria followed by the consolidated financial statements. For disclosure purposes, the individual notes to the incorporated equity values and the main economic indicators related to the previous year, if significant, are reported herein.

Agea Reti Srl

Effective 15 July 2010, and with accounting and tax retroactive effects from 1 January 2010, the merger by incorporation of Agea Reti Srl into Hera Spa was finalised. This transaction caused no changes in the share capital of Hera Spa, inasmuch as Agea Reti Srl was already wholly owned by Hera Spa.

Figures stemming from the above-mentioned merger are reported hereunder to facilitate comparison:

Assets	/000	Total
Non-current assets		
Tangible assets		28,621
Equity investments		(22,391)
		6,230
Current assets		
Other current assets		43
Cash and cash equivalents		1,564
		1,607
Total assets		7,837

Shareholders' equity and liabilities	/000	Total
Shareholders' equity		
Reserve for profits/losses from business combinations (OPI 2)		(22)
Reserve for IAS effects		1,471
Profit (loss) for the period		783
		2,232
Non-current liabilities		
Loans - maturing beyond the next year		2,735
Deferred tax liabilities		2,188
		4,923
Current liabilities		
Banks and other borrowings - maturing beyond the next year		677
Payables to the parent company		1
Tax liabilities		3
Other current liabilities		1
		682
Total shareholders' equity and liabilities		7,837

Economic	/000	Total
Revenues		975
Service costs		(29)
Other operating costs		(71)
	EBIT	875
Financial charges		(92)
	Total financial management	-92
	Pre-tax profit	783
	Tax for the period	0
	Net profit	783

The economic data refer to the first half of 2010, and have not been included in the income statement of Hera Spa.

Transfers of business units

The transfers of business units were accounted for pursuant to OPI 2 as they were transactions under common control. Therefore, they were stated in consistency with figures of the previous year, without recording higher values, as reported in the transfer deeds, as well.

Romagna Acque Spa

With effect as of 31 December 2010, the sale by Hera Spa to Romagna Acque – Società delle fonti Spa was finalised, for the business unit in charge of managing the remaining part of the water collection, accumulation, purification and supply plants of the local sources in the water and waste regulatory authorities of Forlì-Cesena and Rimini.

The equity values, which compose the business unit transferred by Hera Spa to Romagna Acque Spa, with effective date on 31 December 2010, are listed as follows:

Assets	/000	Total
Non-current assets		
Tangible assets		1,384
		1,384
Shareholders' equity and liabilities		
Non-current liabilities		
Employee leaving indemnity and other benefits		176
Provisions for risks and charges		193
		369
Current liabilities		
Other current liabilities		6
		6
Total shareholders' equity and liabilities		375
Value of the business unit sold		1,009

Evaluation criteria and accounting standards

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

These financial statements were prepared according to the same standards and policies applied in the previous accounting period, taking into account the new accounting standards illustrated in the specific section “accounting standards, amendments and interpretations applicable from 1 January 2010”. As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

The criteria and principles adopted are outlined here below.

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

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

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

Tangible assets are stated in the income statement including the capital grants over the period necessary for correlating them to the related costs; they are represented in the statement of the financial position by recording the grant as deferred revenue.

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

General services	min %	max %
Land	-	-
Buildings	1.5	3
Via Razzaboni (Modena) property complex		
- land	-	-
- buildings	1 - 1.25	2 - 2.5
- external construction works	1.66	3.33
Light construction	5	10
Generic plants	7.5	15
Equipment	5	10
Office furniture and equipment	6	12
EDP machines	10	20
Vehicles and internal means of transport	10	20
Cars	12.5	25
Measurement and laboratory instruments	5	10
Remote control	10	20
- remote control apparatuses	5	10
- supervision centres	4.16	8.33
- data transmission network (telephone cable)	2.5	5
- data transmission network (fibre optics)	3.33	6.67
Public lighting	4	8
- type 1 centre	2	4
- type 2 centre	1.25	2.5
- lighting unit (multiple points)	1.25	2.5
- lighting unit (single points/columns)	2	4
- flux controllers	1.25	2.5
- distribution network	1.43	2.86
- votive lighting	1.66	3.33
Electricity substations	3.5	7

Purification services	min %	max %
Land	-	-
Building civil works	1.5	3
Buildings IDAR construction sections	1.5	3
Generic and specific plants	7.5	15
Specific IDAR plants	5	10
Specific ITFI plants	5	10
Specific plants	5	10
- Purification plants/civil works	1.66	3.33
- Purification plants	3.33	6.67
Lifting plants	6	12
Laboratory equipment	5	10
Network	2.5	5
Electricity substations	3.5	7
Equipment	5	10
Furniture	6	12

Gas service	min %	max %
Land	-	-
1st stage pressure reducer stations - abstraction		
- Buildings	2.5	5.5
- Generic plants	4	15
- Specific plants	2.33	10
2nd stage pressure reducer stations - district - specific plants - user stations	3.13	10
User transformers - specific plants	3.13	8
Distribution network in steel	1.75	8
Distribution network in cast iron or spheroidal cast iron	1.96	8
Distribution network in PE or PVC	2.5	8
Outlets/intakes	2.33	8
Meters	4	10
Cathodic protection	3.7	8
Electricity substations - specific plants	3.5	7

District heating service	min %	max %
Land	-	-
- Production - Buildings	1.92	5.5
- Production - Generic plants	4.5	9
- Production - Specific plants	3.85	9
Distribution network	2.7	8
Meters	2.5	6.67
Heat exchange units	4.5	9
- Boilers	1.43	3.85
- Heat exchangers	2.5	5
- Expansion tanks	1.66	5.56
Pumping stations	0	0
- Electricity substations	2	4
- Generators	2.75	4.55
- Pumps	3.33	6.67
- Electricity substations	3.5	7
Equipment	5	10

Water service	min %	max %
Land	-	-
Buildings/Civil works	1.75	3.5
Wells		
- Buildings/Civil works	1.75	3.5
Generic and specific plants	1.25	2.5
- Disinfection plants	2.5	5
- Pumps	5	10
- Building works	1.43	2.86
Collection - Buildings/Civil works	1.25	2.5
Production, lifting and purification stations		
- Buildings/Civil works	1.75	3.5
- Generic plants	7.5	15
- Specific plants	6	12
- Purification plants	4	8
- Disinfection plants	2.5	5
- Transformers	2	4
- Pumps	3.34	6.67
- Tanks	1.25	2.5
- Filtration plant and filters	2.78	5.56
- Generators and blowers	2.28	4.55
- Building works	1.43	2.86
Tanks	2	4
- Disinfection plant	2.5	5
- Building works	1.11	2.22
Pipelines and distribution network	2.5	5
Distribution network in steel, cast iron or spheroidal cast iron	1	2
Distribution network in reinforced cement-PE-PVC	1.43	2.86
Outlets/intakes and connections	2.22	5
Meters	4	10
Electricity substations - Specific plants	3.5	7
Road vehicles	10	20

Electricity production and distribution service	min %	max %
Land	-	-
Buildings	1.5	3
MV underground and overhead distribution network	2	4
LV underground and overhead distribution network	2.5	8
HV/MV - LV/MV transformers	2.86	7
- station transformers	2	4
- pole transformers	2.5	5
Connections	2.5	8
Meters	4	10
Tables	1.66	5
Limiting devices	1.66	5
Masonry and single-pole stations	1.66	3.57
Polyfers	1.25	2.5
Receiver stations	1.66	3.33

Waste management services	min %	max %
Land	-	-
Buildings	1.5	3
Secondary building units (warehouse)	1.5	3
Generic plants	7.5	15
Specific IR plants	5	10
- land	-	-
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- External building works	1.66	3.33
- electricity production plants	2	4
- generic plants	2.5	5
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.5	5
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity production	2.5	5
- waste-to-energy line control systems	5	10
Specific BIOGAS plant. Storage + IRE	5	10
- land	-	-
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- external building works	1.66	3.33
- electricity production plants	2.5	5
- CDR packing	2.5	5
- selection, chopping, feeding and sorting plant	2.5 - 3.33	5 - 6.67
- ventilation plant	3.33	6.67
- generic plant - stabilisation plant - storage tanks	2.5	5
- control systems	5	10
- containers and bins	5 - 10	10 - 20
- internal handling equipment	4.16	8.33
Specific waste composting plant	5	10
- land	-	-
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- external building works	1.66	3.33
- general plant and lifting equipment	3.33	6.67
- pre-selection plant	2.5	5
- mixing plant	3.33 - 5	6.67-10
- palleting plant	5	10
- energy recovery plant	2.5	5
- screening and refining plant	3.33 - 4.16	6.67-8.33
- weighing plant	2.25	5
- deoxidization/organic treatment systems	3.33	6.67
- second maturing	5	10
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10	20
Waste containers and equipment	5	10
General equipment	5	10
Snow service equipment	5	10
Sanitary equipment	5	10
Light construction	5	10
Motor vehicles	12.5	25
Controlled landfills	-	-

As required by IAS 16, the estimated useful lives of tangible fixed assets are reviewed each year so as to assess the need to revise them. In the event that the estimated useful lives no longer provide a true representation of the expected future economic benefits, the relative depreciation schedules must be redefined according to the new assumptions. These changes are made prospectively to the income statement.

Specifically, during 2010, following a check of the useful lives of the tangible assets in order to provide an improved representation of the useful lives of the relevant assets in accordance with the benefits expected from them, we updated the depreciation schedules relating to the Gas, District Heating, and Electricity sectors. The new useful lives, applied with effect from 1 January 2010, are documented by the technical report prepared by a leading expert (see comment under note 9 “Amortisation, depreciation and allowances”).

Land is not depreciated.

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

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

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

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

Advertising expenses are charged directly to the income statement.

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

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

As more fully described in the paragraph "Accounting standards, amendments and interpretations applicable from 1 January 2010" in accordance with the requirements of IFRIC 12, the "intangible fixed assets model" was applied to concessions in existence for the distribution of gas, the integrated water cycle, public lighting and, insofar as electricity distribution is concerned, the infrastructures relating to the Imola region which are managed under a business unit lease with Con.Ami.

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

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

Business combinations – Business combination transactions are stated by applying the acquisition method, as a consequence of which the buyer acquires the shareholders' equity and takes over the assets and liabilities of the acquired company. The cost of the transaction is represented by the fair value of the transferred assets, liabilities taken on and the capital instruments issued in exchange for the change of control of the acquired business at the date of acquisition.

The expenses related to the combination are generally recognised in the income statement at the time they are incurred.

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

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

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

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

Business combinations that took place prior to 1 January 2010 were recognised according to the provisions of the previous version of IFRS 3.

Mergers by incorporation/spin-offs – Mergers by incorporation and spin-offs are related to transactions of already wholly owned companies, not specifically regulated by IFRS 3. For these transactions, the Group applies the option envisaged by OPI 2 Assirevi; therefore, in the case of mergers/spin-offs the same values already recorded for the consolidated financial statements of the previous years were entered. Hence, the offset difference between the cost of equity investment and the corresponding portion of shareholders' equity of the merged company is allocated for the same values to the net book value of the merged company's assets and goodwill resulting from the consolidated financial statements at the reference date of the merger/spin-off, which was carried out according to values shown in the previous financial statements.

These transactions were stated according to back-dating envisaged in the specific deeds, insofar as they do not involve a change in control on assets of the merged/spun-off company, but rather the shifting from indirect to direct control. The treatment of costs and revenues of the merged company/subsidiary in the consolidated financial statements is therefore consistent with values shown in the income statement of the merging company, starting from the beginning of the year compared with the year of the merger. To this end, as for significant transactions included in the cases described above, figures were restated to be compared with the financial statements of this year.

Business combinations between companies under common control – Combination transactions between companies under common control are not specifically governed by IFRS 3. For these transactions, the Group applies the option provided for by OPI 1 Assirevi and disclosed transactions showing a continuity in values with figures previously recorded, except when these transactions generated added value for the entirety of the parties involved resulting in significant changes in cash flows before and after the transfer of assets.

Losses in value - impairment - As at each balance sheet date and when events or situation changes indicate that the book value cannot be recovered, Hera Spa considers the book value of the tangible and intangible fixed assets in order to assess whether there is any indication that said assets have suffered impairment. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total of the write-down. The recoverable amount is either the fair value, less sales costs or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, Hera Spa estimates the recoverable value of the unit generating the financial flows to which said assets belong. Future cash flows are discounted back at a discount rate (net of taxation) which reflects the current valuation of the market and takes into account the risks associated with the specific business activities. If the recoverable amount of an asset (or of a unit generating financial flows) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value which the asset would have had if the write-down had not been made for the loss in value. The write-back of the value is charged to the income statement.

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

Equity investments – The equity investments recorded in this item relate to long-term investments.

Equity investments in subsidiaries – A subsidiary is an enterprise over which the Company is able to exercise control. Control means the power to determine an entity's financial and management policies in order to obtain benefits from its activities.

Investments in associated companies – An associated company is a company over which the company is able to exercise significant influence, (but not control, or joint control), by means of participation in the decisions on the financial and operating policies of the investee company.

Equity investments in subsidiary and associated companies are recorded at cost adjusted by impairments to reflect the relative recoverable value, in accordance with IAS 36 – Impairment of assets. When the impairment ceases to exist or is reduced, the book value is increased to the estimated recoverable value, which cannot however exceed the original cost. The write-back is charged to the income statement.

If the Company's interest in the losses of the investee company exceeds the book value of the equity investment, the value of the investment will be written off and the interest in the further losses will be recorded as liability provision if the Company is to be held liable.

Dividends received are recorded in the income statement, at the time the right to receive payment is established. If the investee company has distributed dividends, the following aspects may also be considered as possible impairment indicators:

- the book value of the investment in the balance sheet for the financial period exceeds the carrying amount in the consolidated financial statements of the net assets of the investee company, including goodwill;
- the dividend exceeds the total of the statement of comprehensive income of the investee company in the period that the dividend refers to.

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

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

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

Receivables and Financial Assets – Hera Spa classifies financial assets in the following categories:

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

Management determines their classification when they are first recorded.

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

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

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

Receivables and loans

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

Financial assets held to maturity

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

Financial assets available for sale

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

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

Environmental bonds – Hera SpA is subject to the various environmental regulations issued (Directive 2003/87/EC – Emission Trading; Italian Ministerial Decree 24/05 and subsequent modifications – Green Certificates; Italian Ministerial Decree 20/07/04 – Energy Efficiency Bonds) that require that the obligations established through use of certificates or bonds be observed. Therefore, Hera Spa is obliged to meet a requirement in terms of grey certificates (emission trading) and white certificates (energy efficiency bonds).

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

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

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

Trade receivables – Trade receivables are recorded at amortised cost, adjusted for impairment. Financial assets are recorded and reversed from the financial statements on the basis of the date of transaction; furthermore, these assets are eliminated in the event of sale which transfers all risks and benefits associated with their management to third parties.

Contract work in progress – When the result of a contract can be reliably estimated, contract work in progress is valued on the basis of the contractual payments accrued with reasonable certainty, on a percentage of completion basis (cost-to-cost), so as to allocate the revenues and the economic result of the contract to the pertinent individual accounting periods, in proportion to the stage of completion of the work. The positive or negative difference between the value of the contracts and the advance payments received is recorded respectively among the assets or liabilities of the statement of financial position. Contract revenues, in addition to the contractual payments, include the variations, the price review and the recognition of the incentives up to the extent it is probable that they represent effective revenues which can be determined reliably. When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred. When it is probable that the total contract costs will be greater than the contractual revenues, the expected loss is immediately stated at cost.

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

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

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

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

Financial liabilities – These are initially stated at cost, corresponding to the fair value of the liability net of the transaction costs that are directly attributable to the issue of said liability. Following the initial statement, financial liabilities, with the exception of derivatives, are valued on the basis of amortised cost, using the original effective interest rate method.

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

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

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

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

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

Derivative financial instruments – Hera Spa holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate fluctuations.

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

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

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

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

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

The derivatives embedded in financial assets/liabilities are separated out and valued independently at fair value, except for cases where, as provided for by IAS 39, the strike price of the derivative as at the date of activation is close to the determined value, on the basis of amortised cost, of related asset/liability. In such case, the measurement of the incorporated derivative instrument is absorbed in the measurement of the financial assets/liabilities.

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

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

Specifically:

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

Financial income and charges – Financial income and charges are recognised in accordance with the accruals principle.

Dividends from “other companies” are recorded in the income statement, at the time the right to receive payment is established, only if they derive from distribution of profit arising after acquisition of the investee. Should these dividends derive from the distribution of reserves that were pre-existing on the date the Hera Spa acquired control, they are recognised in the income statement and the equity investment is checked for impairment.

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

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

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

For the purposes of IRES (corporation tax), the Company has opted to use the “domestic tax consolidation” system with the major subsidiary companies. To this end, a special contract has been entered into with each subsidiary by which to regulate the tax items transferred with specific reference to current taxes. Prepaid and deferred taxes calculated when determining the income of the subsidiaries are not transferred to the Parent Company Hera Spa, but remain under the individual subsidiary.

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

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

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

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

Accounting standards, amendments and interpretations applicable from 1 January 2010

On 1 January 2010, Hera SpA adopted the following accounting standards, amendments and interpretations issued by IASB and adopted by the European Union: the application of these standards did not produce significant effects except for the interpretation of IFRIC 12 "Service concession arrangements", as reported below.

Application of the interpretation of IFRIC 12 "Service concession arrangements".

On 1 January 2010, Hera SpA applied the interpretation of IFRIC 12 "Service concession arrangements". This interpretation is applied to service concession arrangements from the public to the private sector provided the following terms are abided by:

- the grantor controls or regulates what services the concessionaire must provide using the infrastructure, to whom and at what price,
- the grantor controls - through its ownership or in another way - any residual interest in the infrastructure at the end of the term of the arrangement.

If the above conditions are met, the concessionaire must not treat the infrastructures as owned property, plant and machinery; this is because the service concession agreement grants the use of the infrastructures, but when the concession expires, they will no longer be available. Therefore, these infrastructures must be treated as financial assets, or intangible assets, according to whether or not the concessionaire has an unconditional right to receive contractually guaranteed cash flows, irrespective of the actual use of the infrastructure. In essence, the so-called "financial asset model" must be applied only when the concessionaire is not exposed to demand risk and, therefore, every time the cash flows set forth in the concession agreement allow for recovering credit/investment, irrespective of the actual use of the infrastructure by customers.

After having analysed concession arrangements in force with grantors, Hera SpA considered it necessary to apply the interpretation to all gas distribution, integrated water cycle and public lighting activities. As regards electricity distribution, the interpretation is applicable to the infrastructures in the area of Imola managed by way of a business unit lease agreement with Con.Ami.

The "intangible fixed asset model" was prospectively applied to all cases, since it was considered that the underlying concession arrangements do not guarantee the existence of an unconditional right in favour of the concessionaire to receive cash or other financial assets. Therefore, the involved infrastructures were reclassified from tangible fixed assets to intangible assets under the item "concessions", re-exposing the statement of financial position as at 31 December 2009. The explanatory notes show the values of this reclassification, also in consideration of the different availability regimes to which the goods are subject. The financial-technical amortisation rates, representing the expectation of obtaining future economic benefits from the use and residual value of the infrastructure, as set forth by the reference regulatory framework, are still the same already being used within the Company, also taking into account current agreements. As regards electricity distribution assets, the business unit lease contract with Con.Ami requires that the lessee/concessionaire be paid an adjustment calculated based on a dedicated assessment prepared according to financial-technical criteria, also in that case it is not necessary to change the amortisation rates.

The implementation of IFRIC 12 made it necessary to apply IAS 11 “Construction Contracts” to the same infrastructures, since if the concessionaire constructs or improves an infrastructure that it does not control, the relative construction and improvement services carried out on behalf of the grantor are classified as construction contracts. Therefore, also in this case, the income statement for 2009 was reclassified in order to allow for an appropriate comparison with the data recorded as at 31 December 2010; the explanatory notes highlight the results of this reclassification. IAS 11 requires that, during the construction phase, the constructor of the assets report the revenue and costs of the project in proportion to the stage of completion of contract activity. So, considering that most works are contracted out externally and the margin cannot be identified individually from the benefits included in the remuneration for the service on construction activities carried out internally, these infrastructures are reported based on costs effectively sustained, net of any contributions paid by the entities and/or private customers.

Other major changes

IFRS 3 Revised – Business Combinations. The amended standard introduces a number of significant innovations. Especially, the following can be highlighted: the possible entering of the goodwill is acknowledged, also with reference to third party portions (full goodwill method); recording ways of assets and liabilities are modified in case the subsidiary is acquired in more than one phase (goodwill is determined as the difference between the value of equity investments immediately before the acquisition, the amount of the transaction and the fair value of net assets acquired); moreover, recognition of all costs connected with the business combinations to income statement becomes mandatory, while it is also required that consideration subject to conditions be considered in the purchase price.

IAS 27 revised - The amendment to IAS 27 sets out that modifications to a shareholding which do not result in a loss of control shall be considered as transactions among shareholders (i.e. equity transactions) and shall therefore have a counter-entry to shareholders' equity. The option of recording this transaction in the income statement is therefore eliminated. It is also set out that, when the parent company cedes the control in an investee, but still holds a minority interest in the company, this investment must be maintained at fair value in the balance sheet and any profits or losses deriving from the loss of control shall be charged to income statement.

Amendments to IFRIC 9: Recalculation of the value of the incorporated derivatives and to IAS 39 - Financial instruments: Recognition and Measurement. The changes regulate specific reference dates for the valuation and criteria for the valuation of the same with regard to embedded derivatives.

IFRIC 15 – Agreements for the Construction of Real Estate. The interpretation supplies clarifications and inputs as to timing according to which revenues from the construction of real estate should be recognised, or whether an agreement for the building would be included in the application of IAS 11 Long-term construction contracts or IAS 18 Revenue.

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation. The interpretation clarifies the methods of applying the international accounting standards IAS 21 and IAS 39 in the cases in which an entity hedges the exchange risk deriving from own net equity investments in a foreign operation.

IFRIC 17 – Distribution of Non-Cash Assets to Owners. The interpretation disciplines the recording of dividends disbursed in different ways with respect to cash and cash equivalents.

IFRIC 18 – Transfers of Assets from Customers. The interpretation disciplines the recording of amounts collected from customers carried out via assets other than cash and cash equivalents.

IFRS 1 Revised – First-time Adoption of International Financial Reporting Standards Among other things, it is established that bodies with oil and gas assets that adopt IFRS are authorised to use the accounting values determined based on previous accounting standards. It is appropriate that the bodies that elect this exemption be held to valuating liabilities for dismantling, clean-up and similar liabilities regarding activities related to oil and gas according to what is set forth by IAS 37 Provisions, Contingent Liabilities and Contingent Assets and to reporting in retained profits any difference between that amount and the book value of those liabilities. The amendments to IFRS 1 also pertain to reassessing determinations pertaining to lease contracts.

Amendments to IFRS 2 - Share-based payment. The amendment provides clarifications on recording share-based payment transactions in which the supplier of goods or services is paid in cash and the obligation is contracted by another group entity (share-based payment transactions regulated by cash within a group).

Amendments to IAS 39 – elements qualifying as hedges. This amendment provides additional information with which to identify elements constituting a hedge.

In April 2009, the International Accounting Standards Board (IASB) published “Improvements to the International Financial Reporting Standards”, subsequently adopted by the European Union under Regulation 243/2010. These Improvements include amendments to the existing international accounting standards:

- Improvement to IFRS 2 – Share-based payment. The improvement sets forth that this standard must not be applied to transactions in which the entity acquires assets following a business combination or within the context of a combination/ establishment of a joint venture.
- Improvement to IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations. The change clarifies the information to be provided within the context of non-current assets (or groups of assets) classified as held for sale or as discontinued operations.
- Improvement to IFRS 8 - Operating segments. The change requires entities to disclose the value of total segment assets for each segment reported on if this amount is regularly provided to the highest operating decision-making level.
- Improvement to IAS 1 – Presentation of the Financial Statements. The update requires that an entity classify a liability as "current" when:
 - a) it is expected that it will be extinguished within the entity's normal operating cycle;
 - b) it is mainly held for trading;
 - c) it must be extinguished within twelve months from the year-end closing date;
 - d) it does not have an unconditional right to defer payment for at least twelve months from the year-end closing date.Other liabilities which do not meet these conditions must be classified as "non-current".

- Improvement to IAS 7 – Statement of cash flows. The improvement requires that only cash flows associated with expenses that result in recognising an asset in the equity and financial position can be classified in the cash flow statement as deriving from investment activities.
- Improvement to IAS 17 – Leases. The amendment specifies that, if the leasing includes both land and buildings, the entity must separately evaluate the classification of each element as a finance or operating lease. In determining if land is an operating or finance lease, it is important to consider whether the land normally has an undefined economic life. The change is applicable as of 1 January 2010 and at the adoption date, all land subject to already existing lease contracts which have not yet expired must be evaluated separately, with a possible retrospective accounting recognition with the financial type. This improvement did not have any effect on the Company's financial statements since leased land and buildings were already recorded independently.
- Improvement to IAS 36 – Impairment of Assets. The update sets forth that each operating unit (or group of units) subject to goodwill allocation for the purpose of impairment tests must not be larger than an operating segment, determined in accordance with paragraph 5 of IFRS 8 before the combination.
- Improvement to IAS 38 - Intangible Assets. It was necessary to update this standard following the adoption of the revised IFRS 3 which made it possible to value the fair value of an intangible asset acquired during a business combination. Furthermore, the valuation techniques for determining the fair value of intangible assets for which there is no active market were clarified.
- Improvement IAS 39 – Financial instruments: Recognition and Measurement. The improvement restricts the non-applicability exception to forward contracts between a purchaser and a selling shareholder for the purpose of selling a company ceded in a business combination at a future purchase date if the completion of the business combination does not depend on further actions from one of the two parties, but only on the lapse of an adequate period of time. The improvement furthermore sets forth that the implicit penalties for the early redemption of loans must be considered strictly related to the loan contract that imposes them and therefore shall not be recorded separately. Finally, it was set forth that profits or losses on a hedged financial instrument must be reclassified from shareholders' equity to the income statement in the period in which the expected hedged cash flow affects the income statement.

The accounting standards already in force and not amended, adopted in the year closed as at 31 December 2010, are unchanged with respect to the previous year.

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

Starting from 1 January 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).

Revised IAS 24 - Related Party Disclosures (Regulation 632/2010). The changes 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 objective of the amendments is to eliminate an undesired consequence of IFRIC 14 if the entity, subject to a minimum funding requirement, prepays contributions for which under specific circumstances the entity which makes the prepayment would have to record an expense. If a defined pension plan is subject to a minimum funding requirement, the change to IFRIC 14 sets forth that this prepayment be accounted for as an asset, as for any other prepayment.

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

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

- IFRS 3 Improvement – Business Combinations: this amendment clarifies that third party equity interests which do not give the holders the right to receive a proportional share of the subsidiary's shareholders' equity must be measured at fair value or as required by the applicable accounting standards. The issue of share based payments which are replaced as part of a business combination is also further clarified, with a specific guide for their accounting treatment.

- Improvement IFRS 7 – Financial instruments: disclosures: the amendment provides clarifications on the interaction between disclosures of a qualitative and of a quantitative nature in regard to the risks inherent in financial instruments. Furthermore the requirement for disclosure of expired financial assets that have been renegotiated or written down has been eliminated.
- Improvement IAS 1 – Presentation of the Financial Statements: the amendment requires that a reconciliation of the changes in the individual components of equity be presented in the notes or financial statements.
- Improvement to IAS 34 – Interim Financial Reporting: this amendment contains clarifications about additional disclosures required for the preparation of the interim financial statements.

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

Accounting standards which are being adopted by the European Union

The following updates 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.

Risk management

Credit risk

Hera Spa operates in business areas with low levels of credit risk given the nature of its activities and due to the fact that its credit exposure is spread over a large number of customers. The reference market is the Italian market. Assets are recognised in the financial statements net of any write downs determined on the basis of the default risk of the counterparties, taking into account the information available on solvency and the historical data.

Liquidity risk

Liquidity risk for Hera Spa may arise from difficulties in obtaining financing to support its operations within good time. Cash flows, financing needs and the liquidity of the Group's companies are centrally monitored or managed, under the control of the Group's Treasury Department, for the purpose of ensuring an efficient and effective management of financial resources.

The financial planning of requirements, focused on medium-term borrowings, and the availability margins on credit facilities, allow an efficient management of liquidity risk.

Exchange rate risk and interest rate risk

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

Fair Value Hierarchy

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

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

Significant estimates and valuations

Use of estimates

Arrangement of the financial statements and related notes requires the use of estimates and valuations by the directors, with regard to the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below.

Specific information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

Impairment of goodwill

Hera Spa carries out an impairment test on goodwill at least once a year. This test is based on the calculation of its value in use, which requires the use of estimates, as specified in paragraph 18 of this note.

Allocations to provisions for risks

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

Disclosure of revenues

Revenues for the sale of electricity, gas and water are recognised and accounted for at supply and include the allocation for services rendered between the date of the last reading and the ending of the financial year. This allocation is based on estimated of the customer's daily consumption, based on the historic profile, adjusted to reflect the weather conditions or other factors which might affect consumption under evaluation.

Deferred tax assets

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

Depreciation and amortisation

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

Summary of reclassifications

Below you will find the effects on the statement of financial position as at 31 December 2009 and on the income statement of the 2009 financial year generated by application of the IFRIC 12 interpretation “service concession arrangements”. These reclassifications will be analysed further in the notes that follow.

	31-Dec-2009	2009 IFRIC 12 changes	31-Dec-2009 Published
BALANCE SHEET			
Non-current assets			
Tangible fixed assets	863,730,775	-1,405,616,704	2,269,347,479
Intangible assets	1,559,939,300	1,405,616,704	154,322,596
Total Assets	2,423,670,075	0	2,423,670,075
INCOME STATEMENT			
Revenues			
Other operating income	219,968,377	140,624,472	79,343,905
	219,968,377	140,624,472	79,343,905
Costs			
Service costs	-730,919,652	-103,060,497	-627,859,155
Other operating costs	-27,975,282	-272,482	-27,702,800
Capitalised costs	19,484,096	-37,291,493	56,775,589
	-739,410,838	-140,624,472	-598,786,366
Total	-519,442,461	0	-519,442,461

3. Revenues

	2010	2009	Changes
Collection and disposal of waste	382,542	401,053	(18,511)
Integrated water service	371,693	377,332	(5,639)
Distribution, measurement and sale of gas	149,627	133,782	15,845
Services for third parties	122,175	106,893	15,282
Group services	73,128	84,998	(11,870)
Production and distribution of electricity	72,040	86,558	(14,518)
District heating	66,140	63,892	2,248
Public lighting	37,957	38,232	(275)
Cemetery and funerary services	8,458	8,486	(28)
Rents for concession and management services	3,114	6,064	(2,950)
Other services rendered	2,712	1,061	1,651
Gas distribution tariff equalisation	(1,419)	7,457	(8,876)
Electricity distribution tariff equalisation	(2,416)	(2,005)	(411)
Total	1,285,752	1,313,802	(28,050)

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

The most substantial changes are analysed in the other income items.

Revenues from the "collection and disposal of waste" are down in 2010 mainly due to the total revenues in the first half of 2009 for the "waste management division", which was then transferred to the subsidiary Herambiente Spa from 1 July 2009.

The "services for third parties", also including connection contributions, shows a significant increase compared to the previous year, due to works carried out on the incinerators in Modena, Rimini and Forlì on behalf of Herambiente Spa.

The "group services" are down on the previous year as described below:

- Euro 951 thousand for the lower revenues for the subsidiary Hera Trading Srl for Euro 5,958 thousand and the higher revenues for the subsidiary Herambiente Spa for Euro 5,007 thousand generated by the application of the service contracts;
- Euro 10,919 thousand for the lower revenues for the subsidiary Hera Comm Srl for structural costs debited in 2009 regarding the customer business unit sold at the end of the previous year.

The “rents for concessions and management services” are down mainly due to the failure by the Emilia Romagna region to renew, for 2010, the agreement for the creation and management of a private network for the public administration telecommunication service (Euro 2,008 thousand).

Revenues for “Other services rendered” include the invoicing of “sundry services” for a negligible amount provided to municipalities and private customers.

Please refer to paragraph 03.03.02 for the description of the Group structure and the resulting invoicing relations, both assets and liabilities, amongst the various companies, especially for “Group services”.

4. Change in inventories of finished products and work in progress

	2010	2009	Changes
Changes in contract work in progress	9,158	(2,803)	11,961
Total	9,158	(2,803)	11,961

The increase is mainly due to work on third party plants and construction work on the Modena, Rimini and Forlì waste-to-energy plants in 2010. This item is related to note 25 “contract work in progress”.

5 Other operating income

	2010	2009	Changes
Long term construction contracts	125,346	140,624	(15,278)
White certificates	15,478	10,938	4,540
Grey certificates	3,632	-	3,632
Operating grants and grants for separate waste collection	15,100	12,538	2,562
Reassessment of other provisions	8,000	1,768	6,232
Capital gains on sales of goods	6,055	7,313	(1,258)
Charge backs to Group company for other costs incurred	5,329	6,043	(714)
Charge backs to Group company for costs incurred for directors' fees, real estate services, fleet management and administrative fees	3,176	3,314	(138)
Leases	3,583	3,671	(88)
Capital grants	2,727	2,678	49
Costs reimbursed	2,462	2,167	295
Sale of materials and stock to third parties	677	615	62
Insurance reimbursements	625	3,083	(2,458)
Termination of lease contracts of the gas and district heating networks	-	16,841	(16,841)
Use of provisions	-	1,200	(1,200)
Other revenues	4,193	7,175	(2,982)
Total	196,383	219,968	(23,585)

The amount of “other operating income” for 2009 was shown for comparison purposes to reflect application of the interpretation of IFRIC 12. This effect amounts to Euro 140,624 thousand placed under “long term construction contracts”. Please refer to the first paragraph of this note for more information.

The most substantial changes compared with the same period in the previous year are described below.

“Long-term construction contracts” includes revenues generated from the construction or improvement of infrastructures held in concession.

“White certificates” and “Grey certificates” show the total revenues from the Compensation Fund of the electricity sector with respect to the white certificates due to the fact that the energy objectives were reached and from the Ministry of the Environment mainly pertaining to the cogeneration plant in Casalegno with respect to the grey certificates. Specifically, with Law Decree no. 72 of 20 May 2010, later converted with Law no. 111 of 19 July 2010, the Government clearly established that the plants that do not receive the free allocation of permits are entitled to monetary repayment.

Item “operating grants and grants for separate waste collection” shows an increase of Euro 2,562 thousand, due to:

- Euro 2,794 thousand for higher volumes of packaging (cardboard, iron, plastic, glass) deriving from the separate waste collection and sold to the Consortiums of the Conai Chain;
- Euro 134 thousand for the higher grants paid by the Raee Coordination Centre (electric and electronic equipment waste);
- Euro 366 thousand for the lower energy recovery grants and other minor grants.

“Reassessment of other provisions” mainly includes uses of the provision for doubtful debts for Euro 8,000 thousand.

“Capital gains on sales of goods”, mainly recorded for the sale of the real estate complex in Bologna - Via Ranzani and in Sassuolo – Via Brigata Folgore, which generated capital gains of Euro 3,234 thousand and Euro 2,343 thousand respectively; note also the capital gains generated by the sale of the gas division to the Municipality of Medicina for Euro 125 thousand and from the sale of resources, waste disposal bins and sundry equipment for Euro 353 thousand.

“Costs reimbursed” mainly comprises repayments from companies or entities for seconded personnel.

“Insurance reimbursements” records a decrease of Euro 2,458 thousand, mainly due to reimbursements received in 2009 following:

- fire at the WDF and IRE plants in Ravenna (Euro 1,363 thousand);
- fire at the WTE plant of Ferrara (Euro 624 thousand);
- other lesser damage suffered (Euro 471 thousand).

“Termination of lease contracts of the gas and district heating networks” refers to the contingent asset recorded in 2009 as part of the share capital increase of Hera Spa following the transfer of the gas and district heating networks by the asset companies: Area Asset Spa and Con.Ami.

“Use of provisions” shows a decrease of Euro 1,200 thousand due to the lower costs incurred for post-closure management of closed landfills. This management was transferred to Herambiente as from 1 July 2009, through the transfer of the “waste management area” of Hera Spa.

“Other revenues” mainly includes the recovery of costs for environmental services in the electricity and gas sector. The reduction in this item compared to the previous year is mainly due to the lower revenues for the contract between Hera Spa and ICQ Holding Spa for the exploitation of energy from biogas produced by landfills managed by Hera Spa up to 30 June 2009.

The table below shows the reclassifications made on certain items from 2009 with respect to what was disclosed, in addition to those mentioned in the first paragraph.

Other operating income	2009 published	reclassification	2009 reclassified
Costs reimbursed	1,449	(1,449)	-
Costs reimbursed	-	2,167	2,167
Other revenues	7,893	(7,893)	-
Other revenues	-	7,175	7,175
Total	9,342	0	9,342
Long term construction contracts - reclassification from IFRIC 12	-	140,624	140,624
Summary			
Long term construction contracts			140,624
Costs reimbursed			2,167
Other revenues			7,175

6. Use of raw materials and consumables (net of changes in inventories of raw materials and stock)

	2010	2009	Changes
Maintenance materials: management and spare parts net of change in stocks	46,771	33,241	13,530
Electricity for industrial use	46,499	56,191	(9,692)
Electricity ready for sale	24,128	16,622	7,505
Water	34,802	33,451	1,351
Methane for industrial use	28,020	46,096	(18,076)
Chemical products	9,298	10,042	(744)
Fuels and lubricants	8,664	8,441	223
Heat management combustible materials	7,371	5,268	2,103
Consumables and sundry	1,257	431	826
Methane ready for sale and LPG net of change in stocks	33	51	(18)
Charges and revenues from certificate valuation	(14,169)	(16,552)	2,383
Total	192,674	193,283	(609)

Please refer to the Directors' Report for the analysis of trends in the costs of raw materials and consumables.

The most substantial changes compared with the same period in the previous year are described below.

"Electricity ready for sale" includes the cost for the acquisition of white, green and grey certificates of Euro 11,959 thousand (Euro 6,288 thousand as at 31 December 2009), and more specifically as follows:

- white, Euro 11,959 thousand (Euro 5,905 thousand as at 31 December 2009);
- grey (Euro 383 thousand as at 31 December 2009).

"Charges and revenues from certificate valuation" include the amounts from the valuation of the certificates:

- green, revenues of Euro 16,425 thousand (Euro 15,686 thousand as at 31 December 2009);
- grey, charges of Euro 2,256 thousand (Euro 866 thousand as at 31 December 2009).

The table below shows the reclassifications made on certain items from 2009 with respect to what was disclosed, in addition to those mentioned in the first paragraph.

Consumption of raw materials and consumables	2009 published	reclassification	2009 reclassified
Electricity ready for sale	10,730	(10,730)	-
Electricity ready for sale	-	27,282	27,282
Charges and revenues from certificate valuation	-	(16,552)	(16,552)
Electricity for industrial use	45,531	(45,531)	-
Electricity for industrial use	-	45,531	45,531
Electricity for industrial use	-	10,660	10,660
Electricity ready for sale	-	(10,660)	(10,660)
Total	56,261	0	56,261

Summary	
Electricity ready for sale	16,622
Electricity for industrial use	56,191
Charges and revenues from certificate valuation	(16,552)

7 Service costs

	2010	2009	Changes
Charges for works and maintenance	271,469	279,306	(7,837)
Services rendered to Group companies	182,912	113,134	69,778
Waste transportation, disposal and collection services	104,795	140,075	(35,280)
Fees paid to local authorities	62,481	68,981	(6,500)
IT and data processing services	27,467	26,409	1,058
Postal and telephone costs	18,658	18,762	(104)
Technical organisation, legal and tax assistance consultancy	15,134	11,189	3,945
Technical services	10,853	7,520	3,333
Recruitment, training and other staff costs	8,049	7,722	327
Bank fees and charges	6,443	6,506	(63)
Insurance	6,093	8,712	(2,619)
Fees payable	6,009	7,383	(1,374)
Rents and leases payable	5,808	8,211	(2,403)
Meter readings	4,423	4,187	236
Announcements and advertising	4,142	4,090	52
Cleaning and security costs	2,984	3,880	(896)
Remuneration to Statutory Auditors and Directors	2,886	3,281	(395)
Industrial utilities (water, methane, heat and electricity)	2,663	4,155	(1,492)
Laboratory analyses	2,188	2,207	(19)
Handling and storage	168	371	(203)
Other service costs	1,843	4,839	(2,996)
Total	747,468	730,920	16,548

The value for 2009 has been shown for comparison purposes to reflect the application of the interpretation of IFRIC 12. In this regard, see the first paragraph of these notes. The total effect equals higher costs of Euro 103,060 thousand allocated to “Charges for works and maintenance”.

The most substantial changes compared to the previous year are described below:

“Charges for works and maintenance” includes costs relating to the construction, or improvement, of infrastructures held in concession.

“Services rendered to Group companies” includes the costs generated by service contracts entered into between Hera Spa and some subsidiary companies (Herambiente Spa, Hera Comm Srl, etc). Please refer to paragraph 3.03.02 “relations with related parties” for further information. The significant increase over the previous year is for the urban waste disposal, treatment and recovery contract with Herambiente which was only applied starting from 1 July for the 2009 financial year, following the transfer by Hera Spa, on that date, of the “waste management” business unit to Herambiente.

“Waste transportation, disposal and collection services” is significantly down with respect to the lower costs incurred for the management of waste management services (this management, starting from 1 July 2009, was transferred to Herambiente through the previously mentioned transfer of the business unit).

The “fees paid to local authorities” include the charges incurred for the use of public owned networks, fees paid to asset companies for the rent of gas, water and electricity cycle assets and the leasing of the drop-off points. The decrease is due mainly to the lower fees paid to certain asset companies (Agea Reti Srl due to the merger with Hera Spa as of 1 January 2010, for Euro 1,917 thousand, Con.Ami for gas services for Euro 934 thousand, Area Asset Spa and Team Spa for the water and waste management services for Euro 317 thousand, Unica Reti Spa for gas and water for Euro 661 thousand, etc.) and to municipalities (mainly the municipality of Bologna for sewage fees for Euro 2,384 thousand).

“Technical organisation, legal and tax assistance consultancy” is up over the previous year mainly due to the accessory costs related to the sale of 25% of the share capital of Herambiente Spa to Ambiente Arancione Cooperatief U.A. (please refer to note 19), in addition to organisational/management services and consultancy.

“Technical services”: the considerable increase over the previous year is mainly due to the different classification of costs, again in relation to application of the IFRIC 12 (costs that were classified as “charges for works and maintenance” in 2009).

“Insurance” is down, mainly due to the transfer of the “waste management” business unit to Herambiente with effect as of 1 July 2009.

“Rents and leases payable” and “fees payable” are down, mainly due to the transfer of the “waste management” business unit to Herambiente with effect as of 1 July 2009.

“Remuneration to Statutory Auditors and Directors” includes costs incurred for the various corporate bodies in addition to the area committees. The amounts pertaining to the Board of Directors and the Board of Statutory Auditors are reported in paragraph 3.03.02 “relationships with related parties”.

“Other service costs” are significantly down from the previous year due mainly to the components of the gas service system that was accounted for under service costs up to 30 June 2009.

The table below shows the reclassifications made on certain items from 2009 with respect to what was disclosed, in addition to those mentioned in the first paragraph.

Service costs	published in 2009	reclassification	2009 reclassified
Other service costs	5,374	(5,374)	-
Other service costs	-	4,839	4,839
Technical organisation, legal and tax assistance consultancy	10,654	(10,654)	-
Technical organisation, legal and tax assistance consultancy	-	11,189	11,189
Total	16,028	0	16,028
Charges for works and maintenance	176,246	-	176,246
Charges for works and maintenance - reclassification after IFRIC 12	-	103,060	103,060
Summary			
Other service costs			4,839
Technical organisation, legal and tax assistance consultancy			11,189
Charges for works and maintenance			279,306

8. Personnel costs

The breakdown of personnel costs in the two financial years is as follows:

	2010	2009	Changes
Wages and salaries	165,746	172,292	(6,546)
Social security contributions	57,098	56,957	141
Employee leaving indemnity and other benefits	529	550	(21)
Other costs	13,044	14,689	(1,645)
Total	236,417	244,488	(8,071)

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

	2010	2009	Changes
Managers	78	85	(7)
Middle management	208	212	(4)
Employees	2,038	2,075	(37)
Workers	1,987	2,202	(215)
Average number	4,311	4,574	(263)

The decrease in personnel costs and the average number from the previous year is mainly due to the transfer by Hera Spa of the “waste management” business unit to Herambiente with effect as of 1 July 2009.

The increase in social security contributions in 2010 compared to 2009 is due to the INPS (social security institute) classification in the tertiary sector, where even employees must contribute towards sick leave and the compensation paid by INPS for sick leave with lower payments therefore, which effects do not significantly change the personnel costs as a whole.

As at 31 December 2010, the effective number of employees was 4,260 units (4,302 as at 31 December 2009).

9. Amortisation, depreciation and allowances

	2010	2009	Changes
Depreciation of tangible fixed assets	43,031	58,341	(15,310)
Amortisation of intangible fixed assets	86,978	92,465	(5,487)
Bad debt provisions	12,000	9,916	2,084
Provisions for risks	12,188	6,564	5,624
Other provisions	4,996	9,521	(4,525)
Total	159,193	176,807	(17,614)

A breakdown of these items is provided in the notes to the items "tangible fixed assets", "intangible assets", "trade receivables" and "provisions for risks and charges".

The evident fluctuation of the "depreciation of tangible fixed assets and amortisation of intangible fixed assets" and "other allocations" (provision for the restoration of assets) is mainly attributable to the process of reappraising the useful life and therefore the depreciation rates of the assets (gas, electricity and district heating) started and completed during 2010. The appraisal in question, carried out with the help of a leading external consultancy firm, in most cases led to an extension of the average useful life and a resulting decrease of the depreciation rate of the plants in question, which on the whole, brought about lower depreciation, equal to about Euro 15 million.

The table below shows the reclassifications made on certain items from 2009 with respect to what was disclosed.

Amortisation and depreciation	Published in 2009	reclassification	2009 reclassified
Depreciation of tangible fixed assets - IFRIC 12 reclassification	114,198	(55,858)	58,341
Amortisation of intangible fixed assets - IFRIC 12 reclassification	36,607	55,858	92,465
Total	150,805	0	150,805

10. Other operating costs

	2010	2009	Changes
State rentals	3,628	6,533	(2,905)
Taxation other than income taxes	5,252	4,679	573
<i>of which fees for occupancy of public areas</i>	<i>2,773</i>	<i>2,204</i>	<i>569</i>
Membership fees and other fees	1,341	1,384	(43)
Special landfill levy	-	3,951	(3,951)
Capital loss on the sale of assets	2,853	2,917	(64)
Other minor charges	8,668	8,511	157
<i>of which for social and welfare expenses</i>	<i>202</i>	<i>235</i>	<i>(33)</i>
<i>of which for fines and penalties</i>	<i>972</i>	<i>453</i>	<i>519</i>
<i>of which for various deductible expenses (mainly for the disadvantaged)</i>	<i>3,656</i>	<i>4,196</i>	<i>(540)</i>
<i>of which other current expenses</i>	<i>3,382</i>	<i>2,503</i>	<i>879</i>
<i>of which from the IFRIC 12 reclassification</i>	<i>-</i>	<i>272</i>	<i>(272)</i>
Total	21,742	27,975	(6,233)

The amount of “Other operating costs” for 2009 was shown for comparison purposes to reflect application of the interpretation of IFRIC 12. This effect amounts to Euro 272 thousand placed under “Other minor charges”. Please refer to the first paragraph of this note for more information.

The most substantial changes compared to the previous year are described below:

The reduction in “State rentals” compared to 2009 is mainly due to expiry of the telecommunications contract with Acantho Spa on 31 December 2009 (contract for completion of the interconnection backbone of the private network of the Emilia Romagna public administration).

“Special landfill levy”, the reduction to zero of this cost is due to the previously mentioned transfer of the landfills owned by the Hera Spa “waste management area” to Herambiente Spa with effect as of 1 July 2009 .

“Capital loss on the sale of assets” were generated by the following disposals:

- various areas in the real estate complex in Bologna – Viale Berti Pichat- Via Ranzani (warehouse, stores, fuel pump ,etc.) for Euro 1,381 thousand;
- electricity meters for Euro 1,185 thousand;
- resources, waste disposal bins and other equipment for Euro 287 thousand.

The table below shows the reclassifications made on certain items from 2009 with respect to what was disclosed, in addition to those mentioned in the first paragraph.

Other operating costs	Published in 2009	reclassification	2009 reclassified
Taxation other than income taxes	4,534	(4,534)	-
Taxation other than income taxes	-	4,679	4,679
Other minor charges	8,384	(8,384)	-
Other minor charges	-	8,239	8,239
Total	12,918	0	12,918
Other minor charges - IFRIC 12 reclassification	-	272	272
Summary			
Taxation other than income taxes			4,679
Other minor charges			8,511

11. Capitalised costs

During the year the following costs were capitalised in the items “Tangible fixed assets and intangible assets”:

	2010	2009	Changes
Personnel costs	7,763	10,039	(2,276)
Material taken from stock	5,114	1,776	3,338
Financial charges	-	7,135	(7,135)
Use of resources	531	534	(3)
Total	13,408	19,484	(6,076)

The “capitalised costs” for 2009 have been shown for comparison purposes to reflect the application of the interpretation of IFRIC 12. In this regard, see the first paragraph of these notes. The total effect, in terms of lower capitalised costs, amounts to Euro 37,291 thousand, distributed among “Personnel costs” for Euro 22,863 thousand, “Material taken from stock” for Euro 12,835 thousand, and “Resources used” for Euro 1,593 thousand.

This item includes the internal costs incurred for implementation of corporate investments. An analysis of the investments can be found in the notes to the statement of financial position and to the Directors’ Report.

12. Portion of profits (losses) pertaining to investee companies

	2010	2009	Changes
Profits from investments in subsidiaries	78,756	31,421	47,335
Profits from investments in associated companies	1,112	106	1,006
Profits from investments in other companies	-	5,486	(5,486)
Write-downs of equity investments	(1,403)	-	(1,403)
Total	78,465	37,013	41,452

The “profits from investments in subsidiaries, associated and other companies” mainly comprises the dividends decided on during the 2010 financial year.

“Profits from investments in subsidiaries”: the significant increase over 2009 refers to the capital gains, amounting to Euro 50,147 thousand, generated by the sale of 25% of the capital of Herambiente Spa to Ambiente Arancione Cooperatief U.A., a subsidiary of Eiser Global Infrastructure Fund. This operation is more fully described in note 19.

“Profits from investments in associated companies” shows an increase over 2009 with respect to the dividends of Aimag Spa, a company purchased by Hera Spa on 10 November 2009.

The “profits from investments in other companies” shows a decrease from the previous year mainly for a 2009 dividend on account paid in December 2009 by Energia Italiana Spa (Euro 5,015 thousand).

The “write-downs of equity investments” refers to the write-down of the investment in Oikothen Scarl due to the closing extraordinary losses of the company.

13. Financial income and charges

Financial income	2010	2009	Changes
Income from receivables from subsidiaries recorded as fixed assets	995	109	886
Income from receivables from associated companies recorded as fixed assets	549	257	292
Income from receivables from other companies recorded as fixed assets	32	4	28
Other income - from subsidiaries	16	4	12
Other income - from associated companies	164	187	(23)
Customers	792	806	(14)
Interest rate and foreign exchange derivatives	62,959	1,431	61,528
Income from valuation at fair value of financial liabilities	20,861	8,657	12,204
Banks	655	192	463
Other financial income	466	1,638	(1,172)
Total financial income	87,489	13,285	74,204

Financial charges	2010	2009	Changes
Interest payable and other charges to subsidiaries	269	101	168
Bond loans	77,414	50,471	26,943
Loans payable	1,351	7,056	(5,705)
Discounting of provisions and financial leases	7,119	11,687	(4,568)
Interest rate and foreign exchange derivatives	39,780	23,243	16,537
Charges from valuation at fair value of financial liabilities	46,955	-	46,955
Bank current account overdrafts	2,541	7,646	(5,105)
Other financial charges	7,040	19,199	(12,159)
Total financial charges	182,469	119,403	63,066

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

The main changes are described hereunder:

"Income from receivables from subsidiaries recorded as fixed assets" comprise interest payable on loans granted. The increase over the previous year is due to the loan granted in 2010 to the subsidiary Herambiente Spa. Please refer to note 20 of the statement of financial position for further information.

“Income from receivables from associated companies recorded as fixed assets” comprise interest payable on loans granted. The increase over the previous year is due to the loan granted in 2010 to the associated company Tamarete Energia Srl. Please refer to note 26 of the statement of financial position for further information.

Please see note 22 of the statement on the financial position for more information on the "Income and charges from interest rate and foreign exchange derivatives" and "Income and charges from valuation of financial instruments at fair value". The income from “interest rate and foreign exchange derivatives” include Euro 62,957 thousand for the derivatives and Euro 2 thousand for exchange rate gains. The charges on “interest rate and foreign exchange derivatives” include Euro 39,769 thousand for the derivatives and Euro 11 thousand for exchange rate losses.

The “other financial income” decreased compared to the same period of last year, since 2009 included Euro 1,400 thousand of income generated by the renegotiation of the Put Extendable bond, totalling Euro 200 million.

The financial charges regarding the “Bond loans” comprise:

- Euro 62,459 thousand related to financial charges effectively paid (Euro 37,677 thousand in 2009);
- Euro 14,955 thousand related to application of amortised cost (Euro 12,794 thousand in 2009). With regard to the method used, please note that in the recalculation, the maximum duration for the loans was assumed, and it was also assumed that the put options would not be exercised for the duration of the same loans, within the terms set out in the contract.

The increase, compared to last year, is due to the issue, in the second half of 2009, of a 15-year bond loan for the amount of 20 billion Japanese Yen (for a value of Euro 150 million), the issue of the Euro 500 million, fixed rate of 4.5%, bond loan effective as of November 2009, and the issue of the convertible bond loan of a par value of Euro 140 million effective as of November 2010.

As regards "Other financial charges", this item includes charges borne for the transfer of credits without recourse (Euro 6,286 thousand). The decrease, compared to the previous year, is due to the fact that in 2009, the item included financial charges of Euro 12,254 thousand paid following the recovery pursuant to the “tax moratorium”. To this purpose, for a more thorough description see Note 15 regarding taxes.

Item “Discounting of provisions and financial leases”, equal to Euro 7,119 thousand is broken down as follows:

	2010	2009	Changes
Restoration of third party assets	5,890	6,965	(1,075)
Landfill post-closure provision	-	2,121	(2,121)
Employee leaving indemnity and other similar benefits	1,067	2,281	(1,214)
Financial leasing	162	320	(158)
Total	7,119	11,687	(4,568)

The table below shows the reclassifications made on certain items from 2009 with respect to what was disclosed.

Financial income	Published in 2009	reclassification	2009 reclassified
Interest rate derivatives	10,088	(10,088)	-
Interest and exchange rate derivatives	-	1,431	1,431
Income from valuation at fair value of financial instruments	-	8,657	8,657
Total	10,088	0	10,088

Summary	
Total interest rate derivatives from reclassification	1,431
Total Income from valuation at fair value from reclassification	8,657

Financial charges	Published in 2009	reclassification	2009 reclassified
Other financial charges	19,333	(19,333)	-
Other financial charges	-	19,199	19,199
Discounting of provisions and financial leases	11,554	(11,554)	-
Discounting of provisions and financial leases	-	11,687	11,687
Total	30,887	0	30,887

Summary	
Total other financial charges	19,199
Total interest rate derivatives	11,687

14. Other non-operating costs

	2010	2009	Changes
Other non-operating costs	-	15,319	(15,319)
Total	-	15,319	(15,319)

In 2009 this item included charges for taxes paid for the “tax moratorium” as per note 15 hereunder.

15. Income taxes

This item is made up as follows:

	2010	2009	Changes
Current taxes (Ires, Irap and substitute tax)	64,859	50,266	14,593
Deferred taxes	(54,899)	(9,395)	(45,504)
Prepaid taxes	(3,327)	(731)	(2,596)
Total	6,633	40,140	(33,507)

The taxes for the financial year 2010 amount to Euro 6,633 thousand and include the non-recurring positive effects of Euro 25,061 thousand against the sheltering by substitute tax of the higher values recorded on the balance sheet following extraordinary transactions already carried out in financial year 2009, pursuant to article 176, subsection 2-ter of the FCA regarding taxes for the year 2009 totalling Euro 40,140 thousand. The significant decrease in the tax rate in 2010, 5.1%, compared to 2009, 43.4%, is due to the sheltering by substitute tax as noted above, the capital gains from the sale of 25% of the subsidiary Herambiente Spa in the participation exemption regime, the decrease in the Irap tax base and the related tax for the year, as a result of a reduction in staff costs, and a significant improvement in the financial situation.

The current taxes are broken down as follows:

Current taxes	2010	2009	Changes
Ires	22,880	30,230	(7,350)
Irap	16,410	18,519	(2,109)
Substitute tax Law 244/07 - EC section recapture	(179)	(280)	101
Substitute tax "scope spin-off"	323	1,797	(1,474)
Replacement tax extraordinary operations art. 176, paragraph 2-ter, FCA	25,425	-	25,425
Total	64,859	50,266	14,593

The theoretical rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 27.50%; reconciliation with the effective rate is provided below (IRAP was not taken into consideration given its specific nature).

Reconciliation of theoretical rate with effective rate	
Current financial year	
Ordinary rate	27.50%
Exempt income	-10.24%
Dividends	-5.94%
Other changes	6.19%
Effective rate	17.51%

The prepaid and deferred taxes relating to the year 2010 refer to the following variations between taxable income and profit recorded in the financial statements.

	amount	tax effect		amount	tax effect	
	temporary differences	(rate 27.50% -31.40%)	Purchases/sales	temporary differences	(rate 27.50% -31.40%)	Purchases/sales
Prepaid taxes:						
Provision for doubtful debts	24,710	6,795		27,329	7,515	
Provisions for risks and charges	50,539	9,518		39,000	7,490	
Depreciation/amortisation	72,052	21,113		63,229	18,792	
Other	1,823	525		2,880	661	
IAS/IFRS effects, including those for first time application	3,037	837		3,588	1,002	
Total	152,161	38,788	-	136,026	35,460	3,247
Amount credited to the Income Statement		3,328			731	
Deferred taxes						
Extraordinary operations	6,692	2,101		170,172	53,418	
Capital gains instalments	5,216	1,445		9,514	2,726	
Other	6,256	325		7,869	478	
IAS/IFRS effects, including those for first time application	176,210	54,827		176,077	54,786	
Total	194,374	58,698	2,189	363,632	111,408	50,718
Amount credited to the Income Statement		54,899			9,395	

While calculating taxes for the year, the effects resulting from the IAS tax reform introduced by Law no. 244 of 24 December 2007, and the related implementation decree, Ministerial Decree no. 48 of 1 April 2009 were kept in duly consideration, and especially the derivation principle set out by Art. 83 of the FCA which now sets out that for entities that apply international accounting standards, also notwithstanding provisions set out by the FCA, "criteria regarding definition, time-based recognition and classification in the balance sheet, as set out by the above-mentioned accounting standards" shall apply.

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 four tax periods involved in the recovery. On 31 May 2007, Hera Spa filed an appeal against the aforementioned notices and injunctions with the Bologna provincial tax commission (*Commissione Tributaria Provinciale di Bologna*), requesting the suspension of the execution of these payment injunctions. On 6 July 2007, the Bologna provincial tax commission issued ordinances accepting the suspension requests made by the company, scheduling a hearing of the case for 13 December 2007. On 19 April 2008, notification was made that the appeals had been rejected, except for that relating to the tax period 1997. In this case, the commission recognised the legitimacy of the deduction of tax withheld and of the tax credit carried over from previous years. After the partial relief obtained on 2 May 2008 for taxes related to the 1997 tax period, following the approval of the above-mentioned withholding taxes and credits, equal to Euro 3,738 thousand, a payment was made for a total amount of Euro 17,400 thousand. Subsequently, on 11 September 2008, the Inland Revenue Office served a further tax payment slip regarding the payment of interest for the suspension period, then paid in December 2008, and amounting to Euro 660 thousand.

On 3 October 2008, appeals were filed against above-mentioned rulings. On 29 January 2010 the rulings, issued on 21 January 2010, were filed. Based on these rulings, the Emilia Romagna Regional Tax Commission rejected the appeals submitted by Hera Spa and reformed the first-instance rulings, rejecting the deduction made in the income returns submitted and related to withholding taxes paid. To this end, on 30 August 2010, the relevant payment requests were notified, for which Euro 7,455 thousand in capital, interest, collection fees and notifications costs were paid on 27 October 2010. The petitions to the Supreme Court were presented on 29 April 2010.

Please also note that, under the terms of agreements made between shareholders (and specified in the IPO prospectus) at the time of the incorporation giving rise to the creation of Hera Spa, local authorities undertook “to compensate Hera Spa for any cost, loss or damage sustained by the same in relation to mandatory regulatory measures revoking tax benefits that the company and the companies taking part in the incorporation have enjoyed”. Consequently no cost has been booked in this regard. It is also worth noting that on 31 December 2007, some Shareholder Municipalities set up suitable guarantees in favour of the Company through the prepayments of amounts due to Hera Spa. Following the negative outcome of the first instance judgement and following payment of the tax assessments, debit/credit positions were therefore defined with respect to each Municipality.

On 31 December 2010, outstanding receivables for collection, related to all payments made by Hera spa for the position related to the former Seabo Spa, up to 27 October 2010, amounted to Euro 2,029 thousand.

Regarding the former Meta Modena, merged by incorporation into Hera with effect as from 31 December 2005, for which there was no indemnity mentioned above, pursuant to and in accordance with Law Decree no. 10 of 15 February 2007, on 10 May 2007 the Inland Revenue Office of Modena served Hera Spa with notices and injunctions for the recovery of state aid relating to the tax periods 1997, 1998 and 1999. On 6 June 2007, Hera Spa filed applications for the amendment ("istanze di autotutela") of such notices-injunctions. On 11 June 2007, the Inland Revenue office of Modena issued partial self-defence measures relating to the communicated notices/orders, requesting the Company, as a way of settling the issue, the payment of a minimal amount resulting from the failure to acknowledge withholding taxes paid.

2008 Updates – Law Decree no. 185/2008

Art. 24 of Law Decree no. 185 of 29 November 2008, converted with amendments into Law no. 2 of 28 January 2009, charged the Inland Revenue Office to recover aid equivalent to unpaid taxes and related interest "in order to totally implement" the afore-mentioned decision of the commission on 5 June 2002. As for this provision, on 30 April 2009, the Emilia Romagna Regional Management - Large Taxpayers Office, sent three assessment notices on the position of former Meta for the 1997, 1998 and 1999 tax periods, taking due account of indications contained in the opinion expressed by the Presidency of the Council of Ministers on 28 April 2009, shared with the Attorney General, with special reference to the exclusion from the taxable basis of the following:

- profits, which were reissued into the public circuit, as they were distributed, under the form of dividends, to public bodies shareholders.
- the portion of income regarding the electricity segment (net of profits distributed and related to the electricity segment itself).

On 8 May 2009, the amount of Euro 4,823 thousand was paid. On 7 July 2009, the company lodged appeals against the assessment notices at the Bologna provincial tax commission, asking for their cancellation. The hearing to discuss the case, already scheduled for 17 May 2010, has been postponed to 14 February 2011 while waiting for the meeting for the proceedings to discuss the supplemental assessment notices, pending before section of the same provincial tax commission, commented on hereunder.

With reference to Art. 24 of the above-mentioned Law Decree no. 185 of 29 November 2008, as regards the position related to former Seabo, on 12 June 2009 Hera filed before the Inland Revenue Office - Bologna 3 Office - and the Emilia Romagna Regional Management - Large Taxpayers Office, a request for partial cancellation of the notices and injunctions received on 6 April 2007 regarding tax recovery for years 1997, 1998 and 1999 on the de-taxation of profits distributed to Public Bodies, according to instructions contained in the opinion issued on 28 April 2009 by the Presidency of the Council of Ministers. As of today, the hearing to discuss on the request of cancellation has not been scheduled yet.

For more exhaustive information, it should be noted that on 11 June 2009 the Court of First Instance of the European Community issued rulings regarding the appeals filed by the Italian Government, together with some companies (A2A, Acea, Iride, etc.) against the decision of the European Commission 2003/193/EC. The decisions of the European Community court rejected, or declared not receivable, all appeals filed, thus confirming the legitimacy of the above-mentioned decision of the European Commission. Hera Spa did not take part in the ruling in question for none of the positions mentioned above.

2009 Updates – Law Decree no. 135/2009

Art. 19 of Law Decree no. 135 of 25 September 2009, published in the Official Gazette no. 223 of 25 September 2009, added subsection 1-bis to Art. 24 of Law Decree no. 185 of 29 November 2008, setting out the following:

- while calculating the tax basis, in order to recover aid equivalent to unpaid taxes and related interest, capital gains resulting from extraordinary transactions are not relevant;
- for the purposes of a correct calculation of the taxable basis, assessments issued by the Inland Revenue office can be however supplemented or increased through new notices;
- the payment of amounts due based on the above-mentioned supplementary assessments should be made within the fifteenth day after the notification date of these assessments.

On 2 October 2009, the Emilia Romagna Regional Management - Large Taxpayers Office – sent two further assessment notices for former Meta Spa, regarding the 1998 and 1999 tax periods, as a “supplement” to notices already sent on 30 April 2009, in order to cancel two deductions made and previously accepted according to the opinion, shared by the Attorney General, expressed on 28 April 2009 by the Presidency of the Council of Ministers on profits, which were reissued into the public circuit due to the distribution to public bodies shareholders, and the further portion of profits made in the electricity segment. The amounts required total Euro 22,751 thousand, of which Euro 12,590 thousand related to the capital and Euro 10,161 thousand related to interest.

On the same date, the Emilia Romagna Regional Management - Large Taxpayers Office – sent four assessment notices for the former company Seabo Spa, regarding the 1997, 1998, 1999 – first half year and 1999 – second half year 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 06 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 income returns submitted by the taxpayer.

The amounts required for the former company Seabo, amounted to Euro 759 thousand, of which Euro 386 thousand was for the capital and Euro 373 thousand was for interest.

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

On 27 November 2009, the Company filed all appeals to the Bologna provincial tax commission to cancel all assessment notices of 2 October 2009, regarding the positions of both former Seabo and former Meta.

The appearance before the court for the six proceedings mentioned above took place on 1 December 2009 and the public hearing was held on 26 January 2011 for the positions of former Seabo and on 14 February 2011 for all the reunified positions of former Meta, with all proceedings adjourned.

Except for the still-outstanding disputes, aimed at recovering what has already been paid, the entire "tax moratorium" situation shall be considered concluded, since future disbursements which create financial impacts on the Group's accounts are not expected.

Report on the assessment notices issued in 2010

Seven notices were issued to Hera Spa and Hera Comm Srl on 19 November and 22 December 2010 in their capacities as beneficiary companies of the total spin-off of the company Hera Ferrara Srl effective as of 31 December 2009. Said notices for first and second assessment levels concerning IRES and IRAP taxes followed the tax audit on the Ferrara

territorial operating company for tax years 2005, 2006 and 2007 that came to an end on 16 September 2010 with the report of the Ferrara tax police squad.

The findings basically concerned a mere error that took place in the 2005 financial year in the intercompany costs accounting between Hera Ferrara Srl and Hera Spa, which caused a double recording of the same cost amounting to about Euro 200,000 thousand. Nevertheless, after said error of double recording of the same cost was discovered in the following 2006 financial year, it was corrected by recording a contingent asset of the same amount, duly subject to taxation. It ensued that in view 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 a contingent asset.

On 13 January 2011, tax settlement proposals were made to the Emilia Romagna Regional Management, large taxpayers office, pursuant to article 6, paragraph 2 of Legislative Decree no. 218 of 1997, and discussions are currently underway with this office. This may have a positive result for the company.

Three assessment notices for IRES, IRAP and VAT for the 2005 tax year were issued to Hera Spa on 29 December 2010, following the tax audit of the 2005 tax year that was completed with the report on findings dated 1 October 2010, drawn up by the financial police, Bologna tax police squad. The subject matter of the report is a finding regarding intercompany services (known as management expenses regarding use of the trademark) supplied by Hera Spa, in its capacity as parent company of the Hera Group, to the subsidiary territorial operating company of Forlì-Cesena, Hera Forlì-Cesena Srl.

Although it found the cost split criteria initially established by the intercompany contracts legitimate, the tax authorities question the subsequent reduction of the recharge percentages of the management expenses, generally called management fees, following a subsequent agreement that the parties entered into which adjusted the criteria initially envisaged. In the opinion of the tax authorities, said adjustment reducing fees due for the services that the holding company supplied entailed tax dodging on the part of Hera Spa, since the lower recharge for management fees to the TOS 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 inherence principle. Likewise, the failure to charge the fee for using the “Hera Group” trademark would have brought about lower revenues for Hera Spa compared to what was originally foreseen in the intercompany agreement, and so IRES, IRAP and VAT tax dodging allegedly occurred in this case also according to the tax office.

The company made a tax settlement proposal in February 2011 to the Emilia Romagna Regional Management, large taxpayers office, pursuant to article 6, paragraph 2 of Legislative Decree no. 218 of 1997, and is currently awaiting notice to appear in order to open the discussion.

The company decided it did not have to make any allocation to the provisions for risks for the assessment notices in question as it considers the alleged breaches charged against it to be without merit, and especially it considers that the fiscal damage due to unpaid taxes to be inexistent; this is based on the fact that the companies involved adhered to the group taxation system for the period in question, in accordance with articles 117 et seq. of the FCA (known as tax consolidation) in accordance with which payment of the tax actually due to the tax authorities is made in the income tax return at the consolidated level based on the algebraic sum of the taxable incomes of the individual companies adhering to the system. Therefore none of the individual companies are believed to have committed any tax dodging, but if anything at the fiscal unit level. In view of the above, it was decided not to make any allocation to the provisions for risks for the years of assessment in question, after having also consulted with lawyers.

16. Tangible fixed assets

	31-Dec-2010	31-Dec-2009	Changes
Land and buildings	194,663	167,963	26,700
General plant and machinery	551,703	472,648	79,055
Other moveable assets	72,290	76,536	(4,246)
Work in progress and advance payments	75,712	146,583	(70,871)
Total	894,368	863,731	30,637

Tangible fixed assets are disclosed net of accumulated depreciation. Their composition and changes in the period are as follows:

Thousands of euro	Land and buildings	Plant and machinery	Other moveable assets	Work in progress and advance payments	Total tangible fixed assets
PURCHASE COST					
Balance as at 31.12.2009	202,103	690,911	227,456	146,583	1,267,054
Mergers	-	-	-	-	-
Spin-offs	-	-	-	-	-
Transfer of business units	-	-	-	-	-
Increases	7,137	23,951	11,006	38,565	80,659
Disinvestments	-9,546	-1,762	-10,658	-1,582	-23,548
Reclassifications and other changes	35,860	74,840	682	-107,854	3,527
Balance as at 31.12.2010	235,554	787,940	228,486	75,712	1,327,692
ACCUMULATED DEPRECIATION					
Balance as at 31.12.2009	-34,140	-218,263	-150,920	-	-403,323
Mergers	-	-	-	-	-
Spin-offs	-	-	-	-	-
Transfer of business units	-	-	-	-	-
Depreciation for the year	-4,495	-22,859	-15,677	-	-43,031
Disinvestments	2,481	498	9,633	-	12,612
Reclassifications and other changes	-4,737	4,387	769	-	419
Balance as at 31.12.2010	-40,891	-236,237	-156,195	-	-433,323
Net value	194,663	551,703	72,290	75,712	894,368
As at 31 December 2009	167,963	472,648	76,536	146,583	863,731
As at 31 December 2010	194,663	551,703	72,290	75,712	894,368

Please bear in mind the reclassifications compared to what was published as at 31 December 2009, already analysed in the first paragraph, especially as far as the categories “Land and buildings” and “Plants and machinery” are concerned.

However, the breakdown and major changes within each category are described hereunder.

“Land and buildings” amounting to Euro 47,305 and 147,358 thousand respectively as at 31 December 2010 relate to company-owned properties on which the majority of the sites and production plants stand. The increases comprise the extraordinary maintenance works carried out at the company headquarters in Viale Berti Pichat in Bologna and in Via Razzaboni in Modena, and execution of the building works on the cogeneration plant in Imola. The decreases mainly refer to the sale of the real estate complex in Via Brigata Folgore in Sassuolo and the real estate complex in Via Ranzani in Bologna (warehouses, stores, fuel pump, etc.).

“Plants and machinery” of Euro 551,703 thousand (of which 441,822 for specific plants, 97,593 for big specific plants, and 12,288 for generic plants) mainly comprise the distribution networks and plants regarding the businesses not falling under the concession system, and therefore mainly district heating and electricity in the Modena area. The increase for the year mainly reflects the operational start up of the cogeneration plant in Via Casalegno – Imola. The decreases also include the disposal of electricity meters and of some company’s assets which were damaged by fire.

“Other moveable assets” include equipment, furniture, electronic machines, cars and motor vehicles. Specifically, equipment, equal to Euro 43,055 thousand, mainly includes waste disposal bins. Furniture, equal to Euro 3,707 thousand, is similar to the previous year, while electronic machines, amounting to Euro 6,113 thousand, have increased considerably compared to 31 December 2009 due to “E-Gate” activities concerning the separate waste collection in the Rimini area (waste disposal bins and electronic keys to be more precise). Motor vehicles and cars amount to Euro 779 and 18,636 thousand, respectively. The increases for the year mainly include the purchases of electronic office machines and other fittings, while disposals mainly related to waste disposal bins and motor vehicles.

“Work in progress and advance payments” of Euro 75,712 thousand, mainly comprise the costs incurred for developing district heating and electricity distribution in the Modena area, extraordinary maintenance work on structural properties and waste management and street sweeping.

Please see the Directors’ report for a more detailed analysis of investments in the period.

17. Intangible assets

	31-Dec-2010	31-Dec-2009	Changes
Patents and know-how	23,494	31,058	(7,564)
Concessions	75,240	88,618	(13,378)
Licences, trademarks and similar rights	4,682	5,762	(1,080)
Public services under concession	1,492,325	1,405,617	86,708
Work in progress and advance payments	29,759	27,047	2,712
Other	690	1,838	(1,148)
Total	1,626,191	1,559,939	66,252

The composition and changes in intangible assets are as follows:

	Patents	Licences, trademarks and similar rights	Public services under concession	Other	Work in progress and advance payments	Work in progress and advance payments for public services under concession	Total intangible assets
PURCHASE COST							
Balance as at 31.12.2009	125,167	230,447	1,589,390	6,857	27,047	159,936	2,138,844
Mergers	-	-	-	-	-	-	-
Spin-offs	-	-	-	-	-	-	-
Transfer of business units	-	-	28,621	-	-	-	28,621
Increases	440	2	69,883	80	13,492	54,777	138,675
Disinvestments	-	-59	-7,399	-	-	-	-7,458
Reclassifications and other changes	5,726	-3,163	81,816	-	-10,780	-81,224	-7,626
Balance as at 31.12.2010	131,334	227,227	1,762,310	6,937	29,759	133,489	2,291,057
ACCUMULATED AMORTISATION							
Balance as at 31.12.2009	-94,109	-136,067	-343,709	-5,019	-	-	-578,905
Mergers	-	-	-	-	-	-	-
Spin-offs	-	-	-	-	-	-	-
Transfer of business units	-	-	-	-	-	-	-
Amortisation for the year	-13,730	-13,001	-59,020	-1,228	-	-	-86,978
Disinvestments	-	49	678	-	-	-	727
Reclassifications and other changes	-1	1,714	-1,423	-	-	-	290
Balance as at 31.12.2010	-107,840	-147,306	-403,474	-6,247	-	-	-664,866
Net value	23,494	79,922	1,358,837	690	29,759	133,489	1,626,191
As at 31 December 2009	31,058	94,380	1,245,681	1,838	27,047	159,936	1,559,939
As at 31 December 2010	23,494	79,922	1,358,837	690	29,759	133,489	1,626,191

The breakdown and major changes within each category are described hereunder.

“Patents and know-how”, totalling Euro 23,494 thousand mainly relates to costs incurred for the purchase and implementation of IT systems SAP R/3 ECC6 and related application systems. These costs are amortised over five years.

“Concessions”, amounting to Euro 79,922 thousand, mainly includes the value of the concessions held by Hera Spa in relation to the gas, water and purification plants. The decrease in this item is mainly due to the changeover from “licences, trademarks and other similar rights” to “public services under concession” of assets related to the purification service in the municipalities of Gaggio Montano, Grizzana, Marzabotto, Vergato and Sala Bolognese and the assets related to the gas service in the municipality of Sala Bolognese as provided under the related contracts on reaching the expiry dates of said concessions.

Licences, trademarks and similar rights amount to Euro 4,682 thousand as at 31 December 2010.

“Public services under concession”, amounting to Euro 1,359 thousand comprising assets relating to the gas, water, purification, sewage 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 (details of the municipalities and services are provided above). For information on the reclassification of amounts as at 31 December 2009, please refer to the comments in note 16 “Tangible fixed assets” and to the first paragraph.

“Other” equal to Euro 690 thousand, mainly relates to the expenses incurred for the mapping, Geographical Information System (GIS), other sundry long-term charges, use of networks and infrastructures for the passage and laying of optical fibre telecommunication networks.

“Work in progress and advance payments”, amounting to Euro 29,759 thousand as at 31 December 2010, mainly comprises costs sustained for uncompleted IT projects.

“Work in progress and advance payments for public services under concession” amounting to Euro 133,489 thousand refer to the same assets as in the previous point, which had not been completed at the balance sheet date.

18 Goodwill

	31-Dec-2010	31-Dec-2009	Changes
Goodwill	187,084	187,084	-
Total	187,084	187,084	-

The main values are as follows:

- residual goodwill from the 2002 integration resulting in the creation of Hera Spa, Euro 51,876 thousand;
- goodwill relating to the integration of Agea Spa in 2004, Euro 21,900 thousand. Said goodwill represents the additional value of the purchase cost compared to the fair values of the assets and liabilities recorded. In particular, with regard to the fair value of Hera SpA shares issued following the increase in capital for the merger by incorporation of Agea Spa, in accordance with IFRS 3 the share value was calculated as at the effective date control was taken of Agea Spa (1 January 2004);
- goodwill relating to the integration of Meta Spa and amounting to Euro 44,433 thousand. This goodwill, entered in assets and initially measured at cost, represents the additional value of the purchase cost compared to the fair value of the assets and liabilities recognised for the Group. Specifically, with regard to the 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. This goodwill of Euro 11,670 thousand represents the purchase cost surplus with respect to current value of assets and liabilities recorded as at 1 January 2006 (the date at which effective control was taken by Hera Spa);
- goodwill relating to the merger of Sat Spa. This goodwill, equal to Euro 54,085 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;
- goodwill relating to the merger of Gastecnica Galliera Spa. This goodwill, equal to Euro 2,140 thousand, represents the additional value of the purchase cost compared to the fair value of the assets and liabilities recognised for the Group as at 1 January 2009;
- goodwill regarding other lesser operations equals Euro 980 thousand.

As required by the reference accounting standards (IAS 36), goodwill – which is not amortised – undergoes impairment testing. The following table shows the allocation of this item to the cash generating unit or group of units in accordance with the maximum aggregation limits that may not exceed the business segment identified, as per IFRS 8.

(millions of €)	
Gas	87.6
Electricity	36.2
Integrated water cycle	35.3
Waste management	22.7
Other services	5.3
Total goodwill	187.1

Impairment therefore concerned the gas, electricity, integrated water cycle, waste management, and other services business segments. The recoverable value of the cash generating units, to which the separate goodwill was attributed, was reviewed by determining the value in use, meant as the current value of the discounted cash flows (duly discounted according to the discounted cash flow method) taken from the business plan prepared for the 2010-2014 period, approved by the Board of Directors of the parent company. The current value of an irredeemable debenture, calculated based on last year flows and taking account, for the water cycle only, the gradual achievement of the full capital payment, as provided for by the current regulations. In the developed hypothesis, the non-renewal of concessions was taken into consideration, in an estimated percentage of 20%. At the same time, a similar percentage was considered to determine the flow, equal to the net accounting value of assets, which will be redeemed.

While drawing up the Business Plan, which consolidates the Group perspective activities, assumptions consistent with those used in previous plans were used. These assumptions were defined based on final figures, projections internally processed and compared with external sources.

The development of revenues was processed based on the evolution of tariffs for the businesses governed by business unit regulations and/or agreements with the Water and Waste Regulatory Authorities. In particular, revenues from the gas distribution market are projected based on evidence arising from Resolution no. 159/08 and, as for electricity distribution, based on Resolution no. 348/07 of the Italian Authority for Electricity and Natural Gas ("AEEG"). Revenues on the sale of gas and electricity on the non-eligible market were projected to 2014, based on Resolutions no. 64/09 and 156/07, respectively, of the AEEG. As for the water cycle, revenues were projected based on both the immobility of volumes distributed and the fees referring to agreements signed, or being signed when the Plan was drawn up, with the single local Water and Waste Regulatory Authorities. As for urban hygiene, the assumption of full tariff coverage was formulated over the term of the plan on all local areas supplied, pursuant to law.

Changes in the prices of gas and electricity sold and purchased on the free market were processed based on business opinions expressed by internal bodies in charge of analysing these factors, and in compliance with the energy scenario set forth when the business plan was started. The latter was drawn up by a panel of institutional observers according to the best forecasts.

The development of plants for the disposal and recover activities in the waste management cycle is consistent with estimates made in the plans in the provinces where the Hera Group operates. The scheduling for the realisation of investments and the following start-up of the new plants is the result of the best estimate of technical structures, in compliance with each planning process.

Cost evolution was consistent with the projected inflation considered in the Economic and Financial Planning Document and, as regards staff, with indications contained in the various work contracts. Effectiveness and synergies were planned in compliance with operations that the Group has carried out over the last few years.

The investment plan is consistent with the maintenance requirements of plant efficiency. This plan is supplemented by investment and development expectations in both initiatives which grant full economic benefit at full production within the term of the Plan, and development initiatives which will grant an economic return after the term of the Plan. The single “relevant” investments were specifically evaluated as for the economic return and strategic importance in the pertaining industrial sector.

The definition process of the Plan underwent, as in past years, a wide involvement process of each single company and a deep sharing with management at various organization levels, over a period of more than 5 months.

According to the aforementioned remarks, the basic assumptions that underlined the development of the impairment test, were formulated by the management, bearing in mind the remaining lifetimes of the reference concessions, on the basis of medium/long term growth rates differentiated by single asset, which take into account the expected growth in the respective generating unit sectors (2% on average).

The rate used to discount back the flows is 6.62% after taxes.

The test results are positive, so it was unnecessary to adjust the recorded values provided above. It is worth noting that the outcome of the above mentioned procedures has been specially approved by the Board of Directors of the parent company, as recommended by provisions set forth by Consob, Bank of Italy and ISVAP.

19. Equity Investments

	31-Dec-2010	31-Dec-2009	Changes
Equity investments in subsidiaries	429,836	523,470	(93,634)
Equity investments in associated companies	72,397	72,272	125
Equity investments in other companies	22,911	22,910	1
Total equity investments	525,144	618,652	(93,508)

Equity investments in subsidiaries

Equity investments in subsidiaries	%	balance 31-Dec-2009	Mergers	Spin-offs	Transfer of business units	movements during the year				balance 31-Dec-2010
						increases	sales	reval. (write-down)	other mvmts.	
Acantho Spa	79.94%	11,027				4,125			2,379	17,530
Agea Reti Srl	100%	22,391	(22,391)							-
Famula On Line Spa	100%	11,221								11,221
Herambiente Spa	75%	301,543					(75,386)			226,157
Hera Comm. Srl	100%	88,978								88,978
Hera Energie Rinnovabili Spa	100%	2,417								2,417
Hera Luce Srl	90%	8,864								8,864
Hera Servizi Cimiteriali Srl	100%	-				20				20
Hera Servizi Funerari Srl	100%	10								10
Herasocrem Spa	51%	1,131								1,131
Hera Trading Srl	100%	22,711								22,711
Ingenia Srl in liquidation	74%	63								63
Marche Multiservizi Spa	41%	34,538								34,538
Medea Spa	100%	11,988								11,988
Satcom Spa	63%	2,382							(2,382)	-
Sotris Spa	5%	640								640
Uniflotte Srl	97%	3,567								3,567
Total equity investments in subsidiaries		523,470	(22,391)	-	-	4,145	(75,386)	-	(3)	429,836

The most important movements that occurred during the year are listed below:

Acantho Spa.

The merger by incorporation of Satcom Spa into Acantho Spa took effect from 1 September 2010, a company 62.5%-owned by Hera Spa and operating in the telecommunications sector. On 31 December 2010, a binding memorandum of understanding was also signed between Hera Spa, Acantho Spa, Con.Ami and Infracom Italia Spa for the acquisition from Infracom Italia Spa of 17.5 % of the share capital of Acantho Spa; therefore, the investment in Acantho Spa increased from 62.5% to 79.94%.

Agea Reti Srl.

Effective 15 July 2010, and with the accounting and tax effects retroactive as of 1 January 2010, the merger by incorporation of Agea Reti Srl, a company managing gas networks in the province of Ferrara, into Hera Spa was completed (the amount held equalled 100% of the capital).

Herambiente SpA.

On 9 December 2010, the transfer of 25% of the capital of Herambiente Spa to Ambiente Arancione Cooperatief U.A. was completed, a company controlled by Eiser Global Infrastructure Fund. More specifically, on 15 October 2010, 11.897% of the equity holding was transferred to Ambiente Arancione Cooperatief U.A. In addition, 21,972,234 shares were registered in the name of Cordusio Spa, corresponding to a quota of 8.103 of the share capital. Subsequently, on 9 December 2010, following payment of the final part of the overall price for the entire transaction, the 21,972,234 shares held in the name of Cordusio Spa were transferred on a definitive basis to Ambiente Arancione Cooperatief U.A. On the same date, Hera Spa transferred a further 5% of the share capital to Ambiente Arancione Cooperatief U.A. The transfer of the equity holding generated capital gains of Euro 50,147 thousand.

Hera Servizi Cimiteriali Srl.

On 22 December 2010 Hera Spa established the company Hera Servizi Cimiteriali Srl in order to acquire the Hera Spa cemetery and funeral rites service business unit. The company had not started up operations as at 31 December 2010.

Equity investments in associated companies

Equity investments in associated companies	%	balance 31-Dec-2009	Mergers	Spin-offs	Transfer of business units	movements for the year				balance 31-Dec-2010
						increases	sales	reval. (write-downs)	other mvmts.	
Aimag Spa	25%	35,030								35,030
Consorzio Frullo	50%	2								2
Italcic Scarl in liquidation	33%	40								40
Oikothén Scarl	46%	383				508		(383)		508
Sei Spa	20%	702								702
Service Imola Srl	40%	4								4
Set Spa	39%	31,748								31,748
Tamarete Energia Srl	32%	4,363								4,363
Total equity investments in associated companies		72,272	-	-	-	508	-	(383)	-	72,397

The main changes occurring during the year are described below:

Oikothén Scarl.

On 30 June 2010, following the losses recorded by the company as at 31 December 2009, the shareholders' meeting of Oikothén Scarl decided to set the share capital to zero with subsequent re-establishment to the initial value of Euro 1,102 thousand and requests for payments by the shareholders. The percentage investment is still the same at 46%.

Equity investments in other companies

Equity investments in other companies	%	balance 31-Dec-2009	Mergers	Spin-offs	Transfer of business units	movements for the year				balance 31-Dec-2010
						increases	sales	reval. (write-downs)	other movements	
Acef Srl in liquidation	10%	1								1
Bonifica e Ambiente in liquidation (Sole)	0%	2								2
Calenia Energia Spa	15%	9,073								9,073
Consorzio Ferrara Ricerche	0%	2								2
Consorzio Italiano Compostatori	3%	10								10
Consorzio Polieco	0%	1								1
Democenter- Sipe Scarl	1%	41								41
Energia Italiana Spa	11%	13,233								13,233
Eticredito Banca Adriatica Spa	0%	50								50
Fondazione Flaminia Ravenna	4%	3								3
Modena Formazione Srl	7%	54								54
Modena Network Spa	14%	420								420
Prog.Este. Spa	0%	5				1				6
Torricelli Srl	2%	14								14
Valdisieve Scarl	0%	1								1
Total equity investments in other companies		22,910	-	-	-	1	-	-	-	22,911

The most important movements that occurred during the year are listed below:

Acef Srl in liquidation.

The 8 April 2010 shareholders' meeting of Acef Srl resolved to voluntarily liquidate the company.

Prog.Este Spa.

The shareholders' meeting of Prog.Este Spa held on 27 October 2010 decided to increase the share capital by Euro 1,400 thousand, subscribed by Hera Spa to the extent of its investment of 0.10%.

As required by the reference accounting standards, the value of equity investments in subsidiaries and associated companies undergoes impairment tests, though the determination of value in use, meant as the current value of the discounted cash flows (discounted cash flow method) taken from the development plans prepared by the management of each single company. Based on this, the values were then calculated for the following years, bearing in mind the specific businesses, on the basis of medium/long growth rates according to the different assets, (1%-2% in average). The rate used to discount back the flows is 6.62% after taxes.

The test results are positive, so it was unnecessary to adjust the recorded values of equity investments provided above.

20. Financial assets

	31-Dec-2010	31-Dec-2009	Changes
Loan receivables from subsidiaries	182,436	2,859	179,577
Loan receivables from associated companies	9,068	9,148	(80)
Loan receivables from others	1,087	1,385	(298)
<i>of which receivables for loans to collect</i>	81	95	(14)
<i>of which other receivables</i>	960	960	-
Fixed income securities	1	1	-
Total	192,592	13,393	179,199

The most important movements that occurred during the year are listed below:

	balance 31-Dec-2009	Mergers	Spin-offs	Transfer of business units	Movements for the year				balance 31-Dec-2010
					increases	(repayments)	reval.(write-downs)	other movements	
Receivables for loans to subsidiaries (after)									
Hera Energie Rinnovabili Spa with interest bearing loan	300				6,004		(6,304)		
Herambiente Spa former Recupera srl-loan receivable	2,559					(288)			2,271
Herambiente Spa loan receivable	-				180,165				180,165
	2,859	-	-	-	186,169	(288)	-	(6,304)	182,436
Receivables for loans to associated companies (after)									
Loan receivables with assoc. companies in the scope of consol. (Sei)	2,529				300				2,828
Set with interest bearing loan	4,815				1,149				5,964
Oikothén with non-interest bearing loan	1,804						(1,528)		276
	9,148	-	-	-	1,448	-	-	(1,528)	9,068
Receivables for loans to others (after)									
Modena Network Spa with interest bearing loan	960								960
Other financial receivables due after the fin. year	330				46	(330)			46
Receivables for loans	95					(15)			81
	1,385	-	-	-	46	(344)	-	-	1,087
Fixed income securities									
Fixed income securities	1								1
	1	-	-	-	-	-	-	-	1
Total	13,393	-	-	-	187,664	(633)	-	(7,832)	192,592

The items record non-interest-bearing loans granted to subsidiary and associated companies regulated at market rates.

With respect to the loan granted to Hera Energie Rinnovabili Spa, the amounts paid by Hera Spa were reclassified under the current “financial assets” since the loan is due for payment on 20 June 2011 (see note 26 for more information).

With respect to the increase in the loan to Herambiente Spa, note that, on 15 October 2010, an intercompany loan agreement was signed between Hera Spa and Herambiente Spa in order to fund the company’s investment programme. This payment permitted the short-term loan granted by Hera Spa to Herambiente Spa of Euro 150,565 thousand to be repaid. Further tranches for a total of Euro 29,600 thousand were paid by Hera Spa in November and December 2010.

The decrease in the loan granted to the associated company Oikothén Scarl, equal to Euro 1,528 thousand, is to be noted after its discontinuance by Hera Spa as part of the loss hedging operation and reconstruction of the share capital.

21. Deferred tax assets

	31-Dec-2010	31-Dec-2009	Changes
Prepaid IRES	35,297	30,810	4,487
Prepaid IRAP	2,655	2,386	269
Prepaid taxes, goodwill substitute tax	2,903	-	2,903
IAS/IFRS prepaid taxes	4,607	8,234	(3,627)
Total	45,462	41,430	4,032

As at 31 December 2010, they amount to Euro 45,462 thousand (Euro 41,430 thousand as at 31 December 2009). Prepaid taxes are generated from the temporary differences between balance sheet profit and taxable income, mainly on items "Taxed provision for bad debts", "Write-down of investments", and "Taxed provisions for risks and charges". The increase in "prepaid taxes, goodwill substitute taxes" over the previous year is due to the different classification under current assets as at 31 December 2009 of an amount equal to Euro 5,431 thousand. Specifically, it is a substitute tax paid for the release of the 2002 goodwill, treated as an advance on current taxes.

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

	31-Dec-10	31-Dec-09	Changes
IAS 39 Derivatives	3,770	5,970	(2,200)
IAS 38 Intangible Assets	13	124	(111)
IAS 19 Employee leaving indemnity and other employee benefits	824	878	(54)
IFRS 3 Business combinations	-	1,262	(1,262)
Total	4,607	8,234	(3,627)

The change for "IFRS 3 Business Combinations" refers to the transfer of business units by Area Asset Spa and Con.Ami. The reclassification under prepaid taxes refers to the tax benefits that will be generated following the amortisation of the higher tax values with respect to the recorded values.

22 Financial instruments - Derivatives

Non-current Assets/liabilities Thousands of €	Fair value hierarchy	Hedged underlying	Notional amount	31-Dec-10 Fair value assets	Fair value liabilities	Notional amount	31-Dec-09 Fair value assets	Fair value liabilities
Interest rate derivatives								
- Interest rate Swap	2	Loans	14.2 m	169		48.8 m	419	
- Interest rate Swap	2	Loans	714.2 m		31,431	448.8 m		19,956
Exchange rate derivatives (financial transactions)								
- Cross Currency Swap	2	Loans	20 bn JPY	39,902		20 mld JPY		8,438
Total				40,071	31,431		419	28,394

Non-current Assets/Liabilities Thousands of €	Fair value hierarchy	Hedged underlying	Notional amount	31-Dec-10 Fair value assets	Fair value liabilities	Notional amount	31-Dec-09 Fair value assets	Fair value liabilities
Interest rate derivatives								
- Interest rate Swap	2	Loans	11.5 m	27				
- Interest rate Swap	2	Loans	11.5 m		27			
Total				27	27		0	0

Derivative financial instruments classified under non-current assets amount to Euro 40,071 thousand, (Euro 419 thousand as at 31 December 2009); Euro 169 thousand refer to interest rate derivatives, and Euro 39,902 thousand refer to foreign exchange derivatives regarding loan transactions. Derivative financial instruments classified under non-current liabilities amount to Euro 31,431 thousand, (Euro 28,394 thousand as at 31 December 2009), and all refer to interest rate derivatives.

With regard to interest rate derivatives as at 31 December 2010, the Group net exposure is negative by Euro 31,262 thousand, compared with an exposure, negative as well, of Euro 19,537 thousand as at 31 December 2009. The reduction in fair value, compared with the previous year, was mainly due to the subscription of new hedging derivatives, which, as at 31 December 2010, showed a negative fair value, as compared to their subscription date. Specifically, in the first half of 2010, two interest rate swaps were negotiated with leading credit institutions to hedge the fair value of fixed rate financial liabilities, for a total notional value of Euro 500 million. This decrease was partly offset by the full realisation of three derivative contracts subscribed in the previous years, which had a negative fair value as at 31 December 2009.

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 31 December 2010, is positive by Euro 39,902 thousand compared with a negative value, equal to Euro 8,438 thousand, as at 31 December 2009. The significant change in fair value is mainly due to the strengthening of the Japanese Yen against the Euro.

Derivative financial instruments classified under current assets and liabilities, both amounting to Euro 27 thousand as at 31 December 2010, refer entirely to interest rate derivatives and represent the derivative contracts that are due to be concluded in the subsequent financial year.

The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices; in the absence of prices quoted on active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. All derivative contracts entered into by Hera SpA are with leading institutional counterparties.

Interest rate derivative instruments held as at 31 December 2010, subscribed in order to hedge loans, can be classed into the following two categories (figures in thousands of Euro):

Interest rate/foreign exchange derivatives (financial transactions)	Underlying	Notional amount	Fair Value Assets	31-Dec-10			Notional amount	Fair Value Assets	Fair Value Liabilities	31-Dec-09	
				Fair Value Liabilities	Income	Charges				Income	Charges
- Cash Flow Hedge	Loans	200.0 m	0	10,952	0	13,560	400.0 m	0	19,537	656	12,770
- Fair Value Hedge	Loans	649.8 m	39,902	20,308	62,346	25,597	149.8 m	0	8,438	0	9,688
- Non Hedge Accounting	Loans	51.4 m	196	198	611	612	97.6 m	419	419	775	785
Total			40,098	31,458	62,957	39,769		419	28,394	1,431	23,243

Interest rate derivatives identified as cash flow hedges show a residual notional amount of Euro 200.0 million (Euro 400.0 million as at 31 December 2009) against variable 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 31 December 2010 the breakdown of net charges relating to derivatives classified as cash flow hedges, amounting to Euro 13,560 thousand, was as follows:

Cash Flow Hedges Thousands of €	31-dic-10 Income / (Charges)	31-dic-09 Income / (Charges)
- Cash Flows realised	-14,149	-9,299
- Accrued Interest	842	-2,429
- Ineffective portion	-253	-386
Total	-13,560	-12,114

The increase in net financial charges compared with the same period in the previous year (see Note 13 “Financial income and charges”) is predominantly due to the unfavourable trend (in the context of hedges entered into) in interest rates. In 2010, the benchmark Euribor rate remained at very low levels, generating a negative effect on fixed rate hedges. It should be added that this effect was partially offset by the conclusion of three derivative contracts during the year.

The degree of ineffectiveness of this class of interest rate derivative led to the recording of net charges totalling Euro 253 thousand in the income statement. All the hedging relationships between the aforementioned derivatives contracts and the related liabilities sustained are qualified as “Cash Flow Hedges” and involved the recording in the Group shareholders’ equity, of a specific negative reserve, amounting to Euro 7,198 million, 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 (Euro 149.8 million as at 31 December 2009) against loans of the same amount. In the case of loans denominated in foreign currency, the notional 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 issued in November 2009, which has been hedged starting from June 2010. These derivatives led to the recording of financial income of Euro 62,346 thousand and financial charges of Euro 25,597 thousand. In parallel, however, a fair value assessment of the underlying loan was performed, recording financial income for Euro 20,861 thousand and financial charges for Euro 46,955 thousand.

As at 31 December 2010 the breakdown of income and charges relating to derivatives classified as fair value hedges and the related underlying liabilities was as follows:

Fair Value Hedges Thousands of €	31-Dec-10			31-Dec-09		
	Income	Charges	Total	Income	Charges	Total
- Valuation of derivatives	46,955	-20,861	26,094	0	-8,438	-8,438
- Accrued Interest	1,937	0	1,937	0	0	0
- Cash Flows realised	13,454	-4,736	8,718	0	-1,250	-1,250
- Ineffective portion	0	0	0	0	0	0
Total effect of derivatives on the income statement	62,346	-25,597	36,749	0	-9,688	-9,688
Valuation of underlyings	20,861	-46,955	-26,094	8,657	0	8,657
Total	83,207	-72,552	10,655	8,657	-9,688	-1,031

The increase in financial income and charges associated with this type of hedge reflects the changes in fair value of the financial instruments illustrated above, specifically with reference to the new derivatives subscribed and the changes in the fair value of foreign exchange derivatives (now positive, but negative in the previous year), in addition to positive final cash flows.

The remaining **interest rate derivatives not in the hedge accounting** have a notional residual value of Euro 51.4 million (Euro 97.6 million as at 31 December 2009); most of these contracts are the result of mirroring operations carried out in previous years as part of a restructuring of the derivatives portfolio.

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

Interest rate risk and currency risk

The company'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 rates fluctuation, 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 company 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 company has stipulated foreign exchange derivatives (fair value hedges) to fully hedge loans in foreign currency.

Sensitivity Analysis

In conjecturing an instant shift of -50 basis points in the interest rate curve with respect to the interest rate effectively applied for the assessments as at 31 December 2010, the potential increase in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly Euro 29.7 million. Likewise, conjecturing an instant shift of +50 basis points in the interest rate curve, there would be a potential reduction in fair value of about Euro 38.3 million.

These fair value changes would have no effect on the income statement if it were not for the potential ineffective portion of the hedge, as they refer to financial derivative instruments classified under hedge accounting. As for the effects on Shareholders' Equity, in the event of a negative shift in the curve, the change in Cash Flow Hedge reserves would be negative for Euro 1.5 million, net of tax, while in the event of a positive shift, the change would be positive for Euro 1.5 million, net of tax.

As for derivatives classified as fair value hedges, any change in the fair value would have no effect on the income statement, except for that limited to the ineffective portion of the hedge, since they are offset by a change in the fair value of the underlying liabilities being hedged, in the opposite sign.

The effects on the income statement of the fair value changes of the instruments not in hedge accounting, as they almost entirely undergo mirroring transactions, would be insignificant.

In conjecturing an instant rise of 10% in the EUR/JPY exchange rate, with no change in interest rates, the potential increase in the fair value of derivative financial instruments held as at 31 December 2010 would amount to approximately Euro 21.2 million. Likewise, an instant fall in the exchange rate of the same amount would bring about a potential increase in the fair value of the instruments of around Euro 25.9 million. As these are exchange rate derivatives regarding financing transactions, fully designated as fair value hedges, these changes would have no effect on the income statement, except for that of the potentially ineffective portion of the hedge, since they are offset by a change in the fair value of the underlying liability being hedged, in the opposite sign.

23. Inventories

	31-Dec-2010	31-Dec-2009	Changes
Raw materials and stock	13,526	14,605	(1,079)
Advance payments	-	1	(1)
Total	13,526	14,606	(1,080)

Inventories, stated net of an obsolescence provision amounting to Euro 561 thousand (which did not change during the year) are mainly comprised of raw materials and stocks. Specifically, they are mainly spare parts and equipment used for the maintenance and running of operating plants. They are valued on the basis of the average cost.

24. Trade receivables

The table below provides a breakdown of trade receivables.

	31-Dec-2010	31-Dec-2009	Changes
Trade receivables	350,497	379,973	(29,475)
of which invoices issued	205,679	203,641	2,038
of which invoices to be issued	144,508	176,021	(31,513)
of which other receivables	311	311	-
Receivables from related parties	347,425	330,797	16,628
Receivables from subsidiaries	324,006	305,809	18,197
of which invoices issued	124,265	159,069	(34,804)
of which invoices to be issued	85,828	70,134	15,695
of which other receivables	113,912	76,607	37,306
Receivables from associated parties	2,777	1,966	811
of which invoices issued	2,314	1,470	845
of which invoices to be issued	60	-	60
of which other receivables	403	496	(93)
Receivables from related parties with significant influence	6,673	11,960	(5,287)
of which invoices issued	4,615	7,882	(3,267)
of which invoices to be issued	1,310	1,851	(541)
of which other receivables	748	2,227	(1,479)
Receivables from other related parties	13,969	11,062	2,907
of which invoices issued	3,271	4,224	(952)
of which invoices to be issued	2,616	2,244	372
of which other receivables	8,082	4,594	3,488
Receivables from others	2	24	(23)
of which invoices issued	-	23	(23)
of which invoices to be issued	2	1	1
Total	697,924	710,794	(12,870)

Trade receivables as at 31 December 2010 total Euro 350,497 thousand (Euro 379,973 thousand as at 31 December 2009) and include estimated consumption, for the portion pertaining to the period, relating to bills and invoices to be issued after 31 December 2010.

The balances are stated net of the provisions for doubtful receivables amounting to Euro 28,047 thousand (Euro 30,941 thousand as at 31 December 2009) which is considered to be fair and prudent in relation to the estimated realizable value of said receivables.

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

Provisions for doubtful receivables	Balance 31-Dec-2009	Mergers	Spin-offs	Transfer of business units	Provisions	Drawdowns and other changes	Balance 31-Dec-2010
Provisions for doubtful receivables	30,941	-	-	-	12,000	(14,894)	28,047
Total	30,941	-	-	-	12,000	(14,894)	28,047

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

The table below gives a detailed view of the breakdown of *receivables due from subsidiary companies*:

Receivables due from subsidiary companies	31-Dec-2010	31-Dec-2009	Changes
Acantho Spa	28,296	24,439	3,857
Agea Reti Srl	-	4	(4)
A.S.A. Scpa	16	16	-
Akron Spa	1,045	806	239
Aspes Gas Srl	-	2,154	(2,154)
Calorpiù Italia Scarl in liquidation	28	26	2
Consorzio Energia Servizi Bologna in liquidation	17	17	-
Eris Scrl Energia Risorse Sviluppo	864	1,516	(652)
Famula On-line Spa	2,023	625	1,398
Frullo Energia Ambiente Srl	4,526	4,721	(195)
Gal.A. Spa	18	12	6
Herambiente Spa	35,172	78,683	(43,511)
Hera Comm Marche Srl	2,297	1	2,296
Hera Comm Mediterranea Srl	2,933	2,373	560
Hera Comm Srl	141,422	115,119	26,303
Hera Energie Rinnovabili Spa	(646)	(492)	(154)
Hera Energie Srl	35	37	(2)
Hera Luce Srl	135	2,708	(2,573)
Herasocrem Spa	14	12	2
Hera Servizi Funerari Srl	833	637	196
Hera Trading Srl	99,816	66,062	33,754
Ingenia Srl in liquidation	5	4	1
Marche Multiservizi Spa	2,134	1,071	1,063
Medea Spa	1,636	1,578	58
Nuova Geovis Spa	3	(4)	7
Romagna Compost Srl	42	7	35
Satcom Spa	-	2,180	(2,180)
Sinergia Srl	12	12	-
Sotris Spa	65	65	-
Uniflotte Srl	1,264	1,420	(156)
Total	324,006	305,809	18,197

Receivables from subsidiaries, amounting to Euro 324,006 thousand (Euro 305,809 thousand as at 31 December 2009) refer to trade receivables, which are all collectible within the next year, resulting from services that Hera Spa charges back to the companies on the basis of specific service contracts.

The table below gives a detailed view of the breakdown of *receivables due from associated companies*:

Receivables due from associated companies	31-Dec-2010	31-Dec-2009	Changes
Aimag Spa	87	5	82
Consorzio Frullo	4	3	1
Italcic Scarl in liquidation	17	7	10
Oikothen Scarl	12	6	6
Sei Spa	146	86	60
Set Spa	1,804	1,527	277
Tamarete Energia Srl	707	331	376
Total	2,777	1,966	811

The table below gives a detailed view of the breakdown of *receivables due from related parties with significant influence*:

Receivables due from related parties with significant influence	31-Dec-2010	31-Dec-2009	Changes
Municipality of Bologna	1,764	2,212	(447)
Municipality of Modena	4,908	9,748	(4,840)
Total	6,673	11,960	(5,287)

The tables below give a detailed view of the breakdown of *receivables due from other related parties*.

Receivables due from other related parties	31-Dec-2010	31-Dec-2009	Changes
Acosea Impianti Srl	2,873	2,837	36
Adriatica Acque Srl	46	44	2
Amir - asset	419	421	(2)
Area - asset	6	125	(119)
Azimut Spa	42	102	(60)
Con.Ami	5,398	1,457	3,941
Dyna Green Srl	5	2	3
Estense Global Service Soc. Cons. a rl	203	1,235	(1,032)
Feronia Srl	118	80	38
Fiorano Gestioni Patrimoniali Srl	4	10	(6)
Formigine Patrimonio Srl	112	161	(49)
Modena Network S.p.A	196	176	20
Romagna Acque Spa	3,168	2,240	928
Sassuolo Gestioni Patrimoniali Srl	415	603	(188)
Serramazzone Patrimonio Srl	2	7	(5)
Sgr Servizi Spa	22	65	(43)
Società Italiana Servizi Spa - SIS Spa Asset	41	12	29
So.Sel Spa	(1)	(1)	-
Team - asset	492	487	5
Unica reti - asset	407	998	(591)
Total	13,969	11,062	2,907

Credit risk

The book value of trade receivables shown in the financial statements is the maximum theoretical exposure to credit risk for Hera Spa as at 31 December 2010. Even if not formalised, there is a procedure for disbursing loans to customers that contemplates making special individual assessments. 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 made. With regard to the receivables that do not undergo individual write downs, allocations are made to bad debt provision, 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).

With regard to customers as at 31 December 2010, trade receivables mainly achieved in Italy, can be broken down into the following classes:

	Institutions	Business	Mass Market	Total
amount	59,647	16,454	129,578	205,679
incidence	29%	8%	63%	100%

With regard to customers as at 31 December 2009, trade receivables, mainly achieved in Italy, can be broken down into the following classes:

	Institutions	Business	Mass Market	Total
amount	61,092	16,291	126,258	203,641
incidence	30%	8%	62%	100%

25. Contract work in progress

	31-Dec-2010	31-Dec-2009	Changes
Contract work in progress	18,582	9,424	9,158
Total	18,582	9,424	9,158

As at 31 December 2010, contract work in progress recorded a balance of Euro 18,582 thousand and concerned long-term work on third party plants. The increase over 31 December 2009, is attributable to construction works of the waste-to-energy plants in Modena, Rimini and Forlì.

26 Financial assets

	31-Dec-2010	31-Dec-2009	Changes
Receivables due from subsidiary companies within the year	21,532	123,416	(101,884)
Receivables due from associated companies within the year	23,736	12,484	11,252
Receivables due from others within the year	992	904	88
<i>of which loans to be collected</i>	373	372	1
<i>of which other</i>	619	532	87
Other securities	2	5	(3)
Total	46,262	136,809	(90,547)

The table below provides a breakdown of the changes in receivables due from subsidiary companies within the year:

	closing balance 31-Dec-2009	Mergers	Spin-offs	Transfer of business units	movements during the year				closing balance 31-Dec-2010
					increases	(repayments)	reval.(write-downs)	other movements	
Other receivables due from subsidiary companies (Akron)	1,325								1,325
Hera Energie Rinnovabili Spa with interest-bearing loan					9,104				9,104
Medea Spa with non-interest bearing loan	492								492
Hera Rete Modena with interest-bearing loan									-
Receivables due from Group companies for centralised treasury	121,599				8,443	(119,431)			10,612
Total	123,416	-	-	-	17,547	(119,431)	-	-	21,532

Please refer to note 20 for more information on the loan granted to Hera Energie Rinnovabili Spa.

The decrease in receivables from subsidiary companies within the year mainly refers to the relations with other Group companies for centralised treasury accounted for as at 31 December 2010 under banks and other borrowings – maturing within the next year.

The table below provides a breakdown of the changes in receivables due from associated companies within the year:

	Closing balance 31-Dec-2009	Mergers	Spin-offs	Transfer of business units	movements during the year				Closing balance 31-Dec-2010
					increases	(repayments)	reval.(write-downs)	other movements	
Tamarete Energia Srl	12,484				11,252				23,736
Total	12,484	-	-	-	11,252	-	-	-	23,736

27. Other current assets

	31-Dec-2010	31-Dec-2009	Changes
Energy efficiency bonds and emission trading	60,195	33,536	26,659
Guarantee deposits	14,207	14,245	(38)
Equalisation fund for the electricity sector	13,924	9,562	4,362
Receivables due from group companies due to tax consolidation	12,716	4,604	8,112
Sundry tax receivables	6,284	8,857	(2,573)
Contributions	5,149	6,381	(1,232)
Costs advanced for leases and rentals	3,905	3,555	350
Insurance costs	2,256	2,469	(213)
Advances for direct taxes	2,130	-	2,130
Receivables due from municipalities for tax moratorium	2,029	1,082	947
Costs suspended for external work and services	1,976	582	1,394
Receivables for dividends	1,734	6,334	(4,600)
Receivables due from asset companies	1,711	1,731	(20)
Advances to suppliers/employees	1,587	3,919	(2,332)
VAT, excise and surtaxes	801	598	203
Ami Consortium	789	789	-
Costs suspended for "door to door" campaign	734	1,101	(367)
Costs advanced to purchase raw materials	669	656	13
Receivables due from Federambiente and Federgasacqua	650	542	108
Costs advanced for energy efficiency bonds	505	368	137
Receivables due from social security institutions	468	682	(214)
Fees payable and concession fees for network services	268	303	(35)
Costs suspended for taxes and rates	123	-	123
Receivables for sale of equity investments	54	81	(27)
Costs advanced for bank charges and commissions and guarantee expenses	44	53	(9)
Costs advanced for substitute taxes	-	5,431	(5,431)
Interest withholdings	-	51	(51)
Other receivables	5,701	4,526	1,175
Total	140,609	112,035	28,574

Breakdown and changes in the main items compared with 31 December 2009 are described below.

“Energy efficiency bonds and emission trading” include:

- green certificates, Euro 38,633 thousand (Euro 12,125 thousand as at 31 December 2009);
- white certificates, Euro 15,478 thousand (Euro 19,786 thousand as at 31 December 2009);
- grey certificates, Euro 6,084 thousand (Euro 1,625 thousand as at 31 December 2009).

As regards green certificates, it should be recalled that Hera Spa is holder of the trading right and manages operations on behalf of Herambiente Spa, owner of the plants that benefit from the certificates.

In particular, Hera Spa accounted for the green certificates regarding the WTE of Ferrara, for a total amount accrued for years 2008, 2009 and 2010, equal to Euro 18,117 thousand, based on provisions envisaged by Art. 1, paragraphs 1117 and 1118 of Law no. 296/2006 (2007 Finance Act). On 10 March 2011, GSE (Energy Services Operator) gave official communication that the conditions were satisfied for obtaining 100% of said certificates. In this table, the Administration body recognises the incentives in favour of electricity power plants from renewable sources and sources assimilated to renewable sources, without making any distinction between organic and inorganic portion of waste, safeguarding the purchase right of plants, as the one located in Ferrara, which was compliant with all terms provided for by the finance act itself (1 January 2007). In particular: a) signature of the special agreement with GSE b) almost completed plant and c) necessary authorisations.

“Guarantee deposits”, amounting to Euro 14,207 thousand (Euro 14,245 thousand as at 31 December 2009), mainly consisting of the deposit established in favour of Acosea Impianti Srl (Euro 12,000 thousand) and of guarantee deposits in favour of sundry public institutions and companies.

“Equalisation fund for the electricity sector”, amounting to Euro 13,924 thousand (Euro 9,562 thousand as at 31 December 2009). The increase over the previous year considers the following as a whole: the lower equalisation revenues in the gas sector (new regulation as per AEEG resolutions no. 159/08 and no. 64/09), higher equalisation revenues in the electricity sector, higher receivables for invoicing the end customers of the gas service system components, previously paid as an advance to the Adjustment Fund during 2010.

“Receivables due from Group companies due to tax consolidation”, amounting to Euro 12,716 thousand (Euro 4,604 thousand as at 31 December 2009).

“Sundry tax receivables”, equal to Euro 6,284 thousand (Euro 8,857 thousand as at 31 December 2009) mainly comprises tax credits on district heating. The decrease compared to 31 December 2009 is attributable to the offsetting of the 2009 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”, amounting to Euro 5,149 thousand, down compared with 31 December 2009, chiefly relates to receivables for contributions to a sinking fund by various Entities, but still to be collected.

“Advances for direct taxes” for Ires and Irap receivables only, regard the surplus on the advances paid for 2010 with respect to the debt accrued.

Please refer to note 15 for more information on the increase in “Receivables due from municipalities for tax moratorium”.

“Receivables for dividends”, amounting to Euro 1,734 thousand, relate to the credit for 2008 dividends, still uncollected as at the balance sheet date, by the subsidiary Frullo Energia Ambiente Srl.

"VAT, excise and additional taxes", amounting to Euro 801 thousand, mainly comprises VAT credits from the revenue authorities.

Reclassifications made on certain items recorded as at 31 December 2009 are shown below:

Other current assets	31-Dec-2009 published	reclassification	31-Dec-2009 reclassified
VAT, excise and other	1,021	(1,021)	-
VAT, excise and other	-	598	598
Sundry tax receivables	8,433	(8,433)	-
Sundry tax receivables	-	8,857	8,857
Total	9,454	0	9,454
Other receivables	4,778	(4,778)	-
Other receivables	-	4,526	4,526
Equalisation fund electricity sector	9,310	(9,310)	-
Equalisation fund electricity sector	-	9,562	9,562
Total	14,088	0	14,088
Summary			
VAT, excise and other			598
Sundry tax receivables			8,857
Equalisation fund, electricity sector			9,562
Other receivables			4,526

Item “Receivables due from subsidiary companies” in the other current assets relates to sundry advances and tax-related receivables (receivables/payables for tax consolidation) already specified.

A breakdown by company is provided below:

Other current assets - subsidiaries	31-Dec-2010	31-Dec-2009	Changes
A.S.A. Scpa	-	105	(105)
Akron Spa	-	157	(157)
Famula On-line Spa	(67)	94	(161)
Frullo Energia Ambiente Srl	1,734	6,722	(4,988)
Herambiente Spa	5,401	1,748	3,653
Hera Comm Mediterranea Srl	248	(2,043)	2,291
Hera Comm Srl	2,414	2,591	(177)
Hera Energie Rinnovabili Spa	27	(16)	43
Hera Luce Srl	(164)	(296)	132
Hera Servizi Funerari Srl	89	24	65
Hera Trading Srl	5,048	2,319	2,729
Herasocrem Spa	(114)	(111)	(3)
Medea Spa	529	589	(60)
Nuova Geovis Spa	-	54	(54)
Sinergia Srl	(148)	(51)	(97)
Sotris Spa	51	(38)	89
Uniflotte Srl	253	(322)	575
Total	15,302	11,526	3,775

“Receivables due from other related parties” in the other current assets are as follows:

Other current assets - related parties	31-Dec-2010	31-Dec-2009	Changes
Azimut Spa	-	20	(20)
Acosea Impianti Srl	12,000	12,000	-
Con.Ami	789	789	-
Formigine Patrimonio Srl	-	93	(93)
Maranello Patrimonio Srl	-	3	(3)
Modena Network Spa	8	4	4
Società Italiana Servizi Spa - SIS Spa Asset	1,576	1,576	-
Unica reti - assets	135	135	-
Total	14,508	14,621	(113)

Other current assets - related parties with significant influence	31-Dec-2010	31-Dec-2009	Changes
Municipality of Bologna	27	12	15
Municipality of Modena	346	433	(87)
Total	373	445	(72)

Geographical distribution of receivables:

All receivables due to the company are owed by Italian customers and investee companies.

28. Cash and cash equivalents

	31-Dec-2010	31-Dec-2009	Changes
Bank and postal deposits	473,101	279,456	193,645
Cheques	18	2,452	(2,434)
Cash	68	137	(69)
Total	473,187	282,045	191,142

As at 31 December 2010, cash and cash equivalents totalled Euro 473,187 thousand (Euro 282,045 thousand as at 31 December 2009) and include cash, cash equivalents, and bank cheques and drafts held in centralised and decentralised accounts. This item also includes bank and financial institution deposits available for current transactions and post office accounts. The increase compared to the previous year is attributable to the financial resources contributed by the bond issued at the end of the financial year, in addition to the amount received from the sale of 25% of Herambiente Spa. Please refer to the statement of financial position and the comments in the Directors' report for further information on the financial dynamics that occurred in 2010.

Classification of financial assets and liabilities pursuant to IFRS 7

The following table illustrates the composition of Company assets by measurement class. The fair value of the derivatives is instead itemised in Note 22.

31-Dec-10	Fair value in income statement	Loans and receivables	Held to maturity	Available for sale	Total
Non-current assets		192,591		1	192,592
Financial assets valued at fair value				1	1
Non-current receivables due from related parties		192,510			192,510
Receivables		81			81
Current assets	60,195	824,598		2	884,795
Trade receivables		697,924			697,924
Financial assets valued at fair value				2	2
Financial receivables		46,260			46,260
Other assets	60,195	80,414			140,609

31-Dec-09	Fair value in income statement	Loans and receivables	Held to maturity	Available for sale	Total
Non-current assets		13,392		1	13,393
Financial assets valued at fair value				1	1
Non-current receivables due from related parties		13,297			13,297
Receivables		95			95
Current assets	33,536	926,097		5	959,638
Trade receivables		710,794			710,794
Financial assets valued at fair value				5	5
Financial receivables		136,804			136,804
Other assets	33,536	78,499			112,035

With regard to "non-current assets", please see the itemisation in Note 20.

With regard to "current assets", please see the itemisation in Notes 24, 26 and 27.

The following table illustrates the composition of Company liabilities by measurement class. The fair value of the derivatives is instead itemised in Note 22.

31-Dec-10	Fair value in income statement	Hedged items (fair value hedging)	Amortised cost	Total
Non-current liabilities	0	662,370	1,310,002	1,972,372
Loans		662,370	1,307,385	1,969,755
Financial leasing payables			2,617	2,617
Current liabilities	3,135	0	930,339	933,474
Loans			319,337	319,337
Financial leasing payables			2,313	2,313
Trade payables			473,944	473,944
Other liabilities	3,135		134,745	137,880
31-Dec-09	Fair value in income statement	Hedged items (fair value hedging)	Loans and receivables	Total
Non-current liabilities	0	141,111	1,613,020	1,754,131
Loans		141,111	1,610,092	1,751,203
Financial leasing payables			2,928	2,928
Current liabilities	0	0	822,165	822,165
Loans			105,285	105,285
Financial leasing payables			2,732	2,732
Trade payables			579,239	579,239
Other liabilities			134,909	134,909

With regard to "non-current liabilities", please see the itemisation in Notes 30 and 34.

With regard to "current liabilities", please see the itemisation in Notes 30, 34, 35 and 37.

29 Share capital and reserves

The statement of changes in shareholders' equity is shown in paragraph 3.01.04 of these financial statements.

The information to be provided pursuant to Article 2427, no. 7 bis, which prescribes that the individual items making up shareholders' equity be analysed, setting forth their specification of availability, origin and utilisation in previous years, is stated below.

	Amount	Possibility of use	Amount available
CAPITAL	1,115,014		
Reserve for treasury shares at par value	(5,940)		
CAPITAL RESERVES:			
Share premium reserve	15,269	A,B	15,269
Revaluation reserve	2,885	A,B,C	2,885
Reserve for capital contributions	5,400	A,B,C	5,400
Reserve from difference between purchase value and par value of treasury shares	(3,057)		
Share swap surplus reserve	42,408	A,B,C	42,408
Transfer reserve	48	A,B,C	48
TOTAL CAPITAL RESERVES	62,953		
PROFIT RESERVES:			
Legal reserve	25,548	B	
Extraordinary reserve	13,544	A,B,C	13,544
Retained earnings reserve	2,061	A,B,C	2,061
Reserve for treasury share profits	525	A,B,C	525
TOTAL PROFIT RESERVES	41,678		
IAS/IFRS RESERVES:			
IAS/IFRS effects reserve	(47)		
Reserve pursuant to art. 7, p.6 Leg.Decree 38/2005	27,038	not available	
Reserve pursuant to art. 7, p.7 Leg. Decree 38/2005	36,862	not available	
Reserve pursuant to art. 6, p.2 Leg. Decree 38/2005	15,850	not available	
Reserve pursuant to IFRS 3	227,008	available	227,008
Reserve for surplus from spin-offs, mergers and business combinations under joint control	40,045	available	40,045
TOTAL IAS/IFRS RESERVES	346,756		
OVERALL TOTAL	1,560,461		349,193
RESERVE THAT CANNOT BE DISPOSED OF			15,269
REMAINING DISTRIBUTABLE RESERVES			333,924

Key: A: for share capital increase; B: to cover losses; C: for distribution to shareholders

Share capital

The share capital as at 31 December 2010 amounts to Euro 1,115,013,754. It is fully paid in and is represented by 1,115,013,754 ordinary shares with a par value of Euro 1 each.

Reserves for treasury shares

The item reserves for treasury shares includes the "reserve for treasury shares at par value" with a negative value equal to Euro 5,940 thousand. This reserve comprises the number of treasury shares held in portfolio as at 31 December 2010 and is considered a reduction of share capital. "Reserve for gains/losses on sale of treasury shares" and "reserve for treasury shares exceeding par value" are recorded among the shareholders' equity reserves for a negative value of Euro 47 thousand and a negative value of Euro 3,058 thousand, respectively. These reserves, established in compliance with the accounting standards of reference, reflect the treasury shares transactions carried out as at 31 December 2010. The change during the year generated capital gains amounting to Euro 9 thousand, and a capital loss, equal to Euro 265 thousand, respectively credited and attributed directly to the above mentioned reserves.

Reserves

The item Reserves equal to Euro 459,583 thousand includes the following reserves:

- "legal" for Euro 25,548 thousand,
- "extraordinary" for Euro 13,544 thousand,
- "revaluation" for Euro 2,885 thousand,
- "share premium reserve" for Euro 15,269 thousand,
- "capital contributions" for Euro 5,400 thousand,
- "other" for Euro 49 thousand,
- "share swap surplus" for Euro 42,408 thousand,
- "IAS/IFRS reserve" for Euro 22,240 thousand, generated after adoption of international accounting standards,
- "reserve from capital gains from selling treasury shares" Euro -47 thousand,
- "IFRS 3 reserve" for Euro 227,008 thousand, deriving from the integrations of Agea Spa, Meta Spa, Geat Distribuzione Gas Spa and Sat Spa, and from transfer of assets (Agea Reti Srl, Con.Ami and Area Asset Spa),
- "reserve that cannot be disposed of" pursuant to art. 6, par. 2, Leg. Decree 38/05, for Euro 64,708 thousand
- "reserve for dividends received on treasury shares" for Euro 525 thousand,
- "reserve for surplus from spin-off, merger and business combination subject to joint control" for Euro 40,046 thousand.

This is composed of:

- reserve for spin-off surplus, equal to Euro 17,975 thousand, resulting from the spin-off of territorial operating companies;
- reserve for surplus from mergers, negative for Euro 5,253 thousand, resulting from mergers of Gastecnica Galliera Srl, Hera Rete Modena Srl and Pri.Ge.A.S Srl.;
- reserve for business combinations subject to joint control, amounting to Euro 27,324 thousand; in particular, this reserve includes capital gains made from the sale of equity investments in Akron and Ecosfera, to Herambiente and Akron, respectively.

Reserves for derivative instruments valued at fair value (Cash Flow-Hedge)

As at 31 December 2010, this reserve had a negative balance of Euro 7,199 thousand following changes generated by the fair value valuation of reference derivatives. Changes in this reserve are reported in the Statement of Changes in Shareholders' Equity, paragraph 03.01.05.

Retained earnings

The item totals Euro 2,061 thousand.

30. Payables to banks and medium/long- and short-term loans

As at 31 December 2010, medium/long term loans totalled Euro 1,969,755 thousand (Euro 1,751,203 thousand as at 31 December 2009), and relate to bond loans (Euro 1,953,590 thousand), loans and underwritten loans (Euro 16,165 thousand).

The table below shows the bonds and loans as at 31 December 2010, stated at their residual nominal value (millions of €), with an indication of the portion expiring within and after 5 years:

Type	Residual amount 31/12/2010	Portion due within one year	Portion due within 5 years	Portion due after 5 years
Bond	1,250		500	750
Convertible bond	140		140	
Puttable Bond/Loan	540			540
Amortising	18	3	11	4
Total	1,948	3	651	1,294

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

Puttable Bonds and Loans		Term (years)	Expiry	Nominal value	Coupon	Annual rate
Convertible Bond	Luxembourg stock exchange	3	01/10/13	140	Fixed, annual	1.75%
Eurobond	Luxembourg stock exchange	10	15/02/16	500	Fixed, annual	4.13%
Eurobond	Luxembourg stock exchange	10	03/12/19	500	Fixed, annual	4.50%
Bond (ex put bond)	In 2010 the holder may request redemption at par	13	17/11/20	100	For the first 3 years, 3-month Euribor less 29 cents. For the next 10 years, fixed rate 4.593% plus 10-year credit spread.	6.32%
Put Loan	From 2010 the holder may request redemption at par every two years	13	22/11/20	70	For the first 3 years, 3-month Euribor less 45 cents. For the next 10 years, fixed rate 4.41% plus 2-year credit spread.	4.86%
Put Loan	From 2010 the holder may request redemption at par every two years	13	06/12/20	70	For the first 3 years, 3-month Euribor less 46 cents. For the next 10 years, fixed rate 4.44% plus 2-year credit spread.	4.89%
Bond	Cross Currency Swap 150 €m	15	05/08/24	20000 JPY	Fixed, half-yearly	2.93%
Put Bond	From 2012 the holder may request redemption at par every two years	23	10/10/31	200	For the first 3 months, fixed rate of 4.20%. For the next 20 years, fixed rate 4.65% plus 5-year credit spread.	4.20%
Put Bond	From 2011 the holder may request redemption at par every two years	27	08/08/34	200	For the first 5 years, 3-month Euribor less 45 cents. For the next 22 years, fixed rate 4.85% plus 2-year credit spread.	Euribor 3m - 0.45%

It should be noted that, on 11 November 2010, a “Euro 140,000,000 1.75 per cent Equity-Linked Bonds due 2013” bond maturing on 1 October 2013 was issued and placed on the Luxembourg Stock Exchange’s EURO MTF market on 21 January 2011. The bond issue became convertible into ordinary Hera shares on 27 January 2011 following the approval by the extraordinary shareholders’ meeting of the share capital increase with exclusion of the purchase option. For further information please refer to the Directors’ Report.

In relation to the puttable loans, the options expiring in 2010 were not exercised. As a result, the Euro 100 million Put Bond with maturity in November 2020 no longer contains any options, representing, for all intents and purposes, a plain vanilla bond, while future maturities in respect of exercising the option of two put loans of Euro 70 million each are placed until the end of 2012. The puttable bonds and loans incorporate put options which meeting the criteria to be independently valued according to the instructions given in IAS 39, paragraph AG30, letter g.

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-).

The short term loans totalled Euro 319,337 thousand (Euro 105,285 thousand as at 31 December 2009) and include payables to banks and other lenders (including other Group companies for centralised treasury).

Liquidity risk

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

Current cash and cash equivalents and credit facilities, in addition to the resources generated by the operating and financing activities, are deemed sufficient to meet future financial needs. As at the balance sheet date, there are unused credit lines totalling about Euro 1,000 million.

31. Employee leaving indemnity and other employee benefits

	Movements during the year							
	31-Dec-2009	Mergers	Spin-offs	Transfer of business units	Provisions	Financial charges	Uses and other movements	31-Dec-10
Employee leaving indemnity provisions	67,084			(172)		912	(4,286)	63,538
Gas discount	2,270				39	31	(267)	2,073
Premungas fund	2,202				188	46	(403)	2,033
Tariff reduction provision	3,376				238	78	(352)	3,340
Total	74,932	-	-	(172)	465	1,067	(5,308)	70,984

“Employee leaving indemnity” includes provisions for employee leaving indemnities and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations. The calculation is made using actuarial techniques and discounting future liabilities at the balance sheet date. These liabilities consist of the credit which the employees will accrue as of the date they will presumably leave the company.

The item “gas discount” represents an annual indemnity recognised for Federgasacqua employees recruited before January 1980, payable to their heirs. “Premungas fund” is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly to settle payments made to eligible retirees. For both cases, recalculations have been made, using the same actuarial techniques applied for 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.

“Uses and other movements” mainly includes the amounts paid to employees.

The main assumptions used in the actuarial estimate of the employee benefits are as follows:

	31-Dec-10	31-Dec-09
Average discount rate	4.65%	4.52%
Average rate of increase in cost of labour	3.50%	3.50%

32 Provisions for risks and charges

	31-Dec-2009	Mergers	Spin-offs	Transfer of business units	Provisions	Financial charges	Uses and other movements	31-Dec-2010
Provision for the restoration of third party assets	61,660	-	-	-	4,996	5,890	(233)	72,312
Provision for staff disputes and legal costs	12,501	-	-	-	6,958	-	(2,675)	16,784
Other provisions for risks and charges	7,328	-	-	-	5,231	-	(5,419)	7,140
Total	81,489	-	-	-	17,184	5,890	(8,327)	96,236

The **provision for the restoration of third party assets** equal to Euro 72,312 thousand includes the provisions made in relation to the legal and contractual restrictions encumbering Hera Spa in its capacity as leaseholder of the distribution networks owned by the “asset companies”. These provisions are made on the basis of the normal depreciation rates envisaged for the assets in question; in order to compensate the lessor companies for the wear and tear of the assets used for the 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 AATOs, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The **provision for staff disputes and legal costs** amounting to Euro 16,784 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees. The provisions include Euro 7.8 million relating to the dispute pending with INPS with regard to the demand for 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 asserted this in court. On 5

February 2008, the Employment Ministry intervened with a message addressed to the INPS General Management. It stated that the conclusions the Council of State reached regarding the non-retroactivity prior to May 2005 of the contribution obligation for CIG, CIGS and mobility by necessity are general and unequivocal in order to protect the unavoidable principle of “par condicio” amongst market operators. Therefore, they also apply to the industrial companies of the public institutions (which the Hera Group also is part of).

The Group 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 Employment Tribunal 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. However, an additional proceeding is pending in the Supreme Court, unrelated to the Hera Group, from the Genoa Court of Appeal. 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 State Council.

Despite this, in the last few months of 2010, some first instance rulings were handed down, rejecting the company's claims in relation to CIG, CIGS and Mobility contributions. The rulings will be appealed. This situation led to the provision being supplemented with an additional Euro 3.7 million, taking into account the size of the CIG, CIGS and Mobility contributions with a judgment still pending.

In addition, it should also be noted that the 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 the INPDAP personnel regulated by the electricity sector collective labour agreement, and is based on the interpretation of Article 41 of Law 488/1999 (Finance Act 2000). In particular, this contribution relates to the area of Modena only, as it results from the former Meta Spa. Following consultation at the time with the Modena INPS Insurance Positions Management Office, the former Meta Spa applied reduced rates starting in 2001, at the same time it requested reimbursement of the greater contributions it had paid in, but which were not due, regarding financial year 2000 (reimbursement that then was actually made between 2001 and 2002).

As from November 2003, however, INPS served the notices by means of which it requested the payments of the contributions at the full rate, completely amending the interpretative position previously adopted, deeming that the reduction of the CUAF and maternity rates owed by the electricity sector was not applicable for the workers enrolled with INPDAP. Meanwhile, this reduction was applied without objection in the case of the Enel Spa Group companies. The CUAF and maternity contribution differential that service companies have to pay for personnel registered with INPDAP up to 31 December 2008 is equivalent to a total of 4.29% more than what has to be paid for INPS personnel; since 1 January 2009, with the levelling of the maternity rates, the CUAF differential of 3.72% continues to apply however.

This higher rate is a serious penalisation for the “former municipal enterprises” with respect to other market operators. Confservizi has brought this failed contribution harmonisation consequent to Law 335/1995 to the attention of the Employment Ministry several times, which in turn has consulted the Council of State. The Council deemed a special legislative initiative necessary (circular no. 88 of 31 May 2004), which rules out the possibility of an

administrative solution. In spite of Confservizi's efforts to push through this legislative initiative, as of today no result is yet to be seen.

Also for this type of contribution, it is appropriate to point out that INPS shall not file any new claims regarding this matter following the new classification of almost all Group companies in the Service sector from 2010.

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

In view of the information reported above, a prudential allocation of Euro 7.8 million was made to the aforementioned provision, which takes into account the filings already paid for and any liabilities deriving from the suspended filings currently received, amounting to approximately Euro 20.4 million. This amount refers to the contributions contained in the filings by way of CIG, CIGS Mobility, CUAF and Maternity, excluding however the portion by way of Unemployment and Sickness contributions for the above reasons. This fund is deemed to be appropriate, in view of both the likely development of the litigation and the opinions of the appointed legal advisors.

The item **Other provisions for risks and charges**, amounting to Euro 7,140 thousand, comprises provisions made against sundry risks. The main items are summarised below:

- Euro 2,574 thousand for the MIS quota and continuity and standardisation charges related to the electricity service;
- Euro 2,158 thousand in spending on restoration of goods reverting freely, relating to the aqueduct system of the river Rosola, held under concession, and other provisions for risk of very modest amounts connected with environmental problems;
- Euro 1,267 thousand related to the provision made in relation to customer compensation for water service leaks;
- Euro 1,141 thousand related to further provisions of various kind, all with a substantially modest amount.

33 Deferred tax liabilities

Deferred tax liabilities	31-Dec-2010	31-Dec-2009	Changes
Deferred tax payables	3,870	39,061	(35,191)
Other IAS/IFRS deferred taxes	54,827	72,346	(17,519)
Total	58,697	111,407	(52,710)

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

Deferred tax payables generated by IAS/IFRS effects are reported separately. Specifically, these payables relate to the application of the following principles:

	31-Dec-2010	31-Dec-2009	Changes
IAS 37 Restoration of third-party assets and landfill post-closure	14,250	15,505	(1,255)
IAS 16 Fixed assets	35,624	34,154	1,470
IAS 17 Financial Leasing	1,408	1,581	(173)
IAS 19 Employee leaving indemnity and other employee benefits	3,545	3,545	-
IFRS 3 Business Combinations	-	17,561	(17,561)
Total	54,827	72,346	(17,519)

The item "IFRS 3 Business Combinations", as at 31 December 2009, referred to the transfer of business units by Area Asset Spa and Con.Ami, resulting in the posting of higher or lower values in assets which are not recognised for tax purposes.

The decrease in "Deferred tax liabilities" compared to the previous year, equal to Euro 52,710 thousand, is attributable for Euro 50,486 to the reversal to the income statement of deferred tax liabilities (recorded in the previous year as "IFRS 3 Business Combinations" for Euro 17,561 thousand, and as "Deferred tax payables" for Euro 32,925 thousand) due to the effect of the tax sheltering of higher values recognised in the 2009 financial statements through the payment of substitute tax. Please refer to note 15 of the income statement for more information.

34. Financial leasing payables

	31-Dec-2010	31-Dec-2009	Changes
Financial leasing payables within the year	2,313	2,732	(419)
Financial leasing payables after the year	2,617	2,928	(311)
Total	4,930	5,660	(730)

This item represents the recording of payables arising from the accounting of leasing transactions using the financial method. The change compared with the previous year is due to the payment of the rentals accrued during the period.

35. Trade payables

	31-Dec-2010	31-Dec-2009	Changes
Advance payments	1,003	1,200	(197)
Trade payables	271,866	258,449	13,417
of which invoices received	166,517	157,692	8,825
of which invoices to be received	105,158	100,566	4,592
of which other payables	192	192	-
Payables due to related parties	199,671	317,700	(118,029)
Payables due to subsidiaries	169,985	283,367	(113,382)
of which invoices received	94,142	52,141	42,001
of which invoices to be received	52,261	144,567	(92,305)
of which other payables	23,581	86,660	(63,078)
Payables to associated companies	1,078	916	162
of which invoices received	785	698	87
of which invoices to be received	293	218	75
Payables due to related parties with significant influence	4,231	8,755	(4,524)
of which invoices received	2,350	5,788	(3,438)
of which invoices to be received	1,875	2,479	(604)
of which other payables	5	488	(482)
Payables due to other related parties	24,376	24,661	(285)
of which invoices received	13,424	18,948	(5,524)
of which invoices to be received	10,651	5,660	4,990
of which other payables	302	53	249
Payables due to others	1,404	1,890	(486)
of which invoices received	991	1,684	(693)
of which invoices to be received	413	114	299
of which other payables	-	92	(92)
Total	473,944	579,239	(105,295)

“Advance payments” of Euro 1,003 thousand (Euro 1,200 thousand as at 31 December 2009) refer to advances received from customers for works to be performed.

“Trade payables” all of a commercial nature and included in amounts provisioned to cover invoices due, total Euro 271,866 thousand (Euro 258,449 thousand as at 31 December 2009). They also include payables to European suppliers, amounting to Euro 2,630 thousand (Euro 2,629 thousand as at 31 December 2009). Payables to suppliers must all be paid by next year.

“Payables to related parties” equal Euro 199,671 thousand (Euro 317,700 thousand as at 31 December 2009) mainly stem from application of the infragroup service contracts (waste disposal, IT services, telephony, equipped premises, fleets, etc).

Payables due to subsidiary companies are itemized below:

Payables due to subsidiary companies	31-Dec-2010	31-Dec-2009	Changes
Acantho Spa	5,938	10,777	(4,839)
Acque Srl	226	211	15
Agea Reti Srl	-	1,170	(1,170)
A.S.A. Scpa	-	7	(7)
Akron Spa	304	424	(121)
Calorpiù Italia Scarl in liquidation	15	15	-
Eris Scrl Energia Risorse Sviluppo	978	781	197
Famula On-line Spa	36,833	24,159	12,674
Frullo Energia Ambiente Srl	340	528	(188)
Herambiente Spa	64,385	91,875	(27,490)
Hera Comm Srl	38,561	49,422	(10,860)
Hera Comm Mediterranea Srl	-	4	(4)
Hera Energie Srl	385	285	100
Hera Luce Srl	8,871	6,277	2,594
Hera Servizi Funerari	27	-	27
Herasocrem Spa	151	107	45
Hera Trading Srl	3,703	88,373	(84,671)
Ingenia Srl in liquidazione	51	124	(73)
Nuova Geovis Spa	1	15	(15)
Satcom Spa	-	(117)	117
Sinergia Srl	3,233	2,804	429
Sotris SpA	(88)	18	(106)
Uniflotte Srl	6,072	6,107	(34)
Total	169,985	283,367	(113,382)

The table below provides a breakdown of *payables due to associated companies*, all governed by arm's length conditions:

Payables due to associated companies	31-Dec-2010	31-Dec-2009	Changes
Aimag Spa	83	-	83
Service Imola Srl (AMI)	995	916	79
Total	1,078	916	162

Payables due to related parties with significant influence are itemised below:

Payables due to related parties with significant influence	31-Dec-2010	31-Dec-2009	Changes
Municipality of Bologna	1,371	5,665	(4,293)
Municipality of Modena	2,859	3,090	(231)
Total	4,231	8,755	(4,524)

Payables due to other related parties are itemised below:

Payables due to other related parties	31-Dec-2010	31-Dec-2009	Changes
Acosea impianti	814	-	814
Adriatica Acque Srl	19	38	(19)
Amir - asset	751	1,071	(320)
Area - asset	76	201	(125)
Azimut Spa	79	185	(106)
Con.Ami	687	382	305
Estense Global Service Soc. Cons. a rl	540	1,695	(1,155)
Fiorano Gestioni Patrimoniali Srl	340	489	(149)
Formigine Patrimonio Srl	266	296	(30)
Maranello Patrimonio Srl	178	495	(317)
Romagna Acque Spa	12,553	13,342	(789)
Sassuolo Gestioni Patrimoniali Srl	3,335	1,981	1,354
Serramazzone Patrimonio Srl	93	98	(5)
Sgr Servizi Spa	(2)	97	(99)
So.sel Spa	1,325	1,188	137
Team - asset	591	8	582
Unica reti - asset	2,712	3,082	(371)
BoD members	20	13	7
Total	24,376	24,661	(285)

Payables due to Romagna Acque Spa are for supplies received for the water service.

36. Income tax liabilities

	31-Dec-2010	31-Dec-2009	Changes
Substitute tax	25,425	6,922	18,503
Employee withholding tax	6,796	6,515	281
Value added tax	9,272	6,863	2,409
Income tax due	4,661	3,796	865
Excise and additional taxes	3,097	2,852	245
Equalisation fund for the electricity sector	3,280	2,519	761
Sewage fees	570	569	1
Other income tax liabilities	186	1,433	(1,247)
Total	53,287	31,469	21,818

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

For “Substitute tax”, please refer to note 15 on income taxes. The payable as at 31 December 2009 related mainly to the option set out in art. 1, paragraph 48 of Law no. 244/2007 which Hera Spa has already adhered to from 31 December 2007, a payable fully settled in 2010.

“Value added tax” is the VAT balance for the group.

“Income tax due”, equal to Euro 4,661 thousand, refers to the liability for IRES taxes (there was an IRAP credit as at 31 December 2010).

Income tax liabilities are all payable by next year.

The table below shows the reclassifications made on certain items from 2009 with respect to what was disclosed:

Income tax liabilities	published in 2009	reclassification	2009 reclassified
Excise and additional taxes	3,557	(3,557)	-
Excise and additional taxes	-	2,852	2,852
Equalisation fund for electricity sector	1,814	(1,814)	-
Equalisation fund for electricity sector	-	2,519	2,519
Total	5,371	0	5,371
Employee withholding taxes	6,904	(6,904)	-
Employee withholding taxes	-	6,515	6,515
Other income tax liabilities	1,044	(1,044)	-
Other income tax liabilities	-	1,433	1,433
Total	7,948	0	7,948

Summary	
Excise and additional taxes	2,852
Equalisation fund for the electricity sector	2,519
Employee withholding taxes	6,515
Other income tax liabilities	1,433

37. Other current liabilities

	31-Dec-2010	31-Dec-2009	Changes
Capital contributions	56,864	54,379	2,485
Guarantee deposits	22,324	25,057	(2,733)
Personnel	16,033	15,451	582
Payables due to social security and welfare institutions (INPS, INPDAP, INAIL)	9,455	6,782	2,673
Payables due to other social security and welfare institutions	5,732	4,328	1,404
Third party project and study work	4,804	6,823	(2,019)
Other work and services	3,697	950	2,747
Energy efficiency bonds and emission trading	3,135	-	3,135
Insurance and deductibles	2,911	4,681	(1,770)
Equalisation fund for electricity and gas service standardisation	1,565	1,722	(157)
Payables due to shareholders for dividends	1,288	1,288	-
Socket and pipe grants	625	597	28
Payables due to municipalities for environmental disruption and establishment of guarantees	328	2,481	(2,153)
Customers	193	225	(32)
Directors and statutory auditors	21	113	(92)
Other payables	8,906	10,033	(1,127)
Total	137,880	134,909	2,971

The main items are described hereunder:

The increase in “capital grants” is mainly due to the completion of some investments in the water sector. This item will decrease in future periods in proportion to the amount of depreciation calculated on the reference assets.

“Guarantee deposits” reflects the sums paid by customers for the water supply contracts.

“Personnel” relates to holidays accrued and not taken as at 31 December 2010, productivity bonuses and wages and salaries.

“Payables due to social security and welfare institutions” relate to contributions due to these institutions for the month of December.

Euro 3,083 thousand of the “Energy efficiency bonds and emission trading” item refers to grey certificates and Euro 52 thousand to green certificates. This reflects the obligation to redeliver the certificates to the authorities in accordance with prevailing laws.

The decrease in “Insurance and deductibles” is in line with the relative costs referred to in note 7 “Service costs”.

The “Equalisation fund for the electricity and gas sector standardisation” reflects the standardisation measure of the gas service.

Said liabilities must be paid by next year.

The amounts due to subsidiary companies are itemised below:

Other current liabilities - subsidiaries	31-Dec-2010	31-Dec-2009	Changes
Hera Trading srl	30	-	30
Total	30	-	30

Payables due to other related parties are itemised below:

Other current liabilities - related parties	31-Dec-2010	31-Dec-2009	Changes
Area - assets	-	20	(20)
Azimut Spa	-	36	(36)
Con.Ami	826	-	826
Modena Network Spa	97	104	(7)
Team - asset	-	9	(9)
BoD and Board of Statutory Auditors members	21	27	(6)
Total	944	196	748

38 Guarantees provided

	31-Dec-2010	31-Dec-2009	Changes
Sureties and guarantees provided in favour	148,943	183,779	(34,836)
- of sundry parties	148,943	183,779	(34,836)
Other unsecured guarantees provided in favour	932,778	804,747	128,031
- of subsidiaries	924,237	801,081	123,156
- of associated companies	8,541	3,666	4,875
Total	1,081,721	988,526	93,195

Sureties and guarantees provided in favour of sundry parties: amount to Euro 148,943 thousand, with a negative change, compared with the previous year, of Euro 34,836 thousand, mainly attributable to the reduction of the sureties in place following a change in the guarantees.

The amount as at 31 December 2010, includes the following:

- ° Euro 4,158 thousand for the surety issued by Hera Spa in favour of Acantho Spa, for the loan granted by Banca Infrastrutture Innovazione e Sviluppo Spa;
- ° Euro 48,750 thousand for the surety issued by Hera Spa in favour of Set Spa, to guarantee a loan granted to the same by Banca Infrastrutture Innovazione e Sviluppo Spa;
- ° Euro 463 thousand for the guarantee issued in favour of Modena Network Spa, for a loan supplied by Unicredit Banca d'Impresa.

Other unsecured guarantees provided in favour of subsidiaries: amount to Euro 924,237 thousand, with a positive change, compared with the previous year, amounting to Euro 123,156 thousand. This change is mainly due to the guarantees granted by Hera Spa in favour of the subsidiaries to provide incentives to develop activities in the waste management, electricity and gas sectors.

The amount as at 31 December includes the following:

- letters of patronage issued to guarantee loans, amounting to Euro 61,478 thousand, issued in favour of:
 - Gal.A Spa, Euro 16,329 thousand;
 - Medea Spa, Euro 12,241 thousand;
 - Herambiente Spa, Euro 30,258 thousand;
 - Acantho Spa, Euro 2,200 thousand;
 - Calenia Energia Spa, Euro 450 thousand;
- guarantees for commodity swap finance contracts, for Euro 206,000 thousand, in favour of Hera Trading Srl;
- guarantees for contract obligations, for Euro 655,466 thousand, in favour of:
 - Hera Trading Srl; Euro 407,671 thousand regarding the supply, transportation and despatching of electricity, as well as gas transportation and storage;
 - Hera Comm Srl; Euro 90,833 thousand, regarding electricity supply and despatching;
 - Herambiente Spa; Euro 128,846 thousand, for sureties issued by Herambiente Spa in favour of Public Entities, within the activities related to waste treatment;
 - Sotris Spa; Euro 13,660 thousand, for sureties issued by Sotris in favour of public entities for the management of landfills;
 - A.S.A. Scpa; Euro 9,134 thousand, for sureties issued by A.S.A. in favour of the province of Bologna for the operation and post-closure of landfills;
 - Hera Luce Srl; Euro 2,431 thousand, for sureties issued by Hera Luce in favour of Consip Spa and other entities to assign lighting services for public administration bodies;
 - Medea Spa; Euro 2,800 thousand, for sureties issued by Medea in order to guarantee contractual obligations;
 - Famula on Line Spa; Euro 91 thousand;

guarantees provided to Uniflotte Srl on leasing contracts for Euro 756 thousand and Hera Comm Srl for VAT reimbursement for Euro 537 thousand.

Other unsecured guarantees provided in favour of associated companies amounted to Euro 8,541 thousand with a positive change compared with the previous year of Euro 4,875 thousand due to the issue of a new letter of patronage. These amount is comprised of the letter of patronage only, issued in favour of Set Spa to guarantee the gas supply contracts signed with Edison Spa.

With regard to commitments, we note the following:

	31-Dec-2010	31-Dec-2009	Changes
Commitments			
Third party assets in use by the company	1,114,170	1,120,577	(6,407)
Other	6,063	5,140	923
Total	1,120,233	1,125,717	(5,484)

The **third party assets** used by Hera Spa comprise:

- water and energy cycle assets received under license from the local authorities;
- leased assets of the asset companies relating to the water and energy sectors (gas, electricity and district heating).

The negative change compared to the previous year, of Euro 6,407 thousand, is mainly due to the accounting adjustment regarding the sale to Herambiente of management of the landfills of Gal.A and Baricella and the renting of the municipality of Medicina gas networks from Con Ami.

Other, equal to Euro 6,063 thousand, includes salary-backed loans and small loans to employees, totalling Euro 3,888 thousand, as well as bills sent for collection, amounting to Euro 1,607 thousand. The change is positive for Euro 923 thousand.

3.03.02 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 some municipalities of the province of Modena acquired from the previous operator (Enel Distribuzione) since 1 July 2006.

Other public utilities (including urban heating, heat management and public lighting) are carried out under the market system or through specific agreements with relevant 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 water and waste regulatory authorities (AATOs), but subject to control by the Regional Authority for water services and urban waste management.

Regional and national legislation assign the responsibilities for appointment, control and tariff regulation concerning integrated water and municipal hygiene to the AATOs. These responsibilities formerly were managed by the granting municipalities which are, nevertheless, represented at the Shareholders' Meetings of the AATOs. 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.

It should be noted that, since 1 January 2009, the transfer to Romagna Acque of a business unit for the management of water production plants in the AATO territories of Forlì-Cesena, Ravenna, Rimini was completed. This transaction was made possible based on art. 14 of regional law no. 25 of 6 July 1999, which establishes that if a company, whose **majority shareholders** are the local authorities, and that owns collection, primary supply and distribution plants, and is a wholesale supplier of integrated water service of more than one AATO, the latter can assume direct management of said plants and networks.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, implementing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report accompanying the financial statements. Hera Spa has longer residual terms than those set out for managing entities that have promoted partial privatisations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing.

The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. The gas distribution tariffs are set in accordance with the regulations in force and with the deliberations adopted from time to time by the Italian Authority for Electricity 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 the tariffs set by regulations in force and resolutions adopted by the Italian Authority for Electricity and Natural Gas to the consumers. The tariff regulation currently in force is resolution no. 348/2007 as amended ("Supplementary text of measures for the supply of transmission, distribution and measurement of electricity 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 service under agreements with the AATOs of varying duration (usually twenty years), for aqueduct services, 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 to service provision. 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, must be approved by the AATOs.

The local authorities grant rights of use, even free of charge, to the management company for the integrated water service network and systems operations. 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 municipalities. 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 AATOs. 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 Water and Waste Regulatory Authorities.

Waste management sector

Hera performs the service of urban waste management. The purpose of agreements with the AATOs is the exclusive management of urban waste services (collection, 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 created. For the running of waste treatment plants, the Hera Group must obtain authorisations from the authorities of the Italian provinces.

Management of networks, plants and equipment

The infrastructure required for the provision of services that Hera is in charge of managing, 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 of the plants, 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.

The values shown in the table for 2010, item 3.02 Financial Statements, Consob resolution no. 15519 of 27 July 2006, refer to the related parties hereunder:

Related parties - subsidiaries:	
A.S.A. Scpa	Hera Luce Srl
Acantho Spa	Hera Servizi Cimiteriali Srl
Acque Srl	Hera Servizi Funerari Srl
Akron Spa	Hera Trading Srl
Calorpiù Italia Scarl In liquidation	Herambiente Spa
Consorzio Akhea	Herasocrem Spa
Consorzio Energia Servizi Bologna in liquidation	Ingenia Srl in liquidation
Eris Srl Ener. Ris. Svil.	Marche Multiservizi Spa former-Aspes Multiservizi Spa
Famula On-line Spa	Medea Spa
Frullo Energia Ambiente Srl	MMS Ecologica Srl
Gal.A. Spa	Naturambiente Srl
Hera Comm Marche Srl (former Megastrade)	Nuova Geovis Spa
Hera Comm Mediterranea Srl (former Cales Srl)	Romagna Compost Srl
Hera Comm Srl	Sinergia Srl
Hera Energie Rinnovabili Spa former-Hera Gas Tre Spa	Sotris Spa
Hera Energie Srl former Hera Energie Bologna Srl	Uniflotte Srl

Related parties - associated companies:	
Aimag Spa	Sei Spa
Consorzio Frullo	Service Imola Srl
Italcic Scarl In liquidation	Set Spa
Oikothén Scarl	Tamarete Energia Srl

Related parties with significant influence:	
Municipality of Bologna	Municipality of Modena

Other related parties:	
Acosea Impianti Srl	Ghirlandina Solare Srl
Adriatica Acque Srl	Maranello Patrimonio Srl
Amir - asset	Megas Net Spa
Area - asset	Modena Network Spa
Aspes Spa	Natura Srl in liquidation
Azimut Spa	Refri Srl
Calenia Energia Spa	Romagna Acque Spa
Con.Ami	Sassuolo Gestioni Patrimoniali Srl
Dyna Green Srl	Serramazzoni Patrimonio Srl
Energia Italiana Spa	Sgr Servizi Spa
Enomondo Srl	So.Sel Spa
Estense Global Service Soc.Cons. a rl	Società Intercomunale di Servizi Spa - SIS Spa
Feronia Srl	Società Italiana Servizi Spa - SIS Spa Asset
Fiorano Gestioni Patrimoniali Srl	Team - asset
Flameenergy Gmbh	Unica Reti - asset
Formigine Patrimonio Srl	Winmaxer Spa
Galsi Spa	

Related parties - third parties:	
Acef Srl	Eticredito – Banca Etica Adriatica Spa
Bonifica e Ambiente in liquidazione	Fondazione Flaminia
Consorzio Ferrara Ricerche	Modena Formazione Srl
Consorzio Italiano Compostatori	Prog.Este Spa
Consorzio Polieco	Torricelli Srl
Democenter Scarl	Valdisieve Cons.a rl

The values shown in the table for 2009, item 3.02 Financial Statements, Consob resolution no. 15519 of 27 July 2006, refer to the related parties hereunder:

Related parties - subsidiaries:	
A.S.A. Spa	Hera Energie Rinnovabili Spa
Acantho Spa	Hera Luce Srl
Acque Srl	Hera Servizi Funerari Srl
Agea Reti Srl	Hera Trading Srl
Akron Spa	Herambiente Srl
Aspes Gas Srl	Herasocrem Spa
Calorpiù Italia Scarl In liquidation	Ingenia Srl in liquidation
Consorzio Akhea	Marche Multiservizi Spa
Consorzio Energia Servizi Bologna in liquidation	Medea Spa
Eris Srl Energia Risorse Sviluppo	MMS Ecologica Srl
Famula On-line Spa	Nuova Geovis Spa
Frullo Energia Ambiente Srl	Romagna Compost Srl
Gal.A. Spa	Satcom Spa
Hera Comm Marche Srl	Sinergia Srl
Hera Comm Mediterranea Srl	Sotris Spa
Hera Comm Srl	Uniflotte Srl
Hera Energie Bologna Srl	

Related parties - associated companies:	
Aimag Spa	Sei Spa
Consorzio Frullo	Service Imola Srl
Italcic Scarl in liquidation	Set Spa
Oikothen Scarl	Tamarete Energia Srl

Related parties with significant influence	
Municipality of Bologna	Municipality of Modena

Other related parties:	
Acosea Impianti Srl	Maranello Patrimonio Srl
Adriatica Acque Srl	Megas Net Spa
Amir - asset	Modena Network Spa
Area - asset	Natura Srl
Aspes Spa	Refri Srl
Azimut Spa	Romagna Acque Spa
Calenia Energia Spa	Sassuolo Gestioni Patrimoniali Srl
Con.Ami	Serramazzoni Patrimonio Srl
Dyna Green Srl	Sgr Servizi Spa
Energia italiana Spa	So.Sel Spa
Estense Global Service Soc.Cons. a rl	Società Intercomunale di Servizi Spa - SIS Spa
Feronia Srl	Società Italiana Servizi Spa - SIS Spa Asset
Fiorano Gestioni Patrimoniali Srl	Team - asset
Flameenergy Gmbh	Unica Reti - asset
Formigine Patrimonio Srl	Winmaxer Spa
Galsi Spa	

Related parties - third parties:	
Acef Srl	Eticredito – Banca Etica Adriatica Spa
Bonifica e Ambiente in liquidation	Fondazione Flaminia
Consorzio Ferrara Ricerche	Isgas Energit Multiutilities Soc.Cons.a rl
Consorzio Italiano Compostatori	Modena Formazione Srl
Consorzio Polieco	Prog.Este Spa
Consorzio Sviluppoenergia 1	Torricelli Srl
Consorzio Sviluppoenergia 2	Valdisieve Cons.a rl
Democenter Scarl	

Remuneration paid to Directors, Statutory Auditors and Executives with strategic responsibilities

As set forth in art. 78 of the CONSOB Resolution no. 11971 of 14 May 1999 containing the provisions for implementation of the Italian Legislative Decree no. 58 of 24 February 1998, information on the remuneration paid in the year to the directors, statutory auditors and executives with strategic responsibilities of Hera Spa and its subsidiaries is provided below. Remuneration means the emolument paid for the office held, even for a fraction of a year, any other non-monetary benefits, bonuses and incentives, including those assigned by subsidiaries of Hera Spa. The amounts are in Euro.

Board of Directors

3 Hera Spa Separate Financial Statements

Name and surname	Position held	Period in office	Term of office	Fees	Non-monetary benefits	Bonuses and other incentives	Other compensation
Tomaso Tommasi di Vignano	Chairman	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	350,000	5,714	77,506	-
Maurizio Chiarini	Managing director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	125,000	15,690	79,196	231,438
Giorgio Razzoli	Deputy chairman	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	120,000	-	-	-
Mara Bernardini	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	100,000	-	-	-
Filippo Brandolini	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	100,000	2,665	1,796	-
Luigi Castagna	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	100,000	1,358	-	-
Mauro Cavallini	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	701	-	-
Piero Collina	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	4,394	-	-
Pier Giuseppe Dolcini	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	-	-	-
Ferruccio Giovanelli	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	1,002	-	-
Lanfranco Maggioli	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	918	-	-
Alberto Marri	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	918	-	-
Daniele Montroni	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	725	-	-
Roberto Sacchetti	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	100,000	3,558	1,287	-
Francesco Sutti	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	1,665	-	-
Bruno Tani	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	1,056	-	-
Paolo Trombetti	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	75,000	1,823	-	-
Stefano Zolea	Director	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	100,000	678	-	-
Total				1,845,000	42,865	159,785	231,438

The remuneration indicated can also include other offices held in Group companies

Board of Statutory Auditors

Name and surname	Position held	Period in office	Term of office	Fees	Non-monetary benefits	Bonuses and other incentives	Other compensation
Sergio Santi	Chairman	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	121,702	1,979	-	-
Antonio Venturini	Standing auditor	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	83,200	-	-	-
Fernando Lolli	Standing auditor	01.01.2010 - 31.12.2010	Approval financial statements as at 31.12.2010	81,702	-	-	-
Total				286,604	1,979	-	-

With regards to the Executives with strategic functions (Management Committee), the total gross annual salary paid during 2010 amount to Euro 2,272,302 while non-monetary benefits amount to Euro 107,410.

3.04. Net financial indebtedness

3.04.01 Net financial indebtedness of Hera Spa

In accordance with the requirement under Consob communication of 28 July 2006 and in compliance with the CERS recommendation of 10 February 2005 “Recommendations for the standard implementation of European Commission rules on information prospectuses” we note that the net financial position is as follows:

Net Financial Position (millions of €)		30-Dec-10	30-Dec-09
g=e+f	Cash	473.2	282.0
b	Other current financial receivables	45.3	135.9
	Current bank liabilities	-40.5	-10.1
	Current portion of non current bank indebtedness	-27.1	-20.8
	Other current financial liabilities	-250.8	-73.4
	Financial leasing payables - maturing within the next year	-2.3	-2.7
c	Current financial indebtedness	-320.7	-107.0
d=a+b+c	Net current financial indebtedness	197.8	310.8
e	Non-current financial receivables	192.5	13.0
	Non-current bank liabilities (long term loans)	-1.9	0.4
	Bonds issued	-1,787.4	-1,631.5
	Other non-current financial liabilities	-160.8	-119.7
	Financial leasing payables - maturing beyond the next year	-2.6	-2.9
f	Non-current financial indebtedness	-1,952.7	-1,753.7
g=e+f	Net non-current financial indebtedness	-1,760.2	-1,740.7
h=d+g	Net financial indebtedness	-1,562.4	-1,429.9

3.04.02 Net financial indebtedness with related parties, pursuant to Consob resolution 15519/2006

Net Financial Position (millions of €)		31-Dec-10	of which related parties				Total	%
			A	B	C	D		
a	Cash	473.2					-	
b	Other current financial receivables	45.3	21.5	23.7			45.2	99.78%
	Current bank liabilities	-40.5					-	
	Current portion of non-current bank indebtedness	-27.1					-	
	Other current financial liabilities	-250.8	-247.9				-247.9	98.84%
	Financial leasing payables maturing within the next year	-2.3					-	
c	Current financial indebtedness	-320.7	-247.9	-	-	-	-247.9	
d=a+b+c	Net current financial indebtedness	197.8	-226.4	23.7	-	-	-202.7	
e	Non-current financial receivables	192.5	182.4	9.1		1.0	192.5	100.00%
	Non-current bank liabilities (long term loans)	-1.9					-	
	Bonds issued	-1,787.4					-	
	Other non-current financial liabilities	-160.8					-	
	Financial leasing payables maturing beyond the next year	-2.6					-	
f	Non-current financial indebtedness	-1,952.7	-	-	-	-	-	
g=e+f	Net non-current financial indebtedness	-1,760.2	182.4	9.1	-	1.0	192.5	
h=d+g	Net financial indebtedness	-1,562.4	-44.0	32.8	-	1.0	-10.2	

Net Financial Position (millions of €)		31-Dec-09	of which related parties				Total	%
			A	B	C	D		
a	Cash	282.0					-	
b	Other current financial receivables	135.9	123.4	12.5			135.9	100.00%
	Current bank liabilities	-10.1					-	
	Current portion of non-current bank indebtedness	-20.8					-	
	Other current financial liabilities	-73.4	-70.1				-70.1	95.50%
	Financial leasing payables maturing within the next year	-2.7					-	
c	Current financial indebtedness	-107.0	-70.1	-	-	-	-70.1	
d=a+b+c	Net current financial indebtedness	310.8	53.3	12.5	-	-	65.8	
e	Non-current financial receivables	13.0	2.9	9.1		1.0	13.0	100.00%
	Non-current bank liabilities (long term loans)	0.4					-	
	Bonds issued	-1,631.5					-	
	Other non-current financial liabilities	-119.7					-	
	Financial leasing payables - maturing beyond the next year	-2.9					-	
f	Non-current financial indebtedness	-1,753.7	-	-	-	-	-	
g=e+f	Net non-current financial indebtedness	-1,740.7	2.9	9.1	-	1.0	13.0	
h=d+g	Net financial indebtedness	-1,429.9	56.2	21.6	-	1.0	78.8	

Key of headings of related parties columns:

A subsidiaries B associated companies C related parties with significant influence D other related parties

3.05 Statement of equity investments

Thousands of €	Share capital	Shareholders' equity excluding 2010 profits	2010 profit/loss	Total shareholders' equity	% held	Shareholders' equity attributable	Fin. Stat. value at 31 12 2010	Differences compared with shareholders' equity
Subsidiaries								
Acantho Spa	22,500	23,425	51	23,476	79.94	18,766	17,530	1,235
Famula On Line Spa	4,364	12,305	231	12,536	100	12,536	11,221	1,315
Herambiente Spa	271,148	303,054	30,964	334,018	75	250,514	226,157	24,356
Hera Comm Srl	53,137	53,787	13,382	67,169	100	67,169	88,978	-21,809
Hera Energie Rinnovabili Spa	1,832	1,780	70	1,850	100	1,850	2,417	-567
Hera Luce Srl	1,000	5,943	3,150	9,093	90	8,146	8,864	-719
Hera Servizi Cimiteriali Srl	20	20	-	20	100	20	20	-
Hera Servizi Funerari Srl	10	12	473	485	100	485	10	475
Herasocrem Spa	2,218	1,770	-289	1,481	51	755	1,131	-376
Hera Trading Srl	22,600	24,327	19,481	43,808	100	43,808	22,711	21,097
Ingenia Srl in liquidation	52	18	-16	2	74	1	63	-62
Marche Multiservizi Spa	13,450	18,943	4,092	23,035	41	9,444	34,538	-25,094
Medea Spa	4,500	3,057	206	3,263	100	3,263	11,988	-8,725
Sotris Spa	2,340	6,072	835	6,907	5	345	640	-295
Uniflotte Srl	2,254	2,606	688	3,294	97	3,195	3,567	-372
Total subsidiaries	401,425	457,119	73,318	530,437		420,297	429,836	
Associated companies								
Aimag Spa (*)	67,578	114,835	7,474	122,309	25	30,577	35,030	-4,453
Consorzio Frullo (*)	1	2	-7	-5	50	-3	2	-5
Italcis Scarl in liquidation (*)	90	69	-50	19	33	6	40	-34
Oikothén Scarl	1,102	1,102	-170	932	46	430	508	-78
Sei Spa	120	687	-35	652	20	130	702	-571
Service Imola Srl	10	52	250	302	40	121	4	117
Set Spa	120	86,561	55	86,616	39	33,780	31,748	2,032
Tamarete Energia Srl	3,600	13,531	-735	12,796	32	4,095	4,363	-268
Total associated companies	72,621	216,839	6,782	223,621		69,137	72,397	

* Data on share capital, shareholders' equity and profit/loss related to the last financial statements available

3.06 Art. 149 duodecies of the Issuers' Regulations

	2010
Financial statements certification service	367
Other services for issuing the certification (unbundling)	362
Other services	29
Total	758

3.07 Declaration for the financial statements in accordance with Art. 154 bis of Legislative Decree 58/98

1 – The undersigned Mr Maurizio Chiarini in his capacity as Managing Director, and Mr Luca Moroni in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154-bis, paragraphs 3 and 4, of legislative decree no. 58 dated 24 February 1998:

- the adequacy with reference to the nature of the company and
- the actual application

of the administrative and accounting procedures for the preparation of the Financial Statements for 2010.

2 – We further declare that:

2.1 – the 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 capital, financial position and operating results of the issuer.

2.2 – The Directors' Report includes a reliable analysis of the trends and operating profit, and of the situation of the issuer, together with the description of the major risks and uncertainties to which they are exposed.

The Managing Director

Maurizio Chiarini

The Manager in charge
of the corporate accounting documents

Luca Moroni

Bologna, 24 March 2011

3.08 Report of the Board of Statutory Auditors and the Independent Auditing Firm

3.08.01 Report of the Independent Auditing Firm



AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the Shareholders of
Hera SpA

- 1 We have audited the financial statements of Hera SpA as of 31 December 2010, which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes. The directors of Hera SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements show as comparatives the amounts of the prior year's financial statements. As illustrated in the explanatory notes, the comparative amounts of the prior year's financial statements, which we audited and on which we reported on 13 April 2010, were restated by the directors to reflect the changes in financial reporting introduced by the first application of the interpretation IFRIC 12 "Service concession arrangements". We have reviewed the method applied to restate the amounts and the related disclosure in the explanatory notes for the purposes of issuing our report on the financial statements as of 31 December 2010.

- 3 In our opinion, the financial statements of the Hera SpA as of 31 December 2010 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, the result of operations and the cash flows of the Hera Group for the year then ended.
- 4 The directors of Hera SpA are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the specific section on corporate governance and shareholder structure limited to the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98, with the financial

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob - Altri Uffici: Bari 70124 Via Don Luigi Guanella 17 Tel. 0805640211 - Bologna Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 - Brescia 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - Firenze 50121 Viale Gramsci 15 Tel. 0552482811 - Genova 16121 Piazza Dante 7 Tel. 01029041 - Napoli 80121 Piazza dei Martiri 58 Tel. 08136181 - Padova 36138 Via Vicenza 4 Tel. 049873481 - Palermo 90141 Via Marchese Ugo 60 Tel. 091349737 - Parma 43100 Viale Tanara 20/A Tel. 0521242848 - Roma 00154 Largo Fochetti 29 Tel. 06570251 - Torino 10129 Corso Montevecchio 37 Tel. 011556771 - Trento 38122 Via Grazioli 73 Tel. 0461237004 - Treviso 31100 Viale Felissent 90 Tel. 0422698911 - Trieste 34125 Via Cesare Battisti 18 Tel. 0403480781 - Udine 33100 Via Poscolle 43 Tel. 043225789 - Verona 37122 Corso Porta Nuova 125 Tel. 0458002561

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statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard No. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations and the information provided in compliance with paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 included in the specific section of the report on operations are consistent with the financial statements of Hera SpA as of 31 December 2010.

Bologna, 7 April 2011

PricewaterhouseCoopers SpA

Signed by
Edoardo Orlandoni
(Partner)

This report has been translated from the original, which was issued in accordance with Italian legislation, solely for the convenience of international readers. We have not examined the translation of the financial statements referred to this report

3.08.02 Report of the Board of Statutory Auditors

Reg. of Companies 04245520376

Hera Spa

Registered office in viale C. Berti Pichat 2/4 - 40100 Bologna (Bo) - Italy - Share Capital EUR
1,115,013,754.00 fully paid-in

Report of the Board of Auditors to the Shareholders' Meeting
pursuant to art. 2429, section 2 of the Italian Civil Code

Dear Shareholders of Hera Spa,

During the financial period that closed on 31 December 2010, our activity was guided by the Rules of Conduct of the Board of Auditors recommended by the Italian accounting profession.

Specifically, pursuant to the provisions of art. 2429 of the Italian Civil Code, art. 153 of Legislative Decree 58/1998 and in compliance with Consob communication DEM/6037577 of 28 April 2006, we report the following:

We ensured that the law and the articles of association were observed and that the principles of correct administration were followed.

During the year we attended 12 meetings of the board of directors, six meetings of the Executive Committee and one Shareholders' Meeting, which were held in observance of the statutory, legislative and regulatory rules that govern their running and for which we can reasonably assure you that the actions resolved are compliant with the law and the articles of association, and that they are not openly imprudent, risky, in potential conflict of interest or such as to jeopardise the integrity of the company's assets.

We obtained information from the Directors on the overall results of operations and on the business outlook, in addition to the most significant operations in terms of size or characteristics carried out by the company and its subsidiaries during the meetings held. We can reasonably assure you that the actions implemented comply with the law and the articles of association and are not openly imprudent, risky, in potential conflict of interest or in conflict with the resolutions passed by the shareholders' meeting or such as to jeopardise the integrity of the company's assets. In particular, the most significant economic and financial operations carried out by the company during the year, in observance of the law and the articles of association, are the following:

- Herambiente Spa: as at 09 December 2010, the transfer of 25% of the capital of Herambiente Spa to Ambiente Arancione Cooperatief U.A., a subsidiary company of Eiser Global Infrastructure Fund, was concluded.
- Hera Comm Marche Srl / Aspes Gas Srl: effective 1 January 2010, Aspes Gas Srl, wholly owned by Marche Multiservizi Spa, was merged by incorporation in Hera Comm Marche Srl, wholly owned by Hera Comm Srl, the purpose of both of the latter companies being the sale of natural gas and electricity to end customers. The above-mentioned merger increased the share capital of Hera Comm Marche Srl to EUR 1,458,332. Following this transaction, 48% of the share capital of the company was held by Hera Comm Srl and the remaining 52% was held by Marche Multiservizi Spa. Subsequently, on 2 February 2010, 12% of the share capital of Hera Comm Marche Srl was sold by Marche Multiservizi Spa to Hera Comm Srl. Following this transaction, 60% of the share capital of Hera Comm Marche Srl is held by Hera Comm Srl and the remaining 40% by Marche Multiservizi Spa.
- Acef Srl: on 08 April 2010 the Shareholders' Meeting of Acef Srl, a company that provides services related to the generation, sale and distribution of electricity, thermal energy and gas, resolved on the voluntary winding-up of the company, which is currently in the liquidation phase.
- Isgas Energit Multiutilities Scarl: on 10 June 2010 Hera Spa transferred to Mediterranea Energia Ambiente Spa its entire equity investment – equal to 5% of the share capital - in Isgas Energit Multiutilities Scarl, a company operating in the sector of public service concessions of gas production and distribution. As a result of this transaction, Hera Spa exited the shareholder structure of Isgas Energit Multiutilities Scarl.

- Agea Reti Srl: with effective date on 15 July 2010 and accounting and tax retroactive effects on 1 January 2010, the merger by incorporation of Agea Reti Srl in Hera Spa was finalized. This transaction caused no changes in the share capital of Hera Spa, inasmuch as Agea Reti Srl was already wholly owned by Hera Spa.
- ASA Scpa: as at 22 July 2010, effective 27 July 2010, the extraordinary shareholders' meeting of ASA, a subsidiary of Herambiente Spa which operates in the environmental sector, resolved to transform the company from an Spa to an Scpa.
- Satcom Spa / Acantho Spa: effective 01 September 2010 the merger by incorporation of Satcom Spa into Acantho Spa, a company 62.5% owned by Hera Spa and operating in the telecommunications sector, was concluded.
- Enomondo Srl: as at 16 December 2010, with effect from 31 December 2010, Herambiente Spa purchased from Caviro Società Cooperativa Agricola 40% of the share capital of Enomondo Srl, a business that operates in the waste to energy sector. As at 16 February 2011, Herambiente Spa purchased from Caviro Società Cooperativa Agricola a further 10% of the share capital of Enomondo Srl, thus increasing its ownership in this company to 50%.
- Ghirlandina Solare Srl: as at 19 July 2010 Hera Energie Rinnovabili Spa, a company controlled by Hera Spa, CPL Concordia Soc. Coop. and Ing. Ferrari Spa established Ghirlandina Solare Srl, a company that is active in the design, realization, management and ordinary and extraordinary maintenance of ground mounted photovoltaic systems, of which they hold 33%, 34% and 33% of the share capital respectively,
- Romagna Acque Spa: effective as at 31 December 2010, the sale of the company unit that manages the remaining part of the water collection, accumulation, purifying and supply of the local sources of the water and waste regulatory authorities of Forlì-Cesena and Rimini by Hera Spa and Romagna Acque Spa - Società delle Fonti Spa was concluded.

- Hera Servizi Cimiteriali Srl: on 22 December 2010, Hera Spa established Hera Servizi Cimiteriali Srl, a company that provides cemetery services, of which it holds 100% of the share capital.

We held meetings with the party appointed to carry out the accounting control, and significant data and information to be included in this report did not emerge.

We became acquainted with and supervised the suitability of the organisational structure of the company, also by collecting information from the function managers, and to this regard we have no particular comments to make.

We evaluated and supervised the suitability of the administrative and accounting system, as well as the reliability of the latter in correctly representing the operational transactions, by obtaining information from the function managers and the party appointed to carry out the accounting control, and by examining the company documents. We have no particular comments to make to this regard.

Claims pursuant to art. 2408 of the Italian Civil Code did not arrive.

Following verification that the limits provided by the law (art. 2412, section 1, of the Italian Civil Code) have been observed, during the financial period we issued a favourable opinion on the proposal to issue a bond.

The company complies with the Code of Conduct prepared by the Corporate Governance Committee of listed companies; the Board of Directors resolved enactment of the recommendations drawn up by the Code of Conduct of the listed companies. As for the Board of Auditors, we report that its powers regard: (i) the task of supervising the independence of the Independent Auditing Firm, (ii) the right to ask Audit to make verifications, (iii) the prompt exchange of information with the Internal Control Committee on significant information and (iv) verification that the criteria and assessment procedures adopted by the Board of Directors to evaluate the independence of its members are correctly applied and the evaluation of the independence of its members based on the criteria used for the Directors. On this latter point, the Board verified that the non-executive Directors have the requisites of independence.

We did not encounter atypical and/or unusual transactions, including those carried out with related or infra-group parties.

With reference to Legislative Decree no. 231 of 8 June 2001, the company adopted an organisational and management model whose contents are consistent with the structure of the company.

The Board of Auditors did not receive complaints.

The Company granted the legal auditing appointment pursuant to articles 155 et seq. of Legislative Decree 58/1998 (articles amended by art. 40 of Legislative Decree no. 39/2010) to the Independent Auditing Firm PriceWaterhouseCoopers Spa, entered in the register set up at the Ministry of Justice, which on 7 April 2011 issued its report on the financial statements as at 31 December 2010.

Your company appointed the following non-auditing activities to the Independent Auditing Firm during the financial period that ended on 31 December 2010:

- fairness opinion on the determination of the share issue price as part of the increase of capital reserved for the holders of the equity linked bond;
- Unbundling 2009 – certification of the annual accounts;
- coordination of the Hera - Acam aggregation plan;
- Acam due diligence;
- work group for re-financing Put bonds
- support to the Manager in Charge pursuant to Law 262.

We examined the financial statements as at 31 December 2010, concerning which we report the following.

As we were not assigned the analytical monitoring of substance on the contents of the financial statements, we monitored the general set-up it was given, its overall compliance with the law as far as its drawing up and structure are concerned, and to this regard we have no particular comments to report.

As far as we know, the Directors did not depart from the rules of law pursuant to art. 2423, section four, of the Italian Civil Code in drawing up the financial statements.

We checked that the financial statements correspond with the events and information we are aware of after executing our duties, and we have no comments in this connection.

Also considering the results of the activity carried out by the party assigned the legal audit, PriceWaterhouseCoopers Spa, the results of which are included in its report accompanying the financial statements, we propose that the Shareholders' Meeting approves the financial statements as at 31 December 2010 as drawn up by the Directors.

Bologna, 07 April 2011

Board of Auditors

Chairman, Board of Auditors	Sergio Santi
Standing auditor	Antonio Venturini
Standing auditor	Fernando Lolli



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