3006
2010

2010 Half-year financial statements as at 30 June

Introduction

First half directors' report

Abbreviated Consolidated Half-Year Financial Statements

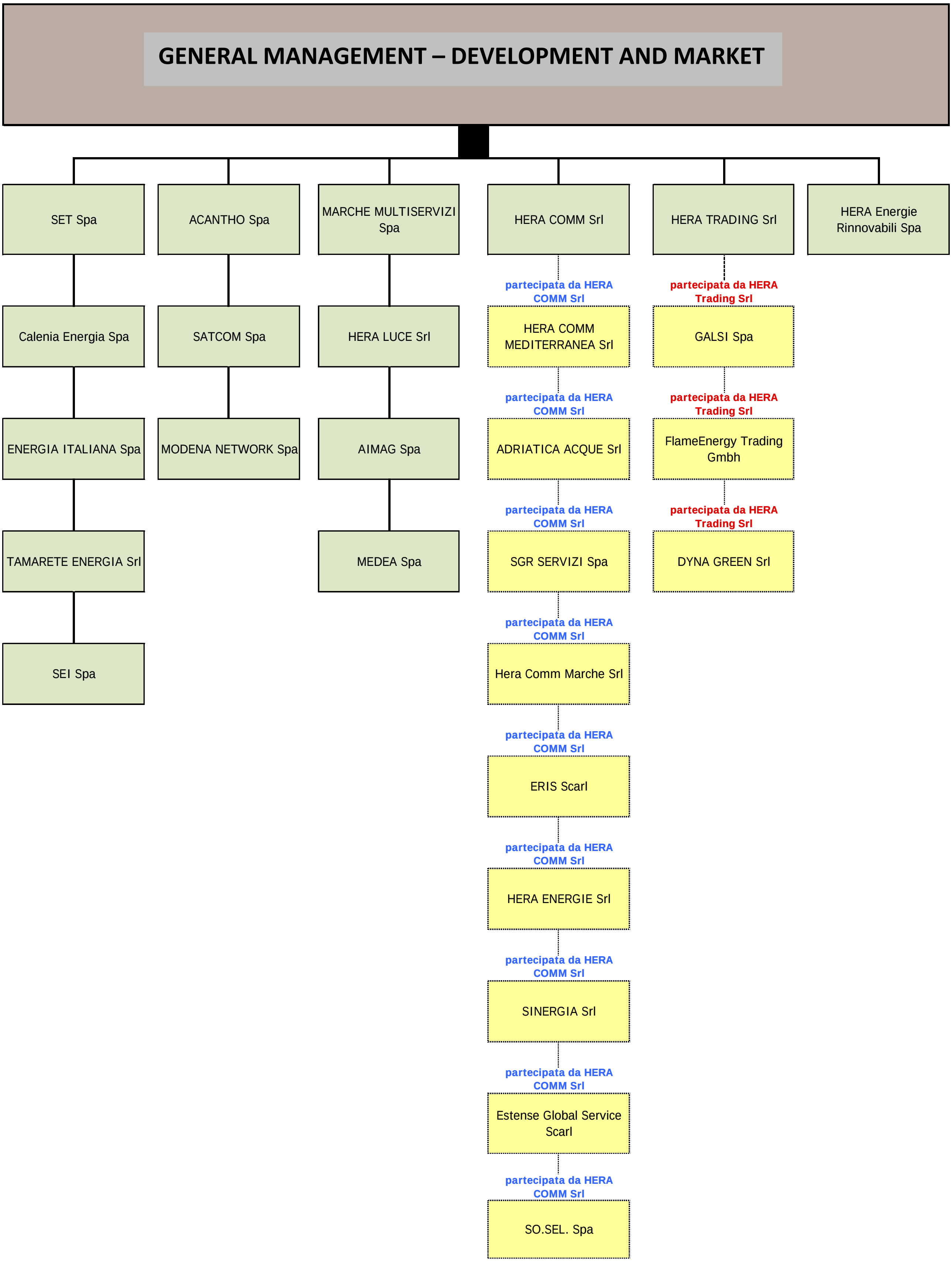
Introduction

Hera's Mission

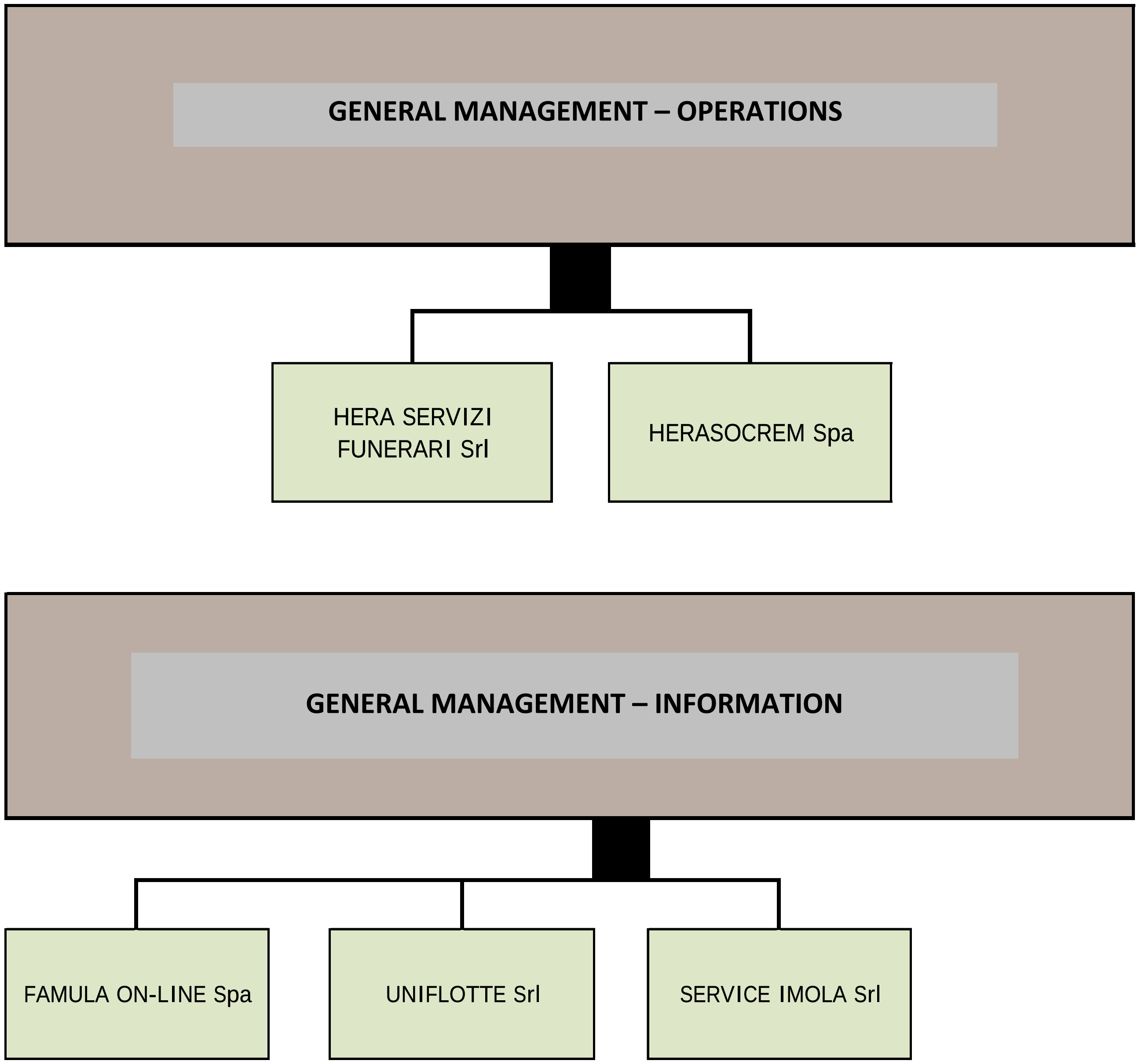
"Hera's goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by respecting the local environment".

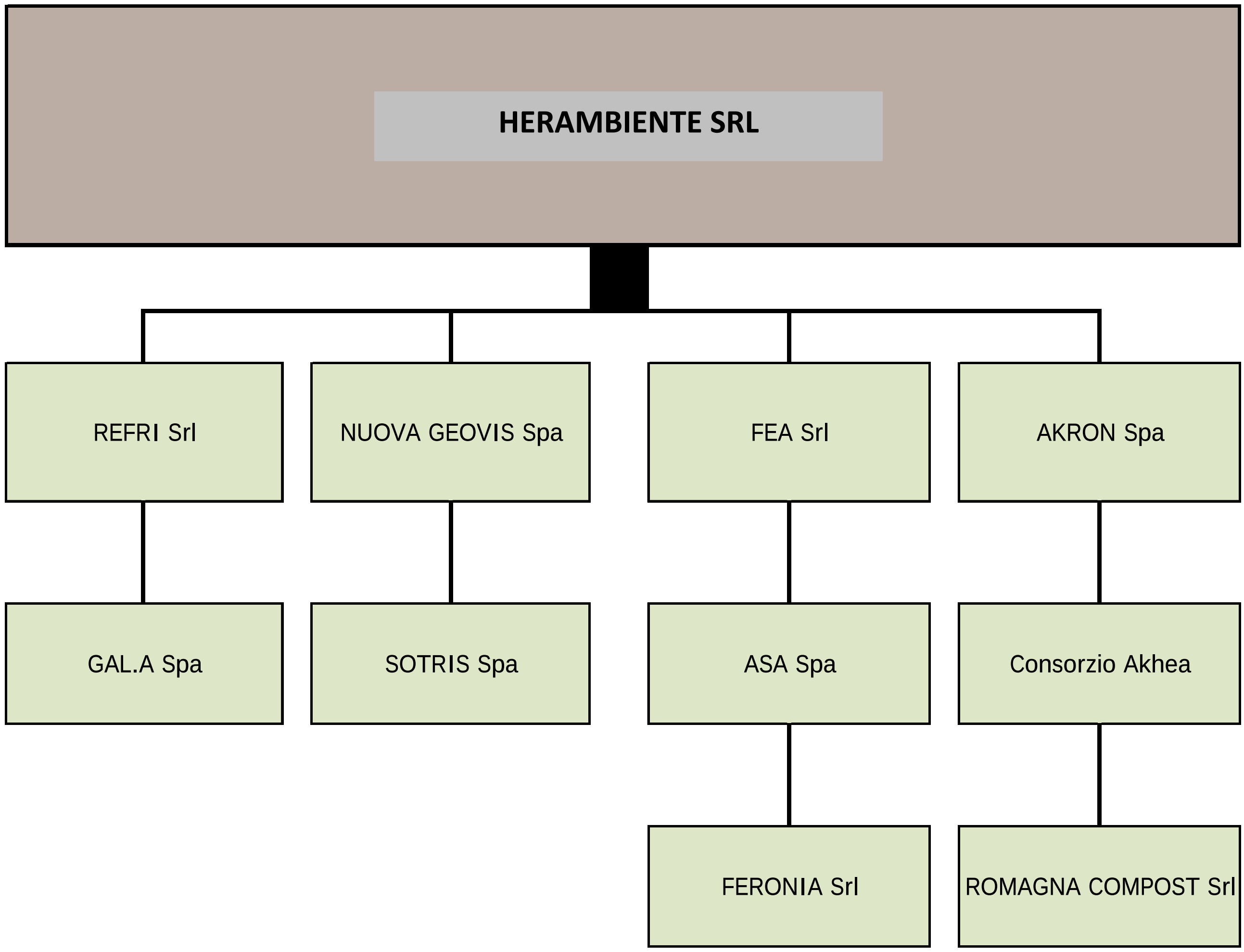
For Hera, being the best means inspiring the pride and trust of: customers, *who receive, thanks to Hera's responsiveness to their needs, quality services that satisfy their expectations;* ***the women and men who work at Hera****, whose skills, engagement and passion are the foundation of the company's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

Group Structure

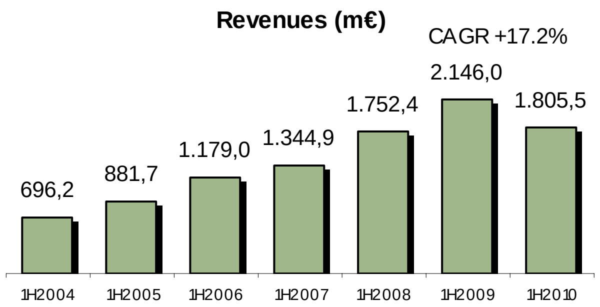


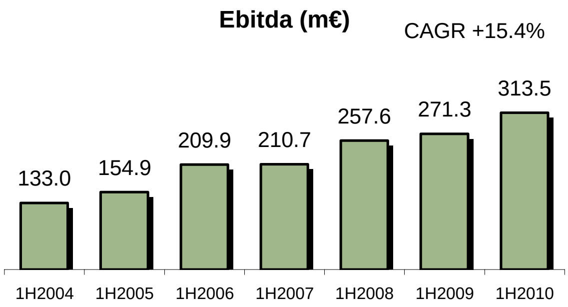
The disposal of the equity investments in Modena Formazione Srl, Democenter - Sipe Scarl, Oikothen Scarl and Centuria-Rit Scarl is scheduled
Companies in liquidation: Acef Srl, Ingenia Srl and Italcic Scarl.

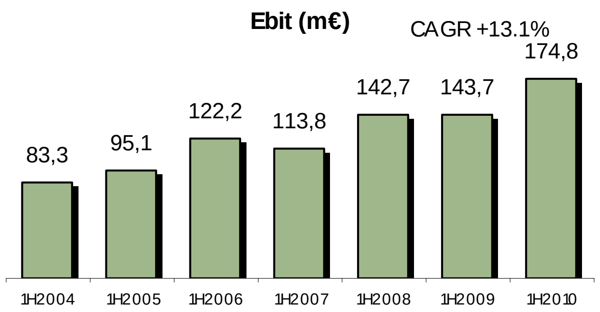

GENERAL MANAGEMENT – OPERATIONS
HERA SERVIZI FUNERARI Srl
HERASOCREM Spa
GENERAL MANAGEMENT – INFORMATION
FAMULA ON-LINE Spa
UNIFLOTTE Srl
SERVICE IMOLA Srl

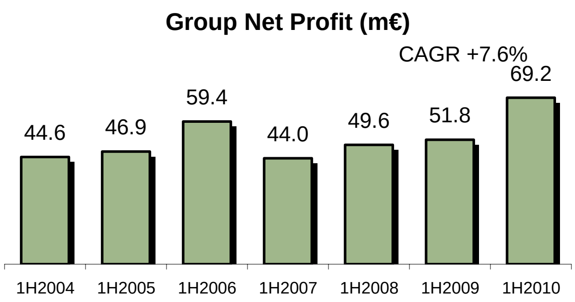

HERAMBIENTE SRL
REFRI Srl
NUOVA GEOVIS Spa
FEA Srl
AKRON Spa
GAL.A Spa
SOTRIS Spa
ASA Spa
Consorzio Akhea
FERONIA Srl
ROMAGNA COMPOST Srl

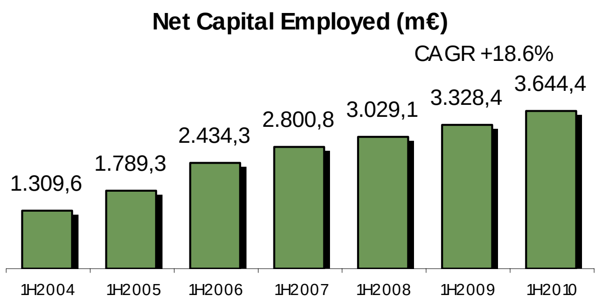
Highlights

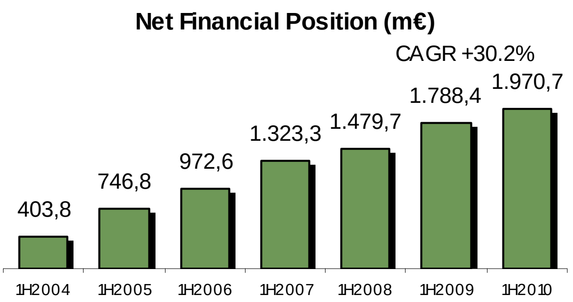

Revenues (m€)
CAGR +17.2%
696,2
881,7
1.179,0
1.344,9
1.752,4
2.146,0
1.805,5
1H2004
1H2005
1H2006
1H2007
1H2008
1H2009
1H2010


Ebitda (m€)
CAGR +15.4%
133.0
154.9
209.9
210.7
257.6
271.3
313.5
1H2004
1H2005
1H2006
1H2007
1H2008
1H2009
1H2010


Ebit (m€)
CAGR +13.1%
83,3
95,1
122,2
113,8
142,7
143,7
174,8
1H2004
1H2005
1H2006
1H2007
1H2008
1H2009
1H2010


Group Net Profit (m€)
CAGR +7.6%
44.6
46.9
59.4
44.0
49.6
51.8
69.2
1H2004
1H2005
1H2006
1H2007
1H2008
1H2009
1H2010


Net Capital Employed (m€)
CAGR +18.6%
1.309,6
1.789,3
2.434,3
2.800,8
3.029,1
3.328,4
3.644,4
1H2004
1H2005
1H2006
1H2007
1H2008
1H2009
1H2010


Net Financial Position (m€)
CAGR +30.2%
403,8
746,8
972,6
1.323,3
1.479,7
1.788,4
1.970,7
1H2004
1H2005
1H2006
1H2007
1H2008
1H2009
1H2010

Strategic approach

Hera aims to create value through a multi-stakeholder approach and focus on achieving growth in accordance with all internal and external development guidelines to benefit from both the economies of scale and to pool resources resulting from mergers with multi-utility companies operating in the sector.

Hera has always pursued ***operational efficiency strategies***, leveraging an organizational model based on consolidating certain general functions and maintaining strong roots in the areas served.
In 2010, the transformation of the multi-business territorial operative companies into organisational units took effect, which will contribute to additional rationalisation of operating costs while maintaining local coverage of the customer base.

The Group has always been focused on the ***development of open markets***, even during periods of economic-financial crisis. Special attention has been placed on cross-selling policies of the services in the business portfolio to the same customer base. The development of market share in the deregulated electricity and special waste treatment markets is currently supported by a strategy to develop plant capacities that has reached its execution final stage. In fact, in the last 18 months, 2 WTE plans and a cogeneration CCGT plan have come on stream.
The deregulated Italian waste treatment market recently recently demonstrated its serious lack of infrastructural as compared to the average situation in European countries, leading to a “waste emergency” in several regions. As a result, government authorities took action to move forward with the construction of new plants in Italy, laying the foundation for important development in the sector, and called local public invitations for tenders for the construction of new waste-to-energy plants. With these possibilities offered by the market, Hera intends to expand its presence on the Italian market by leveraging its position of leadership and its exclusive know-how deriving from the construction of numerous plants in the last few years, satisfying the current needs of the local areas where it operates.

In ***regulated services,*** the objective pursued was to strengthen supervision in the reference area by strengthening asset ownership by purchasing gas and district heating networks owned by third parties and managed by the Group, for the purpose of greater rationalisation of owned assets, investments and management and maintenance costs. The strategy in regulated business sectors was to maintain expiring concessions by taking part in tenders both in the reference areas and expanding to several neighbouring areas for certain network services.

Hera also continues to pursue development opportunities for outside lines, both through the aggregation of multi-business firms in neighbouring areas, and with upstream companies in the chain of deregulated activities. The ***multi-business*** development line is focused on companies that operate in areas that border the reference areas, allowing greater economies of scale to be achieved, which support the management efficiency processes in the short and medium-term. These are the criteria which led Hera to acquire 25% of Aimag’s share capital in 2009 with a view to developing growth through the development of synergies. ***Mono-business*** development operations are pursued with the aim of strengthening waste treatment activities, taking advantage of special favourable market conditions, or energy activities to pursue the development of sales with a balanced upstream integration policy in electricity generation.

Hera lays out its strategies in a business plan that is updated on an annual basis. The most recent update dates back to September 2009 (with a five-year plan to 2013) and indicates that the strategy is to achieve further market growth in both deregulated activities and upstream activities, in addition to confirming its focus on achieving synergy between costs and revenues, on developing new plants where electricity is generated from renewable sources, and on strengthening its plant base. The plan sets out the growth objectives that mainly rely on factors that are already in place, through development by internal growth lines (new plants recently started up or at an advanced stage of construction, future tariffs that have already been agreed for regulated activities, corporate restructuring already carried out). The planned growth envisages a cash generation aimed at covering the investment program and an increasing dividend flow, in addition to the maintenance of the current financial structure.

Hera's strategy also aims at developing sustainable corporate development through a multi-stakeholder approach. On 30 April 2010, the Shareholders' Meeting approved the 2009 sustainability report, which highlights the added value growth for the seventh consecutive year. This proves the concreteness of Hera's sustainable approach in asset management.

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 efficiency and ***low risk*** associated with this balanced multi-business approach can be appreciated judging from the continued and uninterrupted growth of the consolidated EBITDA over the years, even in a difficult year like 2009.

Hera is the ***leading domestic operator in the waste management sector*** by quantity of waste collected and disposed of: urban waste collection is regulated by a concession that will expire in 2012, while the disposal of special waste is a deregulated market business. The tariffs for 2008-2012 have been agreed to with local authorities.

Over the last seven years, the list of plant infrastructures has grown to 77 plants, capable of covering the entire range of possible waste treatments and recoveries, confirming the excellence of the Group on a national level.

Hera is also one of the main operators in Italy that generates electricity from waste, 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, increasing installed capacity to over 100 megawatts and 860,000 tons/year. Herambiente Srl is the special purpose entity created to facilitate supervision of the market and to exploit its unique professional experience gained from managing these plants to the full.

With respect to the lack of infrastructure in the Italian waste treatment sector, which culminated in 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 these calls for tenders in order to gain new market shares.

The Hera Group is the ***second largest operator in Italy*** in the management of the ***complete water cycle***, i.e. from the distribution of drinking water to the collection and purification of wastewater. Hera is the only operator performing this service in seven provinces in Emilia Romagna and the Marches in accordance with long-term concession agreement contracts (on average up to 2022). The tariffs for 2008-2012 have been agreed with local authorities.

Increased efficiency in the management of more than 25,000 kilometres of water networks, economies of scale in purchasing and adjustment of 2008-2012 tariffs to meet legal requirements were the key factors behind the growth, combined with the contribution of growth from external lines.

Hera has almost complete coverage of the reference area in the ***gas sector***. It is the ***largest of the "local" companies*** and the fourth on a national level in terms of volumes sold. With about 1.1 million customers, Hera sells over 2.8 billion cubic metres of gas per year.

The Group defends its market share by supplying gas directly from sources outside Italy, and as a result of its direct transport capacity from abroad of about 400 million m^3 of gas through the TAG gas pipeline. The future Galsi gas pipeline between Italy and Algeria will add almost one billion m^3 per year to this capacity.

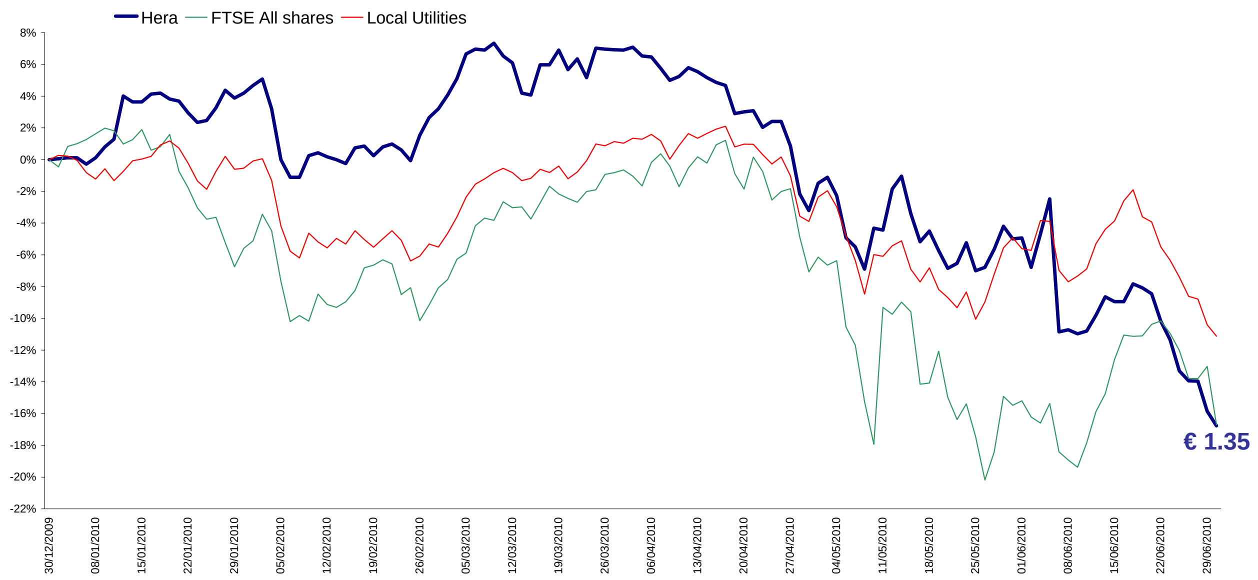
Since its establishment, Hera has pursued a "dual fuel" sales strategy, allowing it to develop the ***electricity market*** at moderate growth rates, both through cross-selling to existing customers, and through expansion to new markets. Hera is one of the leading 10 Italian operators, and also one of the companies with the highest growth rates in the EMEA (Europe, Middle East, and Africa) area, according to Platt's ranking.

The development of sales was accompanied by the simultaneous balanced development of energy availability through the formation of joint ventures for the purchase of shares in combined cycle plants, the development of its own of generation plants from renewable or similar sources and the start-up of cogeneration plants. This strategy was put in place by guaranteeing coverage of only part of electricity sales, leaving room to take advantage of the current conditions of the commodities market.

Share performance

The FTSE Italia All Share index closed the first half of 2010 with a performance of -16.7%, the Italian Local Utilities index closed at -11.1%, while Hera shares closed at the official price of Euro 1.35, with a performance of -16.8% from the beginning of the year, in line with the market.

Performance of Hera shares in the first half of 2010



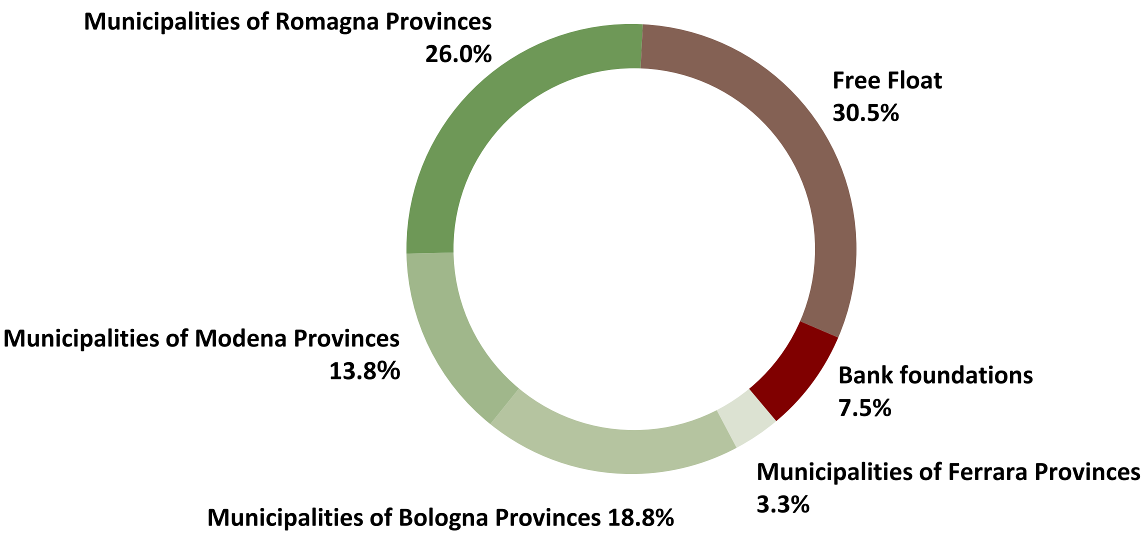
The share's performance seems not to reflect the positive financial statement results which, in all the years since the listing, have shown steady growth above the sector average. The level of the share price, which by at the end of the half year reached the values recorded at the beginning of 2004, reflects market capitalisation that is lower than the book value of shareholders' equity and an EV/EBITDA '09 multiple that is 6 times lower.

13 independent analysts regularly cover the Hera Group's shares, and half of these are international, namely: Banca Akros, Banca IMI, Banca Leonardo, Centrobanca, Cheuvreux, Equita, Intermonte, Kepler, Mediobanca, Merrill Lynch, Santander, Unicredit and Deutsche Bank, which launched coverage of the Hera share with a target price of Euro 2.3 and a buy recommendation. The Hera share has been repeatedly listed as one of the best (investment) picks by various analysts such as Unicredit, Equita, Centrobanca, Banca IMI and Banca Leonardo, and currently has 11 "Buy/Outperform" ratings.

The Group's financials are assessed by the two leading international specialised ratings agencies: on 23 June 2010, Standard & Poor's modified its long-term debt rating for Hera from A- with negative outlook to BBB+ with stable outlook and confirmed the rating of A-2 on short-term debt, while on 30 July 2010 Moody's modified Hera long-term debt rating from A2 with negative outlook to A3 with stable outlook.

Following a number of mergers, the share capital reached 1,115,013,754 ordinary shares with a par value of one euro each.

Hera's shareholding structure is unique in the Italian sector, with a shareholding spread among more than 190 public institution shareholders from the reference area that hold a total of about 62% (51% of which is bound by a shareholders' agreement), 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 amount up to 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 the list prices of principal domestic competitors. The Shareholders' Meeting of 30 April 2010 renewed the treasury share purchase plan for another 18 months, up to a total amount of Euro 60 million. As at 30 June 2010, Hera held about 3,452,784 treasury shares in its portfolio.

The main instrument for ***communication*** with the financial market is definitely the web-site of the Group (www.gruppohera.it). In 2009, Hera came second in the Webranking 2009 classification established by Hallvarsson & Halvarsson, immediately following the number one company, placing Hera among the best corporate websites of the leading Italian listed, large cap companies and first at European level, in the "Electricity" sector companies.

In the first six months of 2010 dialogue with Italian and international investors continued, through a growing number of contacts and meetings (230 contacts and meetings in 2010), specifically on the occasion of the presentation of the annual results for 2009 to the financial community as part of the international roadshow, in answer to the difficult period the markets are undergoing.

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 since 20 July 2009 ** In office since 5 October 2009 *** In office since 19 July 2009*
***** In office since 12 November 2009 ***** In office since 27 January 2010*

First Half Directors' Report

2.01 Introduction

These half-year financial statements as at 30 June 2010 were drawn up pursuant to Legislative Decree 58/1998 art.154 ter. and subsequent amendments, as well as in accordance with the Issuers' Regulations issued by Consob. These half-year financial statements were prepared in compliance with the International Accounting Standards "Ifrs" issued by the International Accounting Standards Board "Iasb" and approved by the European Union, and in compliance with IAS 34 – Interim Financial Statements.

In the first half of 2010, the Hera Group recorded additional ***growth in all operating results*** until net profit, despite the fact that Italy's macro-economic situation is still affected by a serious global financial crisis. The results achieved benefitted from the economic contribution of plants started up, as well as from the contribution due to the usual organic growth factors in both regulated and deregulated activities.

The contribution of new plants started up was however, a partial expression of the real potential: the waste-to-energy plant in Modena was stopped for about one month in the first quarter for normal annual maintenance works, and the waste-to-energy plant in Rimini was started up at the beginning of June. Moreover, the new 80 MW cogeneration plant in Imola has mainly operated in generating heat and benefitted from the favourable winter weather trend. As for electricity generation, the plant recorded low generation levels due to the unfavourable price levels on the energy market.

The low level of electricity prices and the better conditions in the national methane gas supply market were underlying causes of a reduction in turnover achieved. A drop in procurement costs resulted in an increase in both profitability in the deregulated energy businesses and profitability in the percentage profit at consolidated Group level. These results highlight the positive contribution of the strategies pursued in the balanced upstream development of energy activities to cover only part of sales to end clients.

The ***growth strategy on deregulated markets***, which was supported by a solid trade structure, an effective cross selling policy and an efficient customer assistance service, continued in the first half as well, to support the growth in ***electricity sales***, confirming the sound coverage of the deregulated markets. Thanks to cooler winter temperatures, an increase in volumes of ***gas sold*** was recorded due to higher consumption, especially by residential customers.

Waste disposal recorded growth of approximately 8.1% in commercialized waste, thanks to the recovery of levels of industrial production, favouring a recovery in demand for waste treatment from retail and business clients. These levels of business were supported due to the strengthening of the treatment plant capacity with the new WTE plants coming on stream. The positive growth was moreover influenced by the reduced possibility of using the plants in landfills, given the difficult access of vehicles due to snowfalls this winter.

The activities managed in concession for the distribution of energy, collection of urban waste and integrated water services greatly contributed to the growth in profit in the first half of the year, mainly due to the tariff adjustments in accordance with the national legally guaranteed returns and the new tariff systems, and the effect of continuing operational efficiency. Particularly in gas distribution, the national authorities set the tariff levels for this financial year on the basis of an asset revaluation which occurred when a system of exact valuation of invested capital replaced the "parametric" system widely used in the past.

Lastly, the ***external line development strategy*** also contributed to the improved results. This strategy resulted in lower leasing fees for gas and district heating networks acquired in 2009.

The operational results for the half year improved with respect to the same period in the previous year, thanks to the contribution of all strategic business areas (Waste Management, Energy and Networks) of the Group, with the help of all growth factors, both internal and external. Moreover, these developments supported the growth of the Group consolidated net profit, in spite of the increase in amortisation and financial charges, which were respectively influenced by the start-up of new plants and the increase in net borrowings which went from Euro 1,788.4 million in June 2009 to Euro 1,970.6 million in June 2010.

In the first half, the Group financial situation also benefited from the generation of positive cash flow deriving from operational management and the reduction in investments linked to plant development. These effects partially offset the effect of payment of dividends and profit pertaining to minority interests (DPS of Euro 8 cents per share) and reconfirmed the soundness of the Group's financial structure.

During July, a binding agreement was executed aimed at ceding a minority interest of Herambiente of 20%. The agreement includes, inter alia, the possibility of ceding a further 5% by December 2010.

2.02 Corporate events first half 2010

The first half of 2010 was characterized by continued rationalization of the Group's structure, which led to the sale or liquidation of 2 investee companies, 1 merger by incorporation, and 1 acquisition of an additional equity investment.
Already in 2009, rationalisation activities took place, which led to the sale or liquidation of 11 investee companies, the acquisition of equity investments in 8 companies and 4 contribution-in-kind transactions as well as 12 merger / spin-off transactions.
The following is a list of the main mergers and acquisitions that took place during the year:

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, which had previously increased from Euro 100,000 to Euro 700,000, 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.
As a result of this operation,the company is in liquidation.

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 S.c.a r.l., a company operating in the sector of public service concessions of gas production and distribution.
As a result of this operation, Hera Spa exited the shareholder structure of Isgas Energit Multiutilities Scarl.

2.03 Hera Group's Performance at 30 June 2010

Consolidated summary results of the Hera Group:

(millions of Euro)	30-Jun-09	Inc.%	30-Jun-10	Inc.%	% Change
Revenues	**2,146.0**		**1,805.5**		**-15.9%**
EBITDA	**271.3**	**12.6%**	**313.5**	**17.4%**	**+15.6%**
EBIT	143.7	6.7%	174.8	9.7%	+21.6%
Net Profit	**51.8**	**2.4%**	**69.2**	**3.8%**	**+33.6%**

2.03.01 Financial and Economic Results

The results of the first half of 2010 show growth in all economic indicators compared to the same period of 2009, consolidating the signs of economic recovery demonstrated at the end of the first quarter.

The increase in volumes of gas and electricity sold and distributed and district heating distributed, compared to the first six months of 2009, was confirmed, as well as the increase in volumes of waste collected and disposed.

It is noted that at the end of 2009, the Group completed the following reorganisation processes of the company structure:

- the establishment of Herambiente S.r.l., focused on the business of waste disposal and treatment, through the transfer of all trade activities and plants;
- the spin-off of the Territorial Operative 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 the application of the interpretation of the accounting standard IFRIC 12 "Service Concession Arrangements" which modified the method of accounting for company events for companies operating in sectors governed by specific concessions (for more details on this matter, refer to the specific section). In accounting terms, the application of this standard, which does not result in any changes in the results, requires the representation of business investments carried out on the assets under concession, limited to network services, in the income statement. As a result, the items Other operating revenues, services costs and capitalised costs implement the measurement of the activities carried out for this purpose in the part of the year in question. Therefore, we note other operating revenues Euro 65.5 million for 2010 and for Euro 75.2 million for 2009, lower capitalised costs for Euro 15.7 million in 2010 and Euro 19.2 million in 2009, and greater services costs for Euro 49.8 million in 2010 and Euro 56.0 million in 2009.

The economic results of the Hera Group as at 30 June 2010 are shown in the following table:

Income Statement (millions of Euro)	30-Jun-09	Inc.%	30-Jun-10	Inc%	Abs. Change	% Change
Revenues	2,146.0	0.0%	1,805.5	0.0%	-340.5	-15.9%
Change in inventories of finished products a	0.8	0.0%	12.0	0.7%	+11.2	+1407.6%
Other operating revenues	106.2	4.9%	101.8	5.6%	-4.4	-4.1%
Raw materials and consumables	(1,449.3)	-67.5%	(1,036.4)	-57.4%	-412.9	-28.5%
Service costs	(423.1)	-19.7%	(387.9)	-21.5%	-35.2	-8.3%
Other operating costs	(16.0)	-0.7%	(18.8)	-1.0%	+2.8	+17.5%
Personnel costs	(178.4)	-8.3%	(184.6)	-10.2%	+6.2	+3.5%
Capitalised costs	85.1	4.0%	22.0	1.2%	-63.1	-74.1%
EBITDA	**271.3**	**12.6%**	**313.5**	**17.4%**	**+42.2**	**+15.6%**
Depreciation, Amortisation and Provisions	(127.7)	-5.9%	(138.7)	-7.7%	+11.0	+8.6%
EBIT	**143.7**	**6.7%**	**174.8**	**9.7%**	**+31.1**	**+21.6%**
Financial Operations	(51.8)	-2.4%	(54.8)	-3.0%	+3.0	+5.8%
Other non-operating costs	(2.7)	-0.1%	-	0.0%	-2.7	-98.9%
Pre-tax profit	**89.1**	**4.2%**	**120.1**	**6.7%**	**+31.0**	**+34.8%**
Income taxes	(37.3)	-1.7%	(50.9)	-2.8%	+13.6	+36.5%
Net profit for the period	**51.8**	**2.4%**	**69.2**	**3.8%**	**+17.4**	**+33.6%**

The EBITDA increased from Euro 271.3 as at 30 June 2009 to Euro 313.5 as at 30 June 2010, +15.6%, the EBIT from Euro 143.7 million to 174.8 million, +21.6%, pre-tax profit increased by 34.8%, from Euro 89.1 to 120.1 million, net profit from Euro 51.8 million as at 30 June 2009 to 69.2 of 2010, +33.6%.

The decrease in Revenues, equal to Euro 340.5 million, should be viewed in relation to the reduction in trading activities on electricity and to the sale of methane gas, which recorded a remarkable decrease in prices for raw materials, linked to oil price trends. These effects are partially offset by the increase in business volumes due to greater volumes sold in the energy areas and greater volumes disposed of in the waste management area.

Other operating revenues, equal to Euro 101.8 million, decreased by Euro 4.4 million compared to the same period of the previous year. It should be considered that this item was affected by the IFRIC 12 reclassifications for Euro 75.2 million on 2009 and for Euro 65.5 million on 2010.

The decreased Costs of raw materials and consumables materials, equal to Euro 412.9 million compared to the first half of the previous year, is linked to the above-mentioned energy dynamics.

Other operating costs (Services costs were down by Euro 35.2 million and Other operating costs increased by Euro 2.8 million), saw a total decrease of Euro -32.4 million (-7,4%): the reduction is mainly attributable to the accounting treatment of costs for capitalised works that are carried out internally.

Personnel costs rose from Euro 178.4 million of the first half of 2009 to Euro 184.6 million of 2010 (+3.5%). The increase is mainly due to the development of contractual dynamics.

The reduction of Capitalised costs, which decreased from Euro 85.1 million to Euro 22.0 million, is connected to the different accounting treatment of investment works carried out internally, which, due to the spin-off of the Territorial Operative Companies, no longer pass through the income statement as regards the external costs. It must also be noted that this item was affected by the reclassifications for the application of the aforementioned IFRIC 12.

The consolidated EBITDA of the Group as at 30 June 2010 increased from Euro 271.3 as at 30 June 2009, to Euro 313.5 million in 2010 (+15.6%), thanks to the good results in the energy areas due to greater volumes and EBITDA margin, the recovery of the demand for collection and disposal services, within the Waste Management area, as well as to tariff increases in the water cycle to cover greater services supplied.

Amortisation, Depreciation and Provisions increased by 8.6%, from Euro 127.7 million as at 30 June 2009 to Euro 138.7 million as at 30 June 2010. The increase is mainly due to the greater allocations to the bad debt provision and, for the rest, to the start of operation of new plants and the other investments linked to the operation of regulated activities.

The first half of 2010 therefore shows an EBIT of Euro 174.8 million, up by 21.6% compared to the similar period in 2009.

The result of Financial Operations, as at 30 June 2010 is equal to Euro 54.8 million, compared to Euro 51.8 million in 2009. The first half of 2010 has not been affected by the extraordinary effects of the payback of the so-called “state aid", which had an impact of Euro 2.1 million on the first six months of 2009, as interest expense within Financial Operations. Specifically, the higher total cost is due to the following dynamics:

- Increase of about Euro 4.5 million as a result of average indebtedness;
- increase of about Euro 8.6 million as a result of a greater portion of long-term debt on the total net indebtedness;
- reduction of Euro 4.9 million as a result of the different portion of fixed-rate debt compared to the variable-rate portion.

The total cost of financial operations also reflects the changes in profits from associated companies, which were equal to Euro 4.3 million, compared to Euro 2.0 million in the first half of 2009. These benefited from the positive changes in associated companies, partially offset by the Euro 1.3 million writedown in the associated company Oikothen.

It should be also noted that, at the end of the first half of 2009, the Group discounted a further Euro 2.7 million connected with the tax moratorium in the item Other non-operating costs.

In light of the above, the Pre-Tax Profit rose from Euro 89.1 million as at 30 June 2009 to Euro 120.1 million as at 30 June 2010, an increase of 34.8%, equal to Euro 31.0 million.

Income taxes rose from Euro 37.3 million in the first half of 2009 to Euro 50.9 million in the first half of 2010, with an average tax rate that increased from 41.8% to 42.4%.

Net Profit as at 30 June 2010 therefore stands at Euro 69.2 million, up 33.6% compared to Euro 51.8 million in the same period of 2009.

Analysis of the Group's balance sheet:

The evolution of the Group's net capital employed and the sources of financing for the accounting period as at 31 December 2009 and for the situation as at 30 June 2010:

Capital employed and sources of financing (in million Euro)	31-Dec-09	Inc.%	30-Jun-10	Inc.%	Abs. change	Change %
Net fixed assets	3,985.8	110.9%	4,051.5	+111.2%	65.7	+1.6%
Net working capital	26.8	0.7%	20.0	+0.5%	(6.8)	-25.4%
(Provisions)	(420.0)	-11.7%	(427.2)	-11.7%	(7.2)	+1.7%
Net capital employed	**3,592.5**	**100.0%**	**3,644.3**	**+100.0%**	**51.8**	**+1.4%**
Shareholders' equity	1,700.7	47.3%	1,673.7	+45.9%	(27.0)	-1.6%
Long-term financial debt	2,143.7	59.7%	2,124.2	+58.3%	(19.5)	-0.9%
Net short-term position	(251.9)	-7.0%	(153.6)	-4.2%	98.3	-39.0%
Net financial position	1,891.8	52.7%	1,970.6	+54.1%	78.8	+4.2%
Total sources of financing	**3,592.5**	**100.0%**	**3,644.3**	**+100.0%**	**51.8**	**+1.4%**

The net capital employed in the first half of 2010 increased by 1.4% from Euro 3,592.5 million to Euro 3,644.3 million due to a substantial investment plan put in place and explained in more detail below and the extension of the scope of consolidation to the company Agea Reti.

Net fixed assets as at 30 June 2010 amounted to Euro 4,051.5 million compared to 3,985.8 at December 2009, with an increase of 1.6%.

Provisions as at 30 June 2010 amounted to Euro 427.2 million; an increase of 1.7% compared to the values as at 31 December 2009 equal to Euro 420.0 million.

The net working capital decreased from Euro 26.8 million as at 31 December 2009 to Euro 20.0 million as at 30 June 2010 due to the factors linked to the seasonal effect of the business.

The shareholders' equity, which fell from Euro 1,700.7 million in December 2009 to Euro 1,673.7 million in June 2010, was affected by the payment of the previous year's dividends.

Analysis of the net financial position

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

	millions of Euro	30.6.10	inc.%	31.12.09	inc.%	Abs. Change	% Chang
a	**Cash**	**250.7**		**350.3**			
b	**Other current loans**	**31.6**		**20.7**			
	Current bank indebtedness	-31.6		-22.5			
	Current portion of bank indebtedness	-76.5		-75.1			
	Other current loans	-14.0		-14.3			
	Due to financial leases coming due during the next financial year	-6.6		-7.1			
c	**Current financial indebtedness**	**-128.7**		**-119.1**			
d=a+b+c	**Net current financial indebtedness**	**153.6**	**-7.8%**	**251.9**	**-13.3%**	**-98.3**	**-39.0%**
e	**Non-current loans**	**8.8**		**10.1**			
	Non-current bank indebtedness	-363.6		-394.0			
	Bonds issued	-1,642.2		-1,631.5			
	Other non-current loans	-119.6		-118.9			
	Due to financial leases coming due after the next financial year	-7.6		-9.4			
f	**Non-current financial indebtedness**	**-2,133.0**		**-2,153.8**			
g=e+f	**Net non-current financial indebtedness**	**-2,124.2**	**107.8%**	**-2,143.7**	**113.3%**	**19.5**	**-0.9%**
h=d+g	**Net financial indebtedness**	**-1,970.6**	**100.0%**	**-1,891.8**	**100.0%**	**-78.8**	**4.2%**

Net financial position increased from Euro 1,891.8 million of December 2009 to Euro 1,970.6 million. The increase is mainly due to the payment of dividends in June.
An indebtedness mainly comprising medium/long term debt covering about 95% of total indebtedness is confirmed, duly offsetting the Group's equity structure characterized by a high fixed assets value.

Investments

The Group's tangible and intangible assets amounted to Euro 160.6 million compared with Euro 192.7 million in the corresponding period last year. In the same period, financial investments were made, amounting to Euro 1.0 million, referred to the construction of the Galsi gasduct.

The table below lists the investments for the period by business sector:

Total investments (in millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	Change %
Gas area	31.5	21.6	-9.9	-31.4%
Electricity area	19.6	24.0	+4.4	+22.4%
Integrated water cycle area	52.7	44.3	-8.4	-15.9%
Waste management area	62.0	44.3	-17.7	-28.5%
Other services area	6.9	3.8	-3.1	-44.7%
Central structure	18.8	21.6	+2.8	+14.9%
Total operatingl investments	**191.6**	**159.6**	**-32.0**	**-16.7%**
Total financial investments	1.1	1.0	-0.1	-9.1%
Total	**192.7**	**160.6**	**-32.1**	**-16.7%**

Investments in the **gas** service went down on the whole, compared to the same period of the previous year, due to the lower requests for new connections and extension interventions from the distribution 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 the expansion of the service in the areas of Bologna (Euro 1.4 million), Imola (Euro 3.1 million), Forlì Cesena (Euro 3.7 million), Ferrara (Euro 0.9 million) and Modena (Euro 0.3 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 rights of way on foreign pipelines to transport raw material.

Gas (in millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	Change %
Hera SpA network	14.7	11.3	-3.4	-23.1%
The Marches/Sardinia network	0.8	0.7	-0.1	-12.0%
TLR/Heat management	13.1	9.5	-3.6	-27.4%
Other	2.8	0.1	-2.7	-96.0%
Total gas	**31.5**	**21.6**	**-9.9**	**-31.4%**

Investments in the **electricity** service relate to the extended service and the creation and extraordinary maintenance of plants and distribution networks. Investments in the territory have increased as a consequence of the development of new electricity production plants from renewable sources; worth mentioning is the photovoltaic plant built at the Bologna freight terminal. There was a decrease in the investments in electricity and heat production plants (CCGT) in Imola in connection with its completion and definitive start-up, while there was an increase in industrial cogeneration investments aiming to build new plants at area companies.

Total investments (in millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	Change %
Territory	10.5	16.2	+5.7	+54.1%
Imola CCGT	7.9	4.7	-3.2	-40.6%
Ind. Cogeneration	1.2	3.1	+1.9	+159.3%
Total electricity	**19.6**	**24.0**	**+4.4**	**+22.4%**

As for the **integrated water cycle,** there has been an overall reduction of operations compared to the same period last year, due to the streamlining of activities and a reduced demand for new connections. The interventions in the purification system linked to enhancement and regulatory compliance initiatives are in line with the same period of the previous year.

Integrated water cycle (in millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	Change %
Aqueduct	27.6	22.9	-4.7	-17.0%
Purification	9.3	9.4	+0.1	+1.1%
Sewage	15.7	12.0	-3.7	-23.6%
Total water cycle	**52.7**	**44.3**	**-8.4**	**-15.9%**

With regard to **waste management,** it saw a slight reduction of operations, compared to the same period last year, aimed at upgrading the existing waste collection and disposal facilities in the area. Regarding investments in waste-to-energy plants (WTE), interventions were aimed at completing the Modena plant and creating the Rimini plant, since the waste-to-energy plants at Ferrara and Forlì are already complete and operational.

Waste management (in millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	Change %
Existing plant	21.0	20.0	-1.0	-4.8%
New plants:				
WTE Canal Bianco (FE)	0.1	0.0	-0.1	-95.7%
WTE Modena	19.4	4.2	-15.2	-78.2%
WTE Forlì	10.3	0.7	-9.6	-92.9%
WTE Rimini	11.1	19.4	+8.3	+74.4%
Total waste management	**62.0**	**44.3**	**-17.7**	**-28.5%**

With regard to **Other Services**, it experienced a decrease in telecommunications networks investments relating to the creation of the regional telecom plan, and an investment reduction in the Public Lighting service. Investments in cemetery services are included under the item Other.

Other services (in millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	Change %
TLC	5.1	2.5	-2.6	-51.2%
Public lighting and traffic lights	1.8	0.9	-0.9	-51.1%
Other	0.1	0.4	+0.3	+298.2%
Total other services	**6.9**	**3.8**	**-3.1**	**-44.7%**

There was an overall increase, in comparison to the same period last year, in investments within the Central Structure, relating to the maintenance and expansion of the real estate assets of the Group and the development of information systems. There was a decrease in both investments in the Fleets, due to the rationalisation of the vehicle fleet, and Other investments, which include the completion of laboratories and other minor investments.

Central structure (in millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	Change %
Real estate interventions	10.3	12.6	+2.3	+22.2%
IT systems	3.8	5.2	+1.4	+36.7%
Fleets	2.8	2.2	-0.6	-21.2%
Other investments	1.8	1.6	-0.2	-11.3%
Total structure	**18.8**	**21.6**	**+2.8**	**+14.9%**

2.03.02 Regulatory framework and regulated revenues

Legislation

The first half of 2010 was marked by various legislative interventions that impacted the local public utilities market.
On 22 July 2010 the Council of Ministers definitively approved the scheme of the Presidential Decree setting forth the implementation regulations for the reform of local public utilities, pursuant to art. 23 *bis* of Law Decree no. 112 of 25 June 2008, converted with changes into Law no. 133 of 6 August 2008, as amended. Specifically, the law requires that local authorities issue a framework resolution within one year from the entry into force of the regulation, following a verification of whether it is effectively possible to achieve competitive operation of local public utilities. It also establishes the threshold over which an in house assignment will be subject to the opinion of the Antitrust Authority, which is equal to a financial value of the service of Euro 200 thousand. The general principles for the call for tenders are listed, which mainly include qualitative criteria for assessing the bids based on price criteria, for procedures regarding both the quality of the partner and the assignment of operational duties to them. A call for tender must also indicated the value of the assets in the event of substitution by a new operator, meaning an amount equal to the original book value prior to amortisation/depreciation, without prejudice to the sector provisions and agreements stipulated prior to the regulation entering into force.
For energy services, it is important to note several guiding principles to be taken into consideration in implementing EU energy regulations (specifically, Directive 2009/72/EC for the internal electricity market and Directive 2009/73/EC for the internal natural gas market), set out by European Community Law 2009 (Law no. 96 of 4 June 2010). In general, the criteria focus on the need to ensure increased competition and greater efficiency in the energy markets, including through the combination of small companies. Moreover, at regulatory level, it envisages more intense coordination between the activities of the AEEG (Italian Authority for Electricity and Natural Gas) and those of the Italian Antitrust Authority. For the natural gas market, among the guiding criteria it is important to note: the setting up of "intelligent" metering systems, in order to more effectively diversify supply prices; the need to ensure a suitable separation of activities in the chain (transport, balancing, distribution, storage); the introduction of tools for optimising the networks; the provision of specific protection as regards economic terms and conditions and continuity of supply, both for residential customers and non-residential customers with consumption less than or equal to 50 thousand cubic meters per year, who are considered "vulnerable customers". Lastly in implementing Directive 2009/28/CE on the promotion of energy from renewable sources, the provision specifies a principle of simplification of authorisation processes for the construction and operation of plants powered by renewable sources. The incentivation of these energy resources was set out by the economic manoeuvre approved with Law no. 122 of 30 July 2010, converting Decree-Law no. 78 of 31 May 2010, setting forth urgent measures for financial stabilisation and economic competitiveness. Specifically, the regulation requires that a Ministerial Decree be issued by the end of the year, in order to establish specific criteria for reducing the general charges of the electricity system. These criteria must guarantee that the amount deriving from the collection of Green Certificates by Electricity Services Operators, starting from those pertinent to 2011, is 30% less than the amount pertinent to 2010, and that said reduction is 80% accounted for by the reduction of excess Green Certificates. The provision also confirms the non-tax nature of the TIA (Environmental Hygiene Tariff), which, despite entering into force with Legislative Decree no. 152 of 3 April 2006, has been subject to various institutional opinions regarding its legal nature.

Other changes in legislation regard the plants subject to the system for trading carbon dioxide (CO_2) quotas, which were affected by Law no. 111 of 19 July 2010, converting Law Decree no. 72 of 20 May 2010, setting forth urgent measures for the deferment of terms on environmental and transport matters, as well as for the assignment of CO_2 emissions quotas. This provision sets out the new assignment of quotas for the period 2008-2012, to plants which started operations after April 2009 which had not received their due quotas due to the exhaustion of the "reserve for new entries" (27 million tonnes of CO_2).
It is also noted that Law Decree no. 105 of 8 July 2010, which grants the Council of Ministers the task of reaching an agreement with the regions and autonomous provinces to identify the urgent interventions concerning energy transmission, distribution and generation.
Lastly, for the integrated water service, it is important to note the provisions set forth by Law no. 42 of 26 March 2010, which, in art. 1.1 *quinquies* establishes the upcoming closure of the ATO (Water and Waste Regulatory Authorities), granting mandates to the regions to assign the functions carried out by these Authorities according to principles of subsidiarity, differentiation and adequacy.

Electricity and gas legislation

The most new regulatory developments in the first half of 2010 occurred in the gas sector. In chronological order, the first important resolution, as it closed a regulatory gap on the matter, was ARG/gas 7/10. With this resolution, 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 greatest change, if only due to the resulting economic impacts on sales companies, was caused by the conclusion of the process started by resolution ARG/gas 47/10. The resolution in question started procedures for redefining the methods of determining the terms and conditions for the supply of natural gas to protected categories, due to the changed international context of the natural gas market, which is characterised by increased liquidity. These procedures concluded with the adoption of resolution ARG/gas 89/10, which modified the formula for calculating the QE (energy rate - the component covering raw material procurement costs), which significantly cut the reference value for calculating updates, by 7.5 percent, starting from 1 October 2010.
In the electricity sector, the main regulatory changes involved the introduction, with resolution ARG/elt 13/10, of provisions concerning standards for communications between distributors and sellers of electricity for the provision of high quality commercial services regulated by the TIQE (Consolidated Electricity Quality Act). According to the provisions of this resolution, starting from 1 October 2010 distributors with more than 100,000 end consumers must be equipped with an evolved communications tool (web portal) for managing commercial services requested by sellers. With two subsequent resolutions, ARG/elt 52/10 and ARG/elt 66/10, regarding the provisions of Law no. 99/09, the Authority began the process of qualifying Internal User Grids (RIU). With these provisions, RIU and the operators of said grids were identified. The RIU identified by the Authority include those of Herambiente for the WTE of Forlì and Ferrara. Lastly, with resolution ARG/elt 67/10 the Authority issued a provision regarding tariff regulation of temporary connections to the medium and low voltage grids.

As regards transversal provisions (which regard both regulated sectors) 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.
In continuity with that recorded in 2009, also during the first half of 2010, the Authority produced a significant number of VIS (83 from the beginning of the year). These are procedures linked to inspection and sanction activities against regulated parties. Several VIS also concerned the Hera Group: VIS 15/10, aimed at ascertaining the violation, in the area of electricity distribution, of regulations regarding providing transport users with data on the withdrawal points not treated on an hourly bases; VIS 45/10, which involved HERA Comm, aimed at ascertaining violations in terms of the application of bi-hourly prices to the most protected domestic customers of electricity services; and, lastly, VIS 81/10 which, as a result of the proceedings launched with VIS 100/09, applied a sanction of Euro 50 thousand to HERA S.p.A., as a distributor of natural gas, for the violation of the provisions regarding the application of the correction coefficient K to a single end consumer.

Regulated Gas Revenues

The year 2010 is the second year of the third regulatory period (2009-2012) for setting tariffs for gas distribution and metering. The regulatory reference for this period was introduced by resolution AEEG (Italian Authority for Electricity and Natural Gas) ARG/gas no. 159/08 of November 2008.
Due to the positive completion of the preliminary surveys launched by AEEG in the second half of 2009 regarding the balance sheet data transmitted for determining tariffs, HERA SpA was among the operators that obtained, from December 2009, the final approval of the *reference tariffs* for 2010, with resolution ARG/gas no. 206/09. The determination of tariffs pursuant to resolution 206/09 was confirmed and several details of the calculation procedure were finalised with the recent resolution ARG/gas no. 115/10 of 28 July 2010.
The tariff levels approved for 2010 were identified by the AEEG taking into account, in particular, the gradual implementation of the recognition of capital costs, introduced for the purpose of diluting, over the four-year regulatory period, the variances registered compared to the values approved using the previous methodology. The tariff adjustments up to 2010 take into account, on a secondary level in terms of economic impact, the changes in net capital employed in 2008 and the updating of operating costs reimbursed according to the price cap rule*,* applying annual productivity recovery rates which for HERA amounted to 3.2%. Parallelly, said resolution 206/09 approved the mandatory tariffs to be applied in invoicing to sellers, with reference to six macro-regional areas in which Italy is divided.
In the picture described above, gas distribution and metering revenues for the first half of 2010 for HERA SpA amounted to Euro 82.5 million, with distribution volumes of 1,371 million of cubic metres, with a corresponding unit return of Euro cents 6.02 per cubic metre. The amount of revenues reported already takes into account a suitable estimate of the effects of tariff equalisation.

Compared to the first half of 2009, given a change in distributed volumes of 9% (increased from 1,256 million cubic metres to 1.371 million cubic metres) revenues increased by about 7%, from Euro 76.9 million to Euro 82.5 million. The increase of Euro 5.6 million, was primarily due to the growth in permitted revenues forecast for 2010 by resolution 206/09, compared to the 2009 values, specifically motivated by the setting up of the second portion of the gradual implementation of recognition of capital costs identified using the methodology of resolution 159/08. Secondly, the increase in tariffs compared to 2009, recorded on a year-over-year basis, is highlighted if compared to the accruals in the first two months, due to the specific caution taken at that time in forecasting revenues for the half-year financial statements as at 30.6.2009, given the significant level of uncertainty present at that time regarding the regulatory framework.
Taking into consideration Marche Multiservizi SpA in the scope of consolidation of the HERA Group as at 30 June 2010, it should be noted that the consolidated value of revenues from gas distribution and metering for the Group amounts to Euro 90.7 million, for 1,475 million cubic metres distributed and a corresponding unit revenue of Euro cents 6.15/cubic metre. It is noted that the final approval of the *reference tariffs* for Marche Multiservizi was given by resolution 115/10, which superseded the determination of the tariffs by the AEEG on its own motion, with resolution 206/09.

Regulated Electricity Revenues

Like the end of 2009, the first half of 2010 experienced a substantially stable legislative framework regarding the mechanisms for determining tariffs for electricity distribution and metering, as set forth in AEEG resolution 348/07. They are essentially based, on the one hand, on AEEG's setting of tariffs by single customer types nationwide and, on the other, on defining appropriate mechanisms for equalising revenues and costs.
With ARG/elt resolution 203/09, the AEEG updated the prices for the electricity transport, distribution and measurement services for 2010. Determining regulated revenues for the first half 2010 is based on these prices, which are thus based on stable tariff parameters. A distinctive element of this half year was AEEG's definition, with resolution ARG/elt 40/10, of the amounts for equalisation of revenues from low voltage metering for 2008.
In such context, the revenues from the distribution of electricity as at 30 June 2010 amounted to Euro 21.7 million, against a level of distributed volumes of approximately 1,078 million kWh. These revenues absorb the changes pertaining to tariff equalisations for previous years, specifically linked to the provisions of resolution 40/10. Excluding these changes, the revenues for the first half of 2010 amounted to Euro 23.1 million, substantially stable compared to the amount for the first half of 2009 (up by Euro 0.2 million, equal to 0.7%), in relation to an increase in distributed volumes of 1.4% (from 1,063 to 1,078 million kWh). The greater revenues for Euro 0.2 million can be explained by growth in tariff revenues of Euro 0.9 million, due to the increase in volumes distributed and the 2010 tariff adjustment pursuant to resolution 203/09. However, this was mitigated, for Euro 0.7 million, by more prudent observations regarding the amount of tariff equalisation for 2010, as well as by the different method of accounting for them, as compared to the first half of 2009.

Water cycle: tariff framework

For 2010, the unit tariffs resolved by the 7 competent regional Water and Waste Regulatory Authorities were applied.
Consistent with the increases envisaged by the agreements entered into with the Water and Waste Regulatory Authorities, the average unitary return increased 3.8% over the previous year.

Consolidated Hera Group Integrated Water Service	29/6/05	29/6/06	% Change
Revenues (mn/€)	191.6	199.0	3.8%
Volumes (mn/m3)	120.7	120.7	0.0%
Average unitary return (€ cent/m3)	158.7	164.8	3.8%

Urban waste management: tariff framework

As at June 2010, Urban Waste Management services were provided in 173 municipalities, and 46% of these (80 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 consolidated data of Hera Group Consolidated provides some indications.

Consolidated Hera Group Urban Hygiene - tariff revenues (TIA + TARSU)	29/6/05	29/6/06	% Change
Tariff Revenues (millions of Euro)	190.2	197.6	3.9%
Inhabitants served* (thousands)	2,707	2,733	0.9%
Average Unitary Return (€/inhabitant)	70.3	72.3	2.9%

* population served as at 31/12 of the previous year.

The overall increase in regulated revenues for the Urban Waste Management service to municipalities under license, equal to 3.9%, is due mostly to the average tariff increase of approximately 3.5%, which offsets the increased inflationary costs.
The remaining increase of 0.4% regards the provision of additional services for Municipalities; also deriving from the increase in the quantity of waste collected and disposed of during 2010.

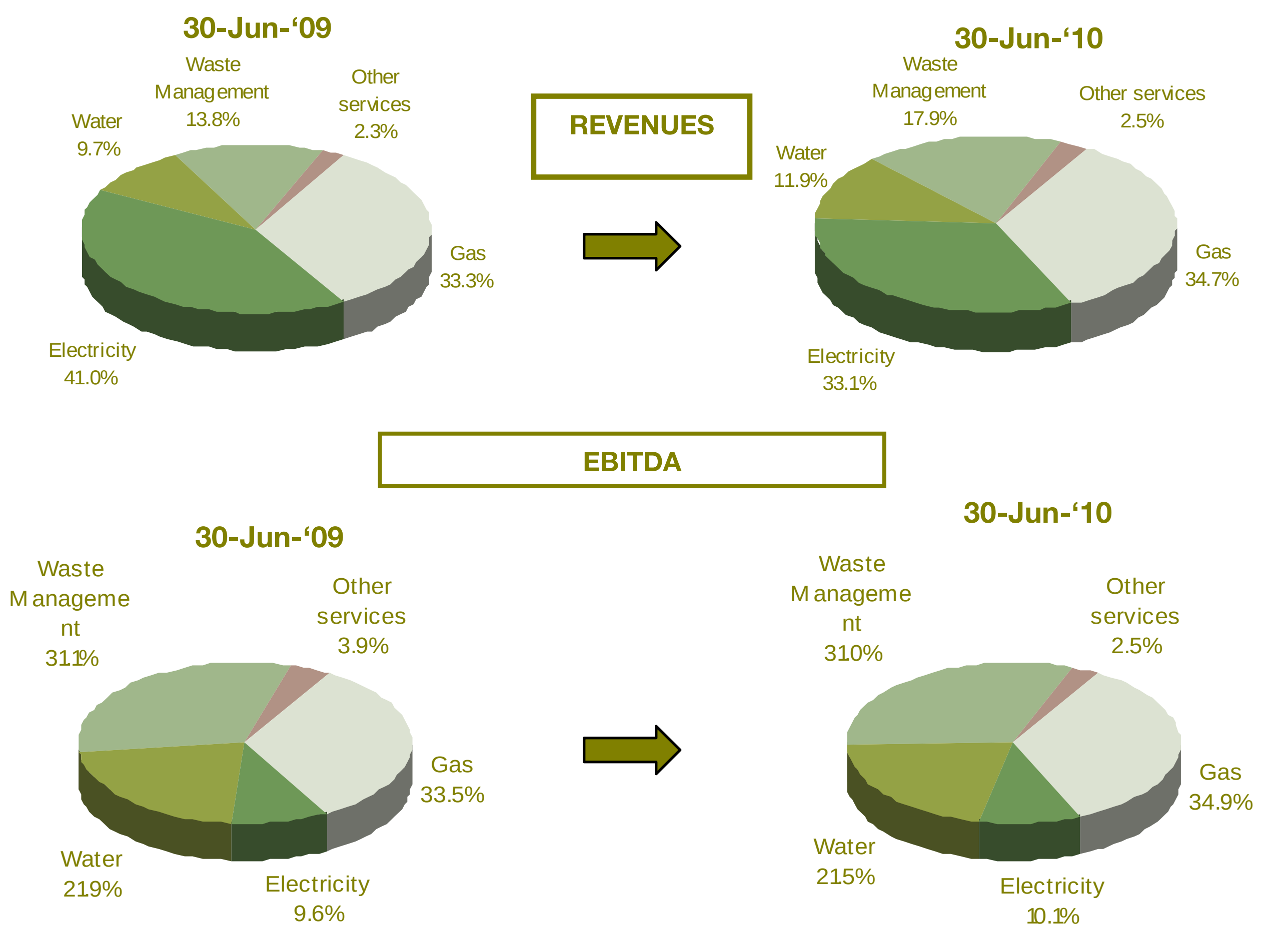
2.03.03 Analysis by Business Area

Starting from the financial statements as at 30 June 2009, the Hera Group revised the classification of its businesses in specific business areas, to better focus its industrial structures, reclassifying the results of the previous years in each quarterly report, for the purpose of consistent comparison. Starting from this accounting deadline, therefore, this operation is no longer required on the previous years.

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 Sewerage, (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 area does not consider the measurement of the greater revenues and higher costs, without any impact on the EBITDA, relating to the application of IFRIC 12, as illustrated, on the Group Consolidated Statement of Income. The increases in construction on a time and materials basis/work in progress represented in the business areas regard solely the costs for works carried out internally which, starting from the financial statements as at 31 December 2009 were subject to different accounting treatment, due to the spin-off of the Territorial Operative Companies. Therefore, external costs no longer pass through the income statement.

Analysis of the Gas Area

At the end of the first half of 2010, compared to the same period of the previous year, the Gas area increased its contribution to the Group's EBITDA margin by over one percentage point, and shows a sharply increasing result, as highlighted in the following table:

(millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	% Change
Area EBITDA	**90.9**	**109.3**	**+18.4**	**+20.2%**
Group EBITDA	271.3	313.5	+42.2	+15.6%
Percentage	33.5%	34.9%	+1.4 p.p.	

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

Quantitative data	30-Jun-09	30-Jun-10	Abs. Change	% Change
Gas volumes distributed (millions of m3)	1,349.6	1,475.6	+126.0	+9.3%
Gas volumes sold (millions of m3)	1,483.7	1,680.2	+196.5	+13.2%
- of which Trading volumes	*230.2*	*368.6*	*+138.4*	*+60.1%*
Heat volumes delivered (Gwht)	271.7	313.9	+42.2	+15.5%

The volumes of gas distributed changed from 1,349.6 million cubic meters in the first half of 2009 to 1,475.6 of the first half 2010, up 9.3%. The volumes of gas sold rose from 1,483.7 million cubic meters in 2009 to 1,680.2 in 2010, an increase of 13.2%. The volumes of heat delivered rose from 271.7 Gwht in 2009 to 313.9 in 2010, an increase of 15.5%.

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

Income Statement (millions of Euro)	30-Jun-09	Inc.%	30-Jun-10	Inc%	Abs. Change	% Change
Revenues	756.5		678.0		-78.5	-10.4%
Operating costs	(662.4)	-87.6%	(548.7)	-80.9%	-113.7	-17.2%
Personnel costs	(31.4)	-4.2%	(33.6)	-5.0%	+2.2	+7.0%
Capitalised Costs	28.2	3.7%	13.5	2.0%	-14.7	-52.2%
EBITDA	**90.9**	**12.0%**	**109.3**	**16.1%**	**+18.4**	**+20.2%**

Revenues decreased by 10.4%, from Euro 756.5 million in 2009 to Euro 678.0 million in 2010, with respect to the decrease in 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 lower capitalised costs are linked to the different accounting treatment of investment works carried out independently following the merger of the Territorial Operative Companies into the Parent Company as at 31 December 2009.

Personnel costs rose compared to the first half of the previous year in relation to the greater absorption of sales costs, in line with the development of the energy sales business.

Compared with the previous year, the Group registered an increase of the EBITDA in this area equal to Euro 18.4 million, from Euro 47.3 million to Euro 109.3 million, with an increase of the percentage profit, which rises from 16.1% in 2010 to 12.0% in 2009. This result should be viewed in relation to three main factors: (i) 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; (ii) higher revenues from gas distribution. For more information, refer to the specific section regarding the regulatory aspects of the business; and (iii) the greater gas sales volumes and the better performance in trading activities.

Analysis of the Electricity Area

At the end of the first half of 2010, the Electricity Area, which contributes over one third to overall Group turnover showed an increased contribution to the overall profit compared to the same period of 2009, rising from 9.6% to 10.1%, as shown in the table below:

(millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	% Change
Area EBITDA	**26.0**	**31.8**	**+5.8**	**+22.3%**
Group EBITDA	271.3	313.5	+42.2	+15.6%
Percentage	9.6%	10.1%	+0.5 p.p.	

The EBITDA for the area increased from Euro 26.0 million as at 30 June 2009 to Euro 31.8 million as at 30 June 2010.

The main results of the area are briefly summarized below:

Income Statement (millions of Euro)	30-Jun-09	Inc.%	30-Jun-10	Inc%	Abs. Change	% Change
Revenues	931.6		646.4		-285.2	-30.6%
Operating costs	(906.2)	-97.3%	(608.6)	-94.2%	-297.6	-32.8%
Personnel costs	(11.7)	-1.3%	(12.1)	-1.9%	+0.4	+3.4%
Capitalised costs	12.3	1.3%	6.1	0.9%	-6.2	-50.6%
EBITDA	**26.0**	**2.8%**	**31.8**	**4.9%**	**+5.8**	**+22.3%**

Revenues decreased from Euro 931.6 million in the first half of 2009, to Euro 646.4 in 2010, down by 30.6%, 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)	30-Jun-09	Inc.%	30-Jun-10	Inc%	Abs. Change	% Change
Revenues from sales	327.6	35.2%	340.4	52.7%	+12.8	+3.9%
Revenues from distribution	22.9	2.5%	21.7	3.3%	-1.2	-5.2%
Trading / other	581.2	62.4%	284.4	44.0%	-296.8	-51.1%
Total revenues	**931.6**	**100.0%**	**646.4**	**100.0%**	**-285.2**	**-30.6%**

Sales revenue increased by 3.9% due to higher volumes sold, resulting from the increased trade activity, partially offset by the aforementioned reduction in the average energy market price. Revenues from distribution decreased compared to the previous year, due to the equalisation of low voltage metering defined by the AEEG, for which please refer to the specific section illustrating the regulatory framework.

The quantitative data of the area, including trading activities, display a volume pattern that reflects the information given hereunder:

Quantitative data	30-Jun-09	30-Jun-10	Abs. Change	% Change
Volumes sold (Gw/h)	3,190.3	3,710.6	+520.3	+16.3%
Volumes distributed (Gw/h)	1,063.6	1,077.8	+14.2	+1.3%

The increase in volumes of distributed volumes shows a recovery of consumption, while the increase in sold volumes is due to the good performance of the trade activity developed.

The reduction in volumes trades and prices proportionally affected the decrease in operating costs for the purchase of raw materials, and the percentage margin increased from 2.8% in 2009 to 4.9% in 2010.

Labour costs increased by Euro 0.4 million, compared to the year 2009, up by 3.4%.

Overall capitalised costs decreased by Euro 6.2 million, due to the aforementioned change in accounting treatment of work carried out internally.

In the first half of 2010, the EBITDA rose from Euro 26.0 million in 2009 to 31.8 million, a percentage increase of 22.3%, due to the greater volumes sold and the higher profitability achieved, which is specifically favourable in the first six months of the current year, as compared to the performance in the previous year.

Analysis of Integrated Water Cycle

The result for the Integrated Water Cycle, as well, at the end of the first half of 2010 increased with respect to the same period of the previous year:

(millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	% Change
Area EBITDA	59.5	67.5	+8.0	+13.5%
Group EBITDA	271.3	313.5	+42.2	+15.6%
Percentage	21.9%	21.5%	-0.4 p.p.	

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

Income Statement (millions of Euro)	**30-Jun-09**	**Inc.%**	**30-Jun-10**	**Inc%**	**Abs. Change**	**% Change**
Revenues	219.6		231.9		+12.3	+5.6%
Operating costs	(161.5)	-73.6%	(123.3)	-53.2%	-38.2	-23.6%
Personnel costs	(51.8)	-23.6%	(52.5)	-22.6%	+0.7	+1.4%
Capitalised costs	53.2	24.2%	11.4	4.9%	-41.8	-78.6%
EBITDA	**59.5**	**27.1%**	**67.5**	**29.1%**	**+8.0**	**+13.5%**

Revenues, equal to Euro 231.9 million, are up 5.6% over the first half of 2009, in connection with the combined effect of higher supply revenues, resulting from the application of the tariff indications approved by the Water and Waste Regulatory Authorities, and the lower revenues from connection.

The decrease in operating costs is linked to the different accounting treatment of capitalised costs for investment works carried out on a time and materials basis.

The following table reports the main quantitative indicators in the area:

Quantitative data	**30-Jun-09**	**30-Jun-10**	**Abs. Change**	**% Change**
Volumes sold (millions of m3)				
Aqueducts	120.7	120.7	+0.0	+0.0%
Sewage	104.5	105.5	+1.0	+1.0%
Purification	104.5	105.8	+1.3	+1.2%

Delivered volumes of water showed a substantial alignment with the first six months of 2009, while there was slight growth in treated volumes in the sewerage and purification services.

The EBITDA at the end of the first half of 2010 increased by Euro 8.0 million, from Euro 59.5 million in 2009 to Euro 67.5 million in the current year (+13.5%) due to the tariff increases to cover the services provided.

Analysis of the Waste Management Area

The Waste Management area also showed a significant increase with respect to the first half of 2009, as shown in the following table:

(millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	% Change
Area EBITDA	**84.3**	**97.1**	**+12.8**	**+15.2%**
Group EBITDA	271.3	313.5	+42.2	+15.6%
Percentage	31.1%	31.0%	-0.1 p.p.	

Note that 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.
The Group operates through 7 Water and Waste Regulatory Authorities in the provinces of Ravenna, Forlì-Cesena, Rimini, Bologna, Ferrara Modena and Pesaro-Urbino in the area of urban waste management services including, sweeping, collection and disposal of urban waste, as for the water cycle services. With all agencies, agreements compliant with current regulations are in operation.

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

Income Statement (millions of Euro)	30-Jun-09	Inc.%	30-Jun-10	Inc%	Abs. Change	% Change
Revenues	313.3		350.8		+37.5	+12.0%
Operating costs	(163.5)	-52.2%	(183.4)	-52.3%	+19.9	+12.2%
Personnel costs	(74.6)	-23.8%	(76.3)	-21.8%	+1.7	+2.3%
Capitalised costs	9.2	2.9%	6.0	1.7%	-3.2	-34.9%
EBITDA	**84.3**	**26.9%**	**97.1**	**27.7%**	**+12.8**	**+15.2%**

As at 30 June 2010, revenues showed a 12.0% increase compared to the first half of the previous year, from Euro 313.3 million to Euro 350.8 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.

Separate waste collection, as a percentage of total volume of waste collected, reached at the end of the first half of 2010 a value of 47.0%, against 45.0% for the year 2009, up 2.0 percentage points.

The following table highlights the growth in quantities of waste disposed of, which recorded over 8 percentage points compared to 30 June 2009:

Quantitative Data (thousands of tonnes)	30-Jun-09	Inc%	30-Jun-10	Inc%	Abs. Change	% Change
Urban waste	877.4	36.3%	930.8	31.6%	+53.4	+6.1%
Waste from the market	733.7	30.4%	810.1	27.5%	+76.4	+10.4%
Sold waste	**1,611.1**	**66.7%**	**1,740.8**	**59.1%**	**+129.7**	**+8.1%**
By-products of plants	805.1	33.3%	1,206.0	40.9%	+400.9	+49.8%
Waste treated by type	**2,416.3**	**100.0%**	**2,946.9**	**100.0%**	**+530.6**	**+22.0%**
Landfills	647.5	26.8%	722.5	24.5%	+75.0	+11.6%
Waste-to-energy plants	368.1	15.2%	405.1	13.7%	+37.0	+10.1%
Selection plants	141.5	5.9%	156.2	5.3%	+14.7	+10.4%
Composting plants	174.0	7.2%	232.5	7.9%	+58.5	+33.6%
Inert. and chemical plants	561.1	23.2%	674.5	22.9%	+113.4	+20.2%
Other	524.1	21.7%	756.0	25.7%	+231.9	+44.2%
Waste treated by plant	**2,416.3**	**100.0%**	**2,946.9**	**100.0%**	**+530.6**	**+22.0%**

N.B. the 2009 figure was reclassified for consistent comparison with the 2010 consolidation criteria

Analysis of quantitative data reveals an increase of urban waste related to the increase of population served, and a strong recovery in market waste due to a higher capacity of waste disposal and the recovery of general economic activities. It is noted that in the first half of 2009 was characterised by a sharp contraction in production activities.

The EBITDA of the Waste Management area increased from Euro 84.3 million in the first half of 2009 to Euro 97.1 million in the corresponding period of 2010, up by 15.2%, equal to Euro 12.8 million. This result is mainly attributable to the increase in volumes disposed of and the resulting increased efficiency of plants, specifically of the new WTE in Modena and Rimini.

Analysis of Other Services Area

The result of the Other Services Area in the first half 2010 decreased with respect to the same period of the previous year:

(millions of Euro)	30-Jun-09	30-Jun-10	Abs. Change	% Change
Area EBITDA	10.7	7.8	-2.9	-27.2%
Group EBITDA	271.3	313.5	+42.2	+15.6%
Percentage	3.9%	2.5%	-1.4 p.p.	

This result 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 Euro)	30-Jun-09	Inc.%	30-Jun-10	Inc%	Abs. Change	% Change
Revenues	53.0		48.7		-4.3	-8.1%
Operating costs	(35.1)	-66.2%	(31.5)	-64.6%	-3.6	-10.3%
Personnel costs	(8.8)	-16.6%	(10.1)	-20.7%	+1.3	+14.8%
Capitalised costs	1.5	2.9%	0.7	1.4%	-0.8	-52.3%
EBITDA	**10.7**	**20.1%**	**7.8**	**16.1%**	**-2.9**	**-27.2%**

The public lighting services were significantly in line with the results of those of the first half of 2009, as illustrated by the performance of the main indicators shown in the table below:

Quantitative Data	30-Jun-09	30-Jun-10	Abs. Change	% Change
Public lighting				
Light points (thousands)	331.5	331.5	+0.0	+0.0%
Municipalities served	62	61	-1	-1.6%

2.04 Commercial policy and customer care

The accessibility of channels continues to improve, reconfirming the effectiveness of the actions implemented. Specifically:

- ✓ family call centres: 94.1% of calls answered with an average queue time (TMA*) dropping from 90 seconds in June 2009 to 72.6 seconds in June 2010;
- ✓ company call centres: 95% of calls answered with an average queue time (TMA*) dropping from 66.5 seconds in June 2009 to 51 seconds in June 2010;
- ✓ family branches: Average waiting times maintained the result of 16 minutes, despite the effect of increased closures due to non-payment on one hand, and higher numbers of customers (about 6%) at branches, on the other;
- ✓ company branches: average waiting times for companies remained at 6 minutes.

The satisfaction of customers contacting the call center and branches, measured on a monthly basis during the year, also showed significant improvement.

The client base on regulated and deregulated markets confirmed the increasing trend:

Supply points	30/06/2010	30/06/2009	Supply points delta (no.)	Supply points delta (%)
Gas	1,069,515	1,064,700	4,815	0.45%
Electricity	351,885	320,403	31,482	9.83%
Water	1,175,439	1,164,611	10,828	0,93%
TIA	954,645	944,680	9,965	1.05%

The impact of commercial activity on volumes distributed during the first half of 2010 may be summarized as follows:
Electricity (Hera Comm & Hera Comm Mediterranea): went from 3,190 GWh in the first half of 2009 to 3,711 GWh in the first half of 2010, an increase of 16.33% in spite of the impact of the crisis, which bears witness to the intense marketing activity conducted during the period.
Gas (Hera Comm, Hera Comm Marche & Aspes Gas): went from 1,252 cubic metres in the first half of 2009 to 1,312 cubic metres in the first half of 2010, an increase of 4.79%, an improvement on the change recorded as at June 2009, despite the long-lasting effects of the economic downturn on industrial clients, on merchants and on small businesses.

In line with Group policies, the services of electronic sending of bills and registering and using the Her@ ON-LINE channel continue to be promoted with customers. Confirming the satisfaction with this service, the number of customers registered with Her@ ON-LINE increased by 46%, while requests for electronic sending of bills increased by 80%.

Notes: *The average time, TM, is calculated only on answered calls in which the customer chooses to speak to the operator, at the beginning of the conversation with the operator.
TMA: To align with AEEG regulations, TMA measures the average time between the beginning of the call until the operator answers or the customer rings off, for calls in which the customer chooses to speak with the operator. Compared to 2008 measurements, that is to the TM, this includes the IVR time and abandoned calls. The general standard expected by the AEEG is <240 seconds, calculated using an arithmetic mean. The TMA for the mass market call centre for the half year was 90.2 seconds; for the business call centre it was 66.5 seconds.

Customer satisfaction

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

Since the Group's establishment in 2002, Hera 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 to form Hera.

The Group has always focused on the quality of the multiutility services and its post-sales support, and aims to maintain its customer satisfaction levels and hold its position on the deregulated markets.

The Group has made significant investments in 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 **customer assistance** has always been of strategic importance which has led to the significant improvement of service quality over the past few years, as can be seen in the financial statements of the last 3 years, in terms of counter and telephone waiting times, the amount of customer requests and how long they take to be resolved and the internet site operation for example.

The results of these activities are shown every year in the retail and business **customer market research** reports that 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. The new utility billing system, along with the continued improvement in after sales support performance led to a rapid recovery of customer satisfaction levels, leading to an improved image of Hera, frequently seen as a reliable, transparent, customer orientated, innovative and sustainable company.

Customer research also indicated that customer satisfaction levels were related to a greater acceptance of Hera's "cross selling" in addition to word of mouth communication with other potential customers. These customer profiles partly explain the growth in sales over the last 3 years, and confirm the strategic validity of the investment made in this intangible asset, considered to be one of the main competitive advantages and the pillar stone of Hera's success.

2.05 Trading and procurement policy

As regards the gas sector, the first half showed a recovery in consumption compared to the same period of the previous year, partly due to weather conditions and partly due to the recovery in several industrial sectors.
The first months the year were dedicated, on the one hand, to balancing the contract portfolio and optimizing the short-term position and on the other hand to finalizing new contracts for the 2010-2011 heating season.

Shipping activities conducted by Hera Trading experienced a favourable impact of the winter weather, essentially in line with the forecasts made at while assembling the trading portfolio.
The necessary short-term adjustments were made through purchase or sale regulations at the Virtual Point of Exchange, and in Baumgarten using the transport capacity reserved to the same on the Trans Austria Gasleitung Gmbh (TAG). These transactions generally took place at particularly favourable market conditions, rapidly evolving into effective trading activity, which contributed to improving the results over and above the budget forecasts.

The purchase of gas intended for REMI was finalised in two tranches in March and May, at market conditions which, even ex-post, were among the best to be found on the market.
In June flat procurement amounts were also defined for the purpose of balancing the portfolio for direct supplies from Hera Trading to REMI and for off-network development by Hera Comm.

As regard the electricity market, the first six months of 2010 were characterised by a slight recovery in consumption.
Despite the increase in demand, the price recorded by the Italian stock exchange (average exchange sales price - PUN) remained substantially unchanged due to the overcapacity of the electricity system. The PUN remained substantially unaffected, even by the strengthening of commodities prices converted into Euro. Therefore, the Spark Spread decreased further.
This context also included fewer opportunities on the Dispatching Service Market (DSM) as a result of the reform of the electricity market envisaged by the Anti-Crisis Law 2/2009.

It was possible to positively contrast the negativity of the market scenario, specifically in the second quarter, by changing strategy on the Day-Ahead Market and the DSM. This resulted in the achievement of particularly satisfying results by the Teverola and Sparanise plants. The situation of the COGEN plant remains more complex. As it is strongly constrained by district heating restrictions, it cannot take advantage of market opportunities linked to the flexibility of operations.

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

As a result of participation in tenders during 2009 and 2010, Hera Trading remains one of the Sole Purchaser suppliers for the non-eligible market.

As regards management of the commodity and exchange risk, operations during the first half of 2010 were particularly effective. They have now been consolidated in both the gas and electricity sectors through a concentrated risk portfolio, which provides for destructuring formulas and for netting of positions and hedging of volumes. Hera Trading activated this instrument at the beginning of 2007 to manage hedging activities. It is proving essential for dynamically and adequately operating on the wholesale and retail markets.

2.06 Financial policy and rating

The Hera Group's financial structure is solid and in line with the financial policy objectives reported below:

1. **Interest-Rate Risk**: definition and application of a hedging strategy in order to minimise the interest rate risk and obtain an appropriate combination between fixed rate and variable rate in the breakdown of debt in full compliance with IAS/IFSR.
2. **Debt Quality**: consolidation of the short-term debt in favour of the long-term portion.
3. **Credit Facilities**: attainment of abundant uncommitted and committed credit facilities so as to ensure sufficient liquidity to cover each financial commitment over the next two years at least.
4. **Financial Charges**: control of the cost of money.

In this light, the following was carried out during the first half of 2010:

1. **Interest-Rate Risk**: All interest rate risk hedging transactions in place are perfectly consistent with the underlying debt and in compliance with IAS standards. The portion of long-term debt at fixed rates is about 70% of the total.

2. **Debt Quality:** Debt mainly consists of long-term loans with an average life of more than 10 years. In May 2010 the maturity of the Put Bond of Euro 100 million issued in 2007 was extended to 17 November 2020. This allowed us to maintain the portion of long-term debt at 97%.
   The existing financing transactions do not provide for financial covenants, apart from the corporate rating limit by one rating agency only that is lower than "Investment Grade" level (BBB-).

3. **Credit Facilities.** 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 30% of the total available.

4. **Financial Charges**: in consideration of the consolidation of almost the entire debt in favour of the long-term portion, a cost of debt was recorded at an average global level of about 4.4%.

It should be noted that Hera S.p.A. has:

- an outstanding ten-year Euro 500 million Bond with a fixed rate coupon of 4.125%, maturing in February 2016,
- an outstanding ten-year Euro 500 million Bond with a fixed rate coupon of 4.5 %, maturing in December 2019,
- an outstanding bond for Euro 149.8 million (20 billion Japanese Yen), maturing in August 2024,
- an outstanding bond for Euro 100 million maturing in November 2020 (ex put bond),
- four puttable bond issues for a total of Euro 500 million.

Concerning the puttable bond issues, it is not believed that a potential refinancing risk exists in case the put option is exercised by the lenders since (i) their expiration dates are not concurrent, but vary over time, (ii) the Business Plan of Hera SpA does not show a worsening of its credit, and therefore shows no difficulty in entering the capital markets over the next few years and, (iii) Hera SpA has at its disposal, in addition to liquidity, certain irrevocable and fully available back-up lines of credit totalling Euro 480 million in order to be able to deal with potential due dates.

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 this year. One of the chief aims of the Group in defining its Plans is to continue to be committed to guaranteeing the maintenance/improvement of high rating levels.

2.07 Research and Development

The Hera Group's research activities in the first half of 2010 chiefly concerned the development of environmental monitoring and control technologies, energy efficiency, optimization of the networks, and the technological development of renewable sources.

Leading research projects were:

Energy Laboratory. In 2009, the plan for the Energy Laboratory was finalised. In the first half of 2010, requests for authorisations were submitted and the executive plan was drawn up, with the goal of starting works by the end of 2010. It calls for an experimental centre for applied research on energy generation from renewable and alternative sources, which will be built in Forlì (near the Regional Remote Control Hub and the laboratories for analysing solid waste, sludge, dioxins and atmospheric emissions). This 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. The problem affects both in Europe and in the United States. These pollutants enter the water systems through the residue of human or animal metabolism or their direct use in industry and agriculture. Hera started a research project in 2007 aimed at identifying the major EPs in the water systems (with particular reference to the natural water allocated for purification for drinking), developing analytical methods for determining their quantities, performing surveys on the presence of these substances in the water systems involved, and evaluating the removal effectiveness of current treatment systems (potability and purification). Hera takes an active part in the study group "Interfering endocrines and water intended for human consumption" (www.edinwater.com) promoted by the AMGA Foundation of Genoa (www.fondazioneamga.it). Other Italian multiutilities, various university departments and the Italian Institute of Health are members of the study group. In 2008, cooperation was also initiated with the Centro Ferrara Ricerche and with the Mario Negri Institute to investigate micro-pollutants from pharmaceuticals in wastewater. During 2009, the Group acquired some analytical methodologies and tested them in Group laboratories, and also performed some analyses on natural drinking water. Other analyses were performed on wastewater samples in collaboration with the Mario Negri Institute.

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 the first half of 2010, specific techniques were developed in preparation for the design and creation of an acquisition device for said testing.

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 engineering faculty at the University of Bologna and was co-financed by the Ministry of Agriculture, Food, and Forests. In the first half of 2010 the initial activities for analysing the agricultural-livestock waste were launched.

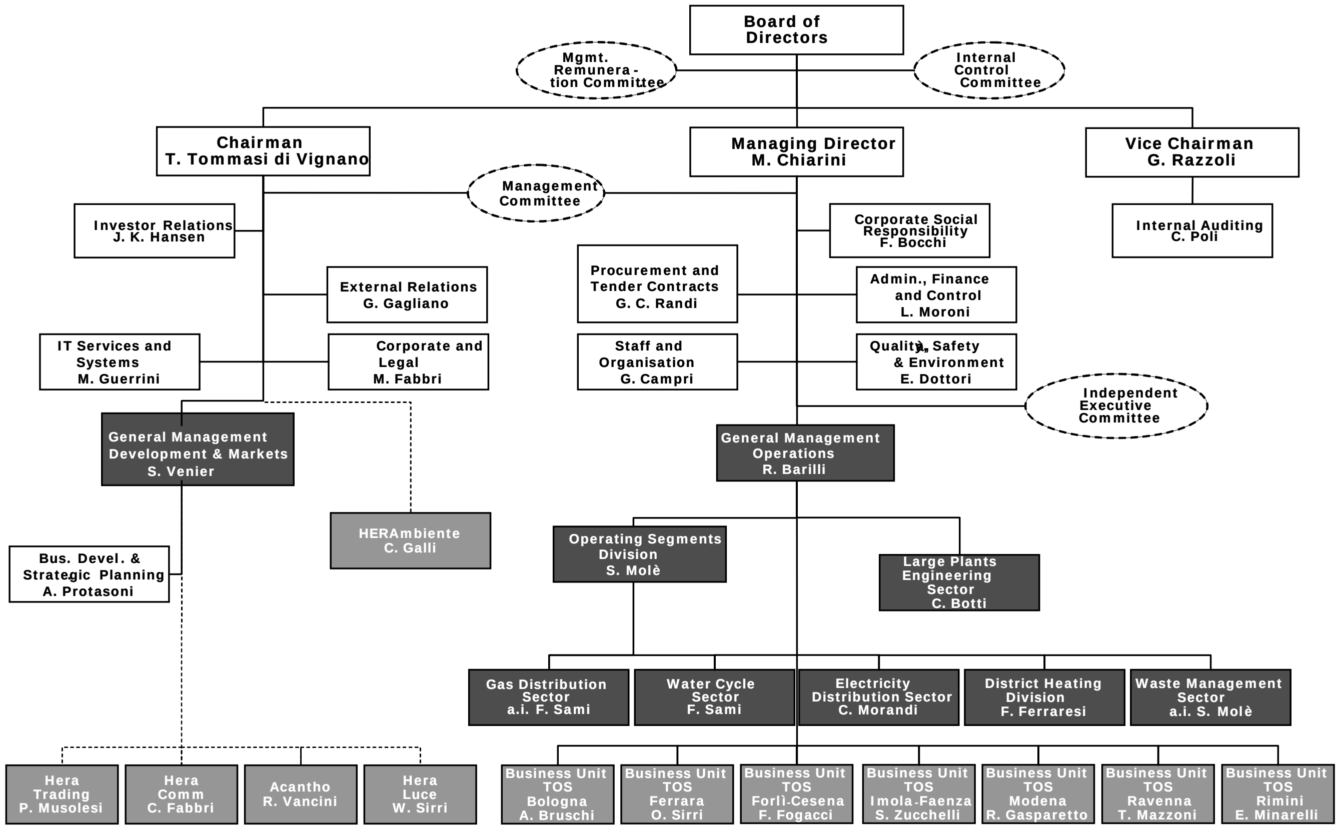
Automatic Plant Operation Project. The project, developed in cooperation with ENEA, involves the development of a system for the automatic management of the main function parameters in the water supply service plants. The system shall maintain the process conditions of a specified plant within its maximum efficiency, based on the composition of the incoming wastewater (purifiers) or of the incoming raw water (potability treatment plants). The objectives are to guarantee the quality of the final product and to reduce energy consumption. Work began in 2008 on the water treatment plant at Calderara di Reno (Bologna province), which will be used as the test site. In 2009, the analysis and control tools were installed at the site and field data acquisition was initiated. In the first half of 2010 the development of the software module for managing batch processes was completed.

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. This activity will take place alongside the already consolidated network models to support operations, strengthen the plants, and increase their efficiency. 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. These activities continued in the first half of 2010.

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.
The analysis of the data collected continued in the first half of 2010.

2.08 Human resources and organisation

The organizational macrostructure



Includes the appointments made taking effect from 01.07.2010

Human Resources

As at 30 June 2010, the Hera Group had 6,513 employees (consolidated companies), with the following breakdown by role: senior managers (127), middle managers (326), office workers (3,258), and blue-collar workers (2,802). This workforce was the result of the following changes: new recruits (+88), leavers (-56). 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: from 947 graduates hired for an indefinite term as at 31.12.2009 (equal to 15% of total employees on indefinite-term contracts), the numbers increased to 989 graduates as at 30.06.2010 (equal to 15.2% of total employees on indefinite-term contracts).

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 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 divisions 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.

In the first few months of 2010, following on from the company and organisational evolution of 2009, the consolidation of the organisational changes relating to the hierarchical centralisation 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.

As regards the other Central Divisions, it is important to note 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.

Lastly, 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.

The organisational changes linked to the company evolution process at the end of 2009 were also consolidated for the General Management – Development and Markets Divisionspecifically, in the area of the Retail Market, with the objective of facilitating the achievement of commercial targets and customer satisfaction. Moreover, a process for strengthening customers relations in the Corporate Market was launched.

As regards Herambiente, on 19 February 2010 the Operational Services Division was established, in order to ensure greater focus on processes which are transversal across businesses and, in particular, processes of final testing, logistics, QSE and environmental regulations, optimising interaction between the structures involved.

In order to further develop the opportunities provided by the company evolution, guaranteeing integrated management of the Sector businesses, the Operating Segments Division was established within the General Management - Operations, in charge of coordinating and ensuring the achievement of the Group's objectives in the management of GAS Distribution, the Water Cycle, Electricity Distribution, District Heating, and Waste Management Services, identifying possible corrective actions in the event of deviations.

Moreover, the Large Plants Engineering Sector organisational structure was revised in order to favour the development of the business and more clearly differentiate specific engineering skills.

Industrial Relations

Based on the platform presented by the Trade Union Organisations, the review of the Group's Supplementary Collective Labour Agreement of 22 March 2006 by the trade unions continued. The talks were begun in September of last year. There were numerous meetings to integrate or modify the ordinary rules of union relations (Industrial Relations Protocol), Training, Safety, etc. Negotiations concluded with the signing of a new supplementary company labour agreement on 24 March 2010, which also contains the new regulations on the Group Performance Bonus effective for the years 2010 - 2012. As part of trade union relations, a Research Observatory for Organisational Innovation and Quality of Work was established. This body lack negotiation power, and is composed of experts appointed by the trade unions and experts apponited by the company. On the matter of safety, a new Group model of representation and relations was defined. In terms of economic and regulatory conditions, a commitment was made to standardise the remaining, differing company practices on these matters.
Moreover, trade union relations dealt with more strictly organisational issues in specific geographical areas: closure of workshops, mobility, organisation of Remote Control shifts. A technical commission envisaged by the Supplementary Agreement in for the purpose of standardising certain regulatory conditions has already started work. Subsequently, through specific agreements, the indicators of targets to be reached for the current year were defined, for the purpose of the final results for the 2010 performance bonus.
Lastly, an agreement was signed, also with the confederation trade unions, which sets out the payment in instalments for the services provided by Hera to customers covered by the redundancy fund, in mobility or unemployed.

Training and Development

The research programme in collaboration with CRISP (Inter-university Research Centre for Public Utilities Services) to study corporate universities and advanced managerial training applied in public utilities services continued.
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.
In collaboration with the Alma Mater Foundation, the fourth edition of the Upper University Training Course "Regulation and markets in public utilities services" was held, for managers and executives. The fifth edition is planned to start in September 2010.

In the second half of the year, refresher courses for Health and Safety Managers pursuant to Legislative Decree 106/2009 (which amended Legislative Decree 81/2008) are planned.
In the Back Office area a Practice Community was set up and a supporting IT tool is expected to be developed during the second half of the year.

Continuity was given to the activity of training in carrying out legal obligations (fire-fighting, first aid, etc.).

In the first half of 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.
During the second half of the year, the publications relating to Hera Trading and the learning process for personnel responsible for management/maintenance of networks and electricity substations are planned.

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. Two Improvement Groups will be operational in the second half of the year.
As is now common practice, during 2010 improvement initiatives approved by management are subject to specific monitoring during their implementation phases.

In addition, there were more than 16,600 participants in various training initiatives and more than 89% of Group employees took part in at least one training activity.
Financial investment in the first half, net of personnel-in-training and internal staff costs, was Euro 181,717.

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

Training Area	Person-hours
Professional and specialist training	32,810
Quality, Safety and Environment	24,775
Institutional and Managerial Training	12,627
IT	536
Total	**70,748**

The Graduates Programme continued in the first half of 2010; the project began in 2004 with the objective of recruiting and hiring new graduates with high professional potential. Currently, 91 resources that joined the Group from 2010 are in service.
In 2010, 60 recent graduates were assessed for selection. Subsequently, 11 new resources were hired, who are now participating in the introductory training, which, in the second half of the year, will involve 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 resources belonging to the 2004, 2005 and 2006 editions of the Graduates Programme participated in the project, as well other young resources with similar demographic and educational characteristics.
Beginning in February 2008 a total of 95 resources 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 on subjects related to water, energy and waste management, by granting study grants of 6 months for students and 12 months of recent graduates.
As part of this initiative, Hera has a specific agreement with the faculty of Industrial Chemistry that allows recent graduates or student to perform educational, training or orientation internships.

2.09 Information systems

During the first half of 2010, Hera Group information systems continued the course laid out earlier, operating in accordance with the following guidelines: 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.

With regard to the internal efficiency of information systems, objectives were the improvement of information technology services provided, strengthening data processing architectures in line with the technologies available on the market and optimizing the operating and organizational work model.

Significant indicators of the contribution of information systems to the business activities of the Hera Group include the following regarding business in the first half:

- approximately 8 million bills issued, including 60,000 sent in electronic form;
- approximately 3,000 on-line tenders managed;
- more than 52.000 emergency service calls managed;
- approximately 1.7 million service requests, handled through four channels:
    - call centres;
    - physical branches;
    - mail;
    - internet.

During the first half of 2010, information systems managed about 45 projects, classified by the following types:

Supporting new business needs and satisfying sector regulatory requirements:

- Defining the plan for evolution of the IT systems in compliance with the requirements of unbundling regulations and the launch of the Revision of the Data Form
- Completing the planning activities to integrate the companies Prigeas and Gas Tecnica Galliera into the Group information systems
- Updating of management information systems to meet various rules, both fiscal and regulatory, for example:
    - resolutions/reports for the Authority for Electrical Energy and Gas and the Anti-Trust Authority (AGCM) (ex. execution of the pre-check to facilitate communications with sellers, and regulatory compliance for technical and commercial quality)
    - compliance with the new European regulation SEPA – Single European Payment Area
    - evolution of the tariff components for GAS and Electricity
    - New engine for the business and mass market electricity services, to comply with resolutions on the listing of items on bills
    - Realisation of new commercial offers

Improving the efficiency of the Hera Group's operating processes:

- Implementation of the new integrated IT system supporting maintenance, operations and realisation of the Networks Department
- Introduction of the Group Business Intelligence/Reporting system
- Realisation of the new GIS systems for electric grids
- Launch of the project for the new system for recording attendance of the Group
- Adjustment of the systems to the new organisational structure relating to the Territorial Operating Structures - TOS
- Start of the planning for the new Group document system

Reducing technological risk and improving the operational security and efficiency of information systems:

- Reduction of the size 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 tools to the main applications
- Realisation of joint security services for the Hera Group (email gateway, text messages, antivirus, patching)

Lastly, it is noted that, starting from 1 January 2010 the new operating and organisational work model of the Hera Group's IT systems became operational.

2.10 Quality, safety and environment

During the first half of 2010, the objectives scheduled by the Central Office for Quality, Safety and Environment (DCQSA) were pursued with good results.

The first objective to pursue in spring of 2010 concerned maintaining the ISO 9001 and ISO 14001 Certifications: upon completion of the two certification processes, the company confirmed the positive results already achieved in 2009, with the exception of 2 significant anomalies recorded at the Facility Management within the General Management - Information Services and Systems, for which corrective actions are in place aimed at returning to compliant situations through an additional check by DNV scheduled for the beginning of September 2010.

The second objective for 2010 concerns maintaining the first and second part of the scope of OHSAS 18001 certification. This certification was obtained in 2009 in two distinct phases, for the waste management, district heating, and gas and electricity distribution services, along with the extension to the third part of the scope which involves the management and territorial services in the water cycle sector. The process for this last part of certification scope is underway: so far, inspections have been carried out at the company locations of Ferrara and Ravenna. Based on these inspections, some findings have been brought to light which will be the subject of comprehensive assessment following the total closure of the audit at the other local offices and the divisions concerned, which is planned for November 2010.

Moreover, in this first half of the year, there was an inspection by the Bologna Office of the Finance Department on behalf of the Privacy Authority, which carried out a general verification of the application of privacy laws by Hera Spa. The inspection concluded with a finding of breach of art. 4 of the Workers' Statute due to the non-implementation of a regulation regarding several videocameras set up for video surveillance of the company warehouses.

Since the beginning of 2010, as regards the computerisation of various management aspects, such as: occupational medicine, risk assessment and recording of accidents, and near-miss accidents and incidents, the following activities have been implemented:

- computerised health monitoring has been extended to the areas of Modena, Rimini and Imola-Faenza, and is expected to be completed for all areas by the end of the year;
- internal reporting of accidents, near-miss accidents and incidents: all TOS have adopted as the sole instrument the specific IT module Active-Trees/"Infortuni" (Active Trees/"Accidents"). In June 2010 this system was extended to the subsidiaries Fea, Herambiente, and Uniflotte and it is planned to be extended also to the subsidiaries Hera Comm, Hera Trading and Famula on-line by the end of the year;
- in the area of risk assessment, so-called duty analysis IT sheets have been drawn up and implemented for the purpose of safety in the workplace. This activity was preceded by suitable training. This IT form was also used for the central structures (central bodies, the IT Services and Systems Division and the General Management - Operations).

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.

Among the principal ordinary activities carried out, during the first half of 2010, DCQSA was mainly involved in;

- ⇒ QSE inspections to ensure compliance of procedures and instructions prepared by various company organisations: during the first half of 2010, 33 procedures were submitted to DCQSA, for 31 of which a QSE compliance inspection was requested (93%).
- ⇒ updating system documentation
- ⇒ conducting internal audits on specific issues regarding supplier management: 9 audits were conducted at the various TOS BUs, Herambiente and the Procurement and Tender Contract Management Central Division, in order to verify the level of application of Group procedures, monitor the degree of use of checklists for the periodic control of professional performance of suppliers and the level of implementation of SAP QM, and to bring up points for improving the process
- ⇒ conducting internal audits on specific issues regarding the complaint management process carried out in service by Hera Comm
- ⇒ conducting internal audits: 100% of the audits planned for the first half were carried out (21/21)

In addition to the previously mentioned activities, some initiatives should be noted aimed at strengthening involvement and sharing between the various parties of the Group operating in the same sector:

- ⇒ The management of emissions trading certificates, for which a specific task force on the subject comes together annually to analyze common problems and to align procedures and actions.

"Pursuant to Rule 26 of Attachment B) to "Legislative Decree no. 196 of 30 June 2003 – Privacy Code", it is noted that for the year in question, Hera Spa, as Data Holder, carried out the update of its Security Planning Document (SPD)."

2.11 Relevant events after the end of the period and business outlook

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

Herambiente Srl

In 27 July 2010 Hera and EISER Infrastructure Limited (Ambiente Arancione Cooperatief U.A) signed a binding agreement for EISER's purchase of 20% of the share capital of Herambiente, with the option to purchase up to an additional 5% of the company's share capital within 3 months from the finalisation of the purchase of 20%.

The amount agreed for the 20% share is Euro 105.6 million, subject to adjustment at the closing based on the change in the net financial position from 31/12/2009 to 30/06/2010.

The option to purchase up to an additional 5% of share capital will be exercised at the same price per share agreed for the 20%.

Finalisation is subject to authorisation from the Antitrust Authority, and is expected for September 2010.

Satcom Spa / Acantho Spa

On 03 August 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 signed. This merger shall take effect from 1 September 2010.

Abbreviated Consolidated Half-Year Financial Statements

3.01 Financial Statements

3.01.01 Income statement

thousands of Euro		*30 06 2010 (6 months)*	*30 06 2009 (6 months)*
Revenues	4	1.805.478	2.146.047
Change in inventories of finished products and work in progress	4	12.020	796
Other operating income	5	101.758	106.167
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-1.036.447	-1.449.275
Costs for services	7	-387.930	-423.143
Staff costs	8	-184.581	-178.362
Amortisation, depreciation and allocations	9	-138.663	-127.680
Other operating costs	10	-18.821	-16.020
Capitalized costs	11	22.035	85.132
Operating profit		**174.849**	**143.662**
Portion of profits (losses) pertaining to associated companies	12	4.337	2.012
Financial income	13	55.336	5.771
Financial charges	13	-114.448	-59.602
Total financial operations		**-54.775**	**-51.819**
Other non-operating costs	14	0	-2.729
Pre-tax profit		**120.074**	**89.114**
Taxes for the period	15	-50.911	-37.293
Net profit for the period		**69.163**	**51.821**
Attributable to:			
Shareholders of Parent Company		62.573	46.769
Minority shareholders		6.590	5.052
Earnings per share	15.1		
base		0,056	0,045
diluted		0,056	0,045

Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the income statement are indicated in paragraph 3.02.01 of these abbreviated consolidated half-year financial statements.

3.01.02 Aggregate income statement

Thousands of Euro	30/6/10	30/6/09
Net profit/(loss) for the period	**69.163**	**51.821**
- change in cash flow hedge reserve (net of tax effect)	-15	-2.069
- change in cash flow hedge reserve of companies carried at equity (net of tax effect)	-455	-331
Total profit/(loss) for the period	**68.693**	**49.421**
Attributable to:		
Shareholders of Parent Company	62.481	44.491
Minority shareholders	6.212	4.930

This statement is presented for the first time based on the requirements of IAS 1 Revised. Specifically, this standard requires that several components recorded as an offsetting entry directly in shareholders' equity be highlighted. It is important to note that these items refer to unrealised profits/losses as at 30 June 2010, as they were generated by the measurement of full hedge derivatives.

3.01.03 Balance Sheet

thousands of Euro	Note	30-giu-2010	31/12/2009 Restated
ASSETS			
Non-current assets			
Tangible fixed assets	16	1.809.405	1.777.392
Intangible fixed assets	17	1.685.543	1.674.934
Goodwill	18	377.175	378.574
Equity investments and securities	19	126.112	121.243
Financial assets	20	9.472	10.535
Deferred tax assets	21	87.442	73.596
Financial instruments - derivatives	22	35.864	419
		4.131.013	**4.036.693**
Current assets			
Inventories	23	48.904	47.068
Trade receivables	24	1.052.974	1.137.076
Contract work in progress	25	30.586	19.904
Financial assets	26	32.873	21.790
Financial instruments - derivatives	22	38.884	50.199
Other current assets	27	187.426	178.892
Cash and cash equivalents	28	250.663	350.332
		1.642.310	**1.805.261**
Total assets		**5.773.323**	**5.841.954**

Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the balance sheet are indicated in paragraph 3.02.02 of these abbreviated consolidated half-year financial statements.

thousands of Euro		30-giu-2010	31-dic-2009
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	**29**		
Share capital		1.115.014	1.115.014
- Reserve for own shares at par value		-3.453	-2.893
Reserves		461.279	472.106
- Reserve for own shares value exceeding par value		-2.043	-1.739
Reserves for derivative instruments valued at fair value		-18.978	-12.995
Retained earnings (losses)		2.061	2.061
Profit (loss) for the period		62.573	71.052
Group shareholders' equity		**1.616.453**	**1.642.606**
Minority interest share		57.224	58.125
Total shareholders' equity		**1.673.677**	**1.700.731**
Non-current liabilities			
Loans - maturing beyond the next year	30	2.160.172	2.144.857
Employee leaving indemnity and other benefits	31	98.886	101.017
Provisions for risks and charges	32	193.845	186.200
Deferred tax liabilities	33	134.465	132.801
Payables for financial leases - maturing beyond the next year	34	7.640	9.379
Financial instruments - derivatives	22	35.792	40.394
		2.630.800	**2.614.648**
Current liabilities			
Banks and other borrowings - maturing within the next year	30	123.442	113.039
Financial leasing payables – maturing within the next year	34	6.635	7.148
Trade payables	35	841.626	1.048.214
Income taxes payable	36	231.675	80.213
Other current liabilities	37	238.815	223.328
Financial instruments - derivatives	22	26.653	54.633
		1.468.846	**1.526.575**
Total liabilities		**4.099.646**	**4.141.223**
Total shareholders' equity and liabilities		**5.773.323**	**5.841.954**

Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the balance sheet are indicated in paragraph 3.02.02 of these abbreviated consolidated half-year financial statements.

3.01.04 Cash Flow Statement

Consolidated Cash Flow Statement (*)	30/06/2010			30/06/2009		
Operating activities						
Cash flow						
Net profit pertaining to Group and minority shareholders	69.163			51.821		
Depreciation and writedowns of tangible fixed assets	59.567			85.103		
Amortisation and writedowns of intangible assets	53.453			22.342		
Total cash flow	**182.183**			**159.266**		
Profit (loss) of equity investments measured at equity	(2.464)			(1.133)		
(Gains) Losses on disposal of fixed assets	(1.711)			1.031		
Changes in prepaid and deferred taxation	(12.846)			6.935		
Employee leaving indemnities and other benefits:						
Provisions/ (uses)	(2.131)			(2.114)		
Provisions for risks and charges:						
Provisions/ (uses)	4.928			10.593		
Total cash flow before changes in net working capital	**167.959**			**174.578**		
Working capital						
Change in trade receivables	83.861			40.220		
Change in inventories	(11.858)			16.418		
Change in other current assets	(8.506)			(31.887)		
Change in trade payables	(205.897)			(169.629)		
Change in tax liabilities	151.419			69.605		
Change in other current liabilities	15.469			27.772		
Change in financial instruments - derivatives	(16.665)			(28.359)		
Change in working capital	7.823			(75.860)		
Change in financial instruments – non-current derivatives	(40.063)			8.002		
Liquidity generated by operations		**135.719**			**106.720** a)	
Investment activities						
Disposal/(investment) in tangible assets, net						
net of net investments/disinvestments	(143.657)			(181.646)		
Disposal/(investment) in intangible assets, net						
net of net investments/disinvestments	(5.441)			(10.875)		
Goodwill	0			0		
Investments in equity investments net of disposals	(3.028)			(1.188)		
(Increase)/decrease in other investments	(11.582)			(5.533)		
Liquidity generated/(absorbed) by investment activities		**(163.708)**			**(199.242)** b)	
Financing activities						
Medium/long-term loans	15.315			(30.879)		
Change in shareholders' equity accounts	613			(4.672)		
Change in short-term bank indebtedness	10.403			187.349		
Dividends paid out	(96.814)			(95.017)		
Change in financial leasing payables	(2.252)			(1.737)		
Liquidity generated/(absorbed) by financing activities		**(72.735)**			**55.044** c)	
			(100.724)			**(37.478)**
			(a+b+c)			**(a+b+c)**
Change in net financial position						
Cash and cash equivalents at the beginning of the period	350.332			193.635		
Contribution of cash from business combinations	1.055			1.466		
Cash and cash equivalents at the end of the period	250.663			157.623		
	(100.724)			**(37.478)**		

Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the balance sheet are indicated in paragraph 3.02.03 of these abbreviated consolidated half-year financial statements.

3.01.05 Statement of Changes in Shareholders' Equity

	Share capital	Reserves	Reserves for derivative instruments measured at fair value	Profit for the year	Shareholders' equity	Minority interest share	Total
Balance as at 31 December 2008	**1.030.438**	**416.154**	**-16.125**	**94.766**	**1.525.233**	**53.892**	**1.579.125**
Profit for the period				46.769	**46.769**	5.052	**51.821**
Other components of the total result as at 30 June 2009:							
change in the fair value of derivatives for the period		2.704	-4.982		**-2.278**	-122	**-2.400**
Total Overall Profit for the period		**2.704**	**-4.982**	**46.769**	**44.491**	**4.930**	**49.421**
treasury shares in portfolio	220	274			494		494
change in perimeter		724			**724**	-5.859	**-5.135**
change in scope of consolidation		-807			**-807**	11.900	**11.093**
other movements		-1			**-1**	-30	**-31**
Appropriation of profits for 2008:							
- dividends paid out		-2.322		-80.168	**-82.490**	-12.527	**-95.017**
- allocation of retained earnings to reserves		10.243		-10.243	**0**		**0**
- allocation to other reserves		4.355		-4.355	**0**		**0**
Balance as at 30 June 2009	**1.030.658**	**431.324**	**-21.107**	**46.769**	**1.487.644**	**52.306**	**1.539.950**

	Share capital	Reserves	Reserves for derivative instruments valued at fair value	Profit for the period	Shareholders' equity	Minority interest share	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				62.573	**62.573**	6.590	**69.163**
Other elements of comprehensive income as at 30 June 2010:							
change in the fair value of derivatives for the period			363		**363**	-378	**-15**
change in the fair value of derivatives for the period for companies measured at equity		-455			**-455**		**-455**
Total comprehensive profit for the period		**-455**	**363**	**62.573**	**62.481**	**6.212**	**68.693**
treasury shares in portfolio	-560	-304			**-864**		**-864**
share capital increase					**0**		**0**
change in scope of consolidation					**0**		**0**
change in scope of consolidation		-870			**-870**	870	**0**
other movements		8.380	-6.346		**2.034**	-103	**1.931**
Appropriation of profits for 2009:							
- dividends paid out		-39.410		-49.524	**-88.934**	-7.880	**-96.814**
- allocation of retained earnings to reserves		18.640		-18.640	**0**		**0**
- allocation to other reserves		2.888		-2.888	**0**		**0**
Balance as at 30 June 2010	**1.111.561**	**461.297**	**-18.978**	**62.573**	**1.616.453**	**57.224**	**1.673.677**

3.02 Financial statements in accordance with resolution 15519 of 27 July 2006

3.02.01 Income statement

thousands of Euro	Note	2010	A	B	C	D	Total	%	2009	A	B	C	D	Total	%
Income Statement															
Revenues	4	1.805.478	62	10.632	42.624	3.388	56.706	*3,1*	2.146.047		8.526	42.563	2.677	53.766	*2,5*
Change in inventories of finished products and work in progress	4	12.020							796						
Other operating income	5	101.758	5	43	28	165	241	*0,2*	106.167	14	36	25	239	314	*0,3*
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-1.036.447	-3.053				-3.053	*0,3*	-1.449.275		-11.799	-1.055	-15.495	-28.349	*2,0*
Costs for services	7	-387.960	-2.963	-4.157	-4.071	-17.830	-29.021	*7,5*	-423.143	-74	-5.653	-5.857	-21.086	-32.670	*7,7*
Personnel costs	8	-184.581							-178.362						
Amortisation, depreciation and allocations	9	-138.663							-127.680						
Other operating costs	10	-18.821	-121		-857	-459	-1.437	*7,6*	-16.020			-294	-262	-556	*3,5*
Capitalised costs	11	22.035							85.132						
Operating profit		**174.819**	**-6.070**	**6.518**	**37.724**	**-14.736**	**23.436**		**143.662**	**-60**	**-8.890**	**35.382**	**-33.927**	**-7.495**	
Portion of profits (losses) pertaining to associated companies	12	4.337		4.337			4.337	*100,0*	2.012		2.012			2.012	*100,0*
Financial income	13	55.336		316		18	334	*0,6*	5.771		194		18	212	*3,7*
Financial charges	13	-114.448					0	*0,0*	-59.602		-14			-14	*0,0*
Total financial operations		**-54.775**	**0**	**4.653**	**0**	**18**	**4.671**		**-51.819**	**0**	**2.192**	**0**	**18**	**2.210**	
Other non-operating costs	14								-2.729						
Pre-tax profit		**120.044**	**-6.070**	**11.171**	**37.724**	**-14.718**	**28.107**		**89.114**	**-60**	**-6.698**	**35.382**	**-33.909**	**-5.285**	
Taxes for the period	15	-50.911							-37.293						
Net profit for the period		**69.133**	**-6.070**	**11.171**	**37.724**	**-14.718**	**28.107**		**51.821**	**-60**	**-6.698**	**35.382**	**-33.909**	**-5.285**	
Attributable to:															
Shareholders of Parent Company		62.573							46.769						
Minority shareholders		6.590							5.052						
Earnings per share	15.1														
base		0,056							0,045						
diluted		0,056							0,045						

3.02.02 Balance Sheet

thousands of Euro	Note	30-Jun-2010	A	B	C	D	Total	%	31-Dec-2009 restated	A	B	C	D	Total	%
			of which Related Parties							*of which Related Parties*					
ASSETS															
Non-current assets															
Tangible fixed assets	16	1.809.405					-		1.777.392					-	
Intangible fixed assets	17	1.685.543					-		1.674.934					-	
Goodwill and consolidation difference	18	377.175					-		378.574					-	
Equity investments and securities	19	126.112	68	94.220		31.495	125.783	*99,7*	121.243	182	86.907		30.328	117.417	*96,8*
Financial assets	20	9.472		8.846			8.846	*93,4*	10.535		10.108			10.108	*95,9*
Deferred tax assets	21	87.442					-		73.596					-	
Financial instruments - derivatives	22	35.864					-		419					-	
		4.131.013	**68**	**103.066**	**0**	**31.495**	**134.629**		**4.036.693**	**182**	**97.015**	**0**	**30.328**	**127.525**	
Current assets															
Inventories	23	48.904					-		47.068						
Trade receivables	24	1.052.974	132	8.986	13.073	9.619	31.810	*3,0*	1.137.076	119	13.002	14.710	11.053	38.884	*3,4*
Contract work in progress	25	30.586					-		19.904					-	
Financial assets	26	32.873		19.533		27	19.560	*59,5*	21.790		13.384			13.384	*61,4*
Financial instruments - derivatives	22	38.884					-		50.199					-	
Other current assets	27	187.426		1.021	117	18.471	19.609	*10,5*	178.892		5	445	17.336	17.786	*9,9*
Cash and cash equivalents	28	250.663					-		350.332					-	
		1.642.310	**132**	**29.540**	**13.190**	**28.117**	**70.979**		**1.805.261**	**119**	**26.391**	**15.155**	**28.389**	**70.054**	
TOTAL ASSETS		**5.773.323**	**200**	**132.606**	**13.190**	**59.612**	**205.608**		**5.841.954**	**301**	**123.406**	**15.155**	**58.717**	**197.579**	

thousands of Euro	Note	30-Jun-2010	A	B	C	D	Total	%	31-Dec-2009	A	B	C	D	Total	%
			of which Related Parties							*of which Related Parties*					
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	29														
Share capital		1.115.014							1.115.014						
-Reserve for own shares at par value		-3.453							-2.893						
Reserves		461.279							472.106						
-Reserve for own shares exceeding par value		-2.043							-1.739						
Reserves for derivative instruments valued at fair value		-18.978							-12.995						
Retained earnings (losses)		2.061							2.061						
Profit (loss) for the period		62.573							71.052						
Group shareholders' equity		**1.616.453**							**1.642.606**						
Minority interest share		57.224							58.125						
Total shareholders' equity		**1.673.677**							**1.700.731**						
Non-current liabilities															
Loans - maturing beyond the next year	30	2.160.172							2.144.857						
Employee leaving indemnity and other benefits	31	98.886							101.017						
Provisions for risks and charges	32	193.845							186.200						
Deferred tax liabilities	33	134.465							132.801						
Payables for financial leases - maturing beyond the next year	24	7.640							9.379						
Financial instruments - derivatives	22	35.792							40.394						
		2.630.800							**2.614.648**						
Current liabilities															
Banks and other borrowings - maturing within the next year	30	123.442							113.039						
Financial leasing payables – maturing beyond the next year	34	6.635							7.148						
Trade payables	35	841.626	137	6.678	8.067	25.865	40.747	*4,8*	1.048.214	175	17.010	9.453	22.453	49.091	*4,7*
Income taxes payable	36	231.675							80.213						
Other current liabilities	37	238.815		99		584	683	*0,3*	223.328		96	20	100	216	*0,1*
Financial instruments - derivatives	22	26.653							54.633						
		1.468.846	**137**	**6.777**	**8.067**	**26.449**	**41.430**		**1.526.575**	**175**	**17.106**	**9.473**	**22.553**	**49.307**	
Total liabilities		**4.099.646**	**137**	**6.777**	**8.067**	**26.449**	**41.430**		**4.141.223**	**175**	**17.106**	**9.473**	**22.553**	**49.307**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**5.773.323**	**137**	**6.777**	**8.067**	**26.449**	**41.430**		**5.841.954**	**175**	**17.106**	**9.473**	**22.553**	**49.307**	

3.02.03 Cash Flow Statement

Consolidated cash flow statement in accordance with CONSOB Resolution *no. 15519 of 27 July 2006*	30-giu-10			of which Related Parties
Operating activities				
Cash flow				
Net profit pertaining to Group and minority shareholders	69.163			
Depreciation, amortisation and writedowns of tangible and intangible assets	113.020			
Total cash flow	**182.183**			
Profit (loss) of equity investments measured at equity	-2.464			
(Gains) Losses on disposal of fixed assets	-1.711			
Changes in prepaid and deferred taxation	-12.846			
Employee leaving indemnities and other benefits: Provisions/ (uses)	-2.131			
Provisions for risks and charges: Provisions/ (uses)	4.928			
Total cash flow before changes in net working capital	**167.959**			
Working Capital				
Change in trade receivables	83.861			6.833
Change in inventories	-11.858			
Change in other current assets	-8.506			-1.795
Change in trade payables	-205.897			-7.653
Change in tax liabilities	151.419			
Change in other current liabilities	15.469			449
Change in financial instruments - derivatives	-16.665			
Change in working capital	**7.823**			
Change in financial instruments - non-current derivatives	**-40.063**			
Liquidity generated by operations		**135.719**		
Investment activities				
Disposal/(investment) in tangible assets, net net of net investments/disinvestments	-143.657			
Disposal/(investment) in intangible assets, net net of net investments/disinvestments	-5.441			
Goodwill	0			
Investments in equity investments net of disposals	-3.028			-3.028
(Increase)/decrease in other investments	-11.582			-6.476
Liquidity generated/(absorbed) by investment activities		**-163.708**		
Financing activities				
Medium/long-term loans	15.315			
Change in shareholders' equity accounts	613			
Change in short-term bank indebtedness	10.403			
Dividends paid out	-96.814			-21.315
Change in financial leasing payables	-2.252			
Liquidity generated/(absorbed) by financing activities		**-72.735**		
			-100.724 (a+b+c)	
Change in net financial position				
Cash and cash equivalents at the beginning of the period	350.332			
Contribution of cash from changes in perimeter	1.055			
Cash and cash equivalents at the end of the period	250.663			
	-100.724			

3.03 Explanatory notes

3.03.01 Consolidated explanatory notes

Accounting principles and valuation criteria

These abbreviated consolidated half-year financial statements as at 30 June 2010 have been prepared in compliance with the IFRS international accounting standards issued by the International Standard Board "IASB" and adopted by the European Union. IFRS also refers to the "IAS" international accounting standards still in force as well as all interpretation documents issued by the "IFRIC" International Financial Reporting Interpretation Committee.

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

The preparation of the half-year accounts requires estimates and assumptions to be made that have an impact on the value of revenues, costs, assets and liabilities and on disclosures concerning contingent assets and liabilities at the reporting date. If, in the future, these estimates and assumptions, based on the management's best evaluation, should differ from the actual circumstances, they will be amended accordingly to represent the actual situation.

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

Corporate income tax is entered according to the best estimate of the weighted average tax rate expected for the full year.

The figures in these abbreviated consolidated half-year financial statements are comparable with those of previous years.

A comparison of single items in the balance sheet and the income statement must take into consideration the changes to the scope of consolidation indicated in the specific section.

Consolidated Financial Statements Format

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, is in line with international practice and the best representation of company results. The balance sheet format makes the distinction between assets and liabilities, current and non-current. The cash flow statement was drawn up using the indirect method in accordance with IAS 7. It is also worth noting that, with reference to the Consob Resolution no. 15519 dated 27 July 2006 regarding the balance sheet formats, specific additional tables were included in the income statement, balance sheet and cash flow statement, while highlighting the most significant relations with related parties, in order not to alter the overall clarity of the balance sheet tables.

Scope of consolidation

These abbreviated consolidated half-year financial statements include the financial statements of the Parent Company, Hera SpA, and its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, in such a way as to obtain benefits from the company's activities.

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

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. Subsidiaries and associated companies that are not consolidated/valuated at equity are reported in note no. 19.

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.

Changes to the scope of consolidation in the first half of 2010, compared with the consolidated financial statements as at 31 December 2009, are shown below.

Subsidiaries

Consolidated companies	No longer consolidated companies	Notes
Consorzio Akhea Fondo Consortile		Fully consolidated
	Aspes Gas Srl	Merged by incorporation in Hera Comm Marche Srl

Consorzio Akhea Fondo Consortile, established by the companies Herambiente Srl and Akron SpA, became operational in January 2010. The company, posted at cost until 31 December 2009, is integrally consolidated. Please see note 19 "Equity investments".

As of 1 January 2010, Aspes Gas Srl (wholly owned by Marche Multiservizi Epa) was merged by incorporation in Hera Comm Marche Srl (wholly owned by Hera Comm Srl). This transaction made Marche Multiservizi S.p.A. the majority shareholder of Hera Comm Marche Srl, with 52% of the share capital. On 2 February 2010, Marche Multiservizi S.p.A. 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%.

Jointly controlled companies

Consolidated companies	No longer consolidated companies	Notes
FlamEnergy Trading Gmbh		Consolidated with the proportional method

As of 30 June 2010, the company FlamEnergy Trading Gmbh (50% held by Hera Trading) is consolidated with the proportional method. Until 31 December 2009, the company was valuated with the shareholders' equity method.

Associated companies

Consolidated companies	No longer consolidated companies	Notes
	FlamEnergy Trading Gmbh	Consolidated with the proportional method

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

Seasonal effects on business

This aspect regards above all the Water and Energy sectors, with reference to summer and winter season peaks. As for the January-June six-month period, however, the economic effects are comparable with those regarding the entire year by reason of the fact that the economic trend for the period reflects, in overall, the trend of the entire year. Conversely, equity figures, as described in the following notes, highlight a decrease in trade payables at end of June, above all with respect to the timing of raw materials supply.

Relevant Events After the End of the Period and Business Outlook

Information regarding the company’s activity and significant events occurred after year end are included in a special section of this half-year report.

Other information

It is also noted that, over the first half of 2010, atypical and unusual transactions were not accounted for, according to Consob communication no. 6064293 of 28 July 2006.

These abbreviated consolidated half-year financial statements, included in the half-year financial report as at 30 June 2010, shall be submitted for the Board of Directors' approval on 26 August 2010.

Accounting standards, amendments and interpretations applicable from 1 January 2010

On 1 January 2009, the Hera 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", as reported below.

Application of the interpretation of IFRIC 12 "Service concession arrangements".

The Hera Group applies the IFRIC 12 interpretation "Service Concession Arrangements" as of 1 January 2010. This interpretation applies to service concession arrangements if the following conditions are met:

- 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 Hera 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 Conami Spa.

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 balance sheet 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 (ownership, business unit lease and other). 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 Conami 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 from the first half of 2009 was reclassified in order to allow for an appropriate comparison to the same period of 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 a residual margin, in any case in line with market activities, is applied on construction activities carried out externally, these infrastructures are reported based on costs effectively sustained, net of any contributions paid by the authorities and/or private customers.

IFRS 3 Revised – Business Combinations. The amended standard introduces a number of significant innovations. 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.

IAS 27 – Consolidated and Separate Financial Statements. 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 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.

Amendments to IFRIC 9 – Reassessment of Embedded 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 Revenues.

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, applicable as from the 2010 accounting period, 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 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).

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 9 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 valuate 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 criteria already in force and not amended, adopted in the first half of 2010, are unchanged with respect to the previous year.

Accounting standards approved by the European Union but not yet compulsory

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.

Accounting standards which are being adopted by the European Union

The following updates of the main IFRS (already approved by the IASB), as well as the following interpretations and amendments, are currently being acknowledged by the competent bodies of the European Union:

IFRS 9– Financial Instruments, whose endorsement requires timescales which are not immediate
Improvements to IFRS (issued by the IASB in May 2010)

4 Revenues

	1st half 2010	1st half 2009	Change
Revenues from sales and services	1,805,478	2,146,047	-340,569
Change in contract work in progress	12,137	966	11,171
Changes in inventories of work in progress, semi-finished and finished products	-117	-170	53
Other revenues and income	101,758	106,167	-4,409
Total	**1,919,256**	**2,253,010**	**-333,754**

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

5 Other operating income

	1st half 2010	1st half 2009	Change
Long-term construction contracts	65,458	75,156	-9,698
Insurance reimbursements	432	2,734	-2,302
Sale of materials and stocks to third parties	468	242	226
Portion of capital grants	1,829	1,724	105
White certificates	5,100	4,258	842
Grey certificates	2,525	0	2,525
Portion of operating grants and grants for separate waste collection	6,975	6,743	232
Leases	712	891	-179
Use and re-assessment of provisions	11,384	2,412	8,972
Gains from sale of assets	2,486	483	2,003
Costs reimbursed	1,484	1,017	467
Other revenues	2,905	10,507	-7,602
Total	**101,758**	**106,167**	**-4,409**

The most substantial changes compared to the same period in the previous year are described below.

"Long-term construction contracts" include revenues generated from the construction or improvement of infrastructures held in concession. The value relative to the first half of 2009 has been exposed for comparison purposes to reflect the application of the interpretation of IFRIC 12. In this regard, see the first paragraph of these notes.

"Insurance reimbursements" record a decrease of Euro 2,302 thousand. The first half of 2009 includes reimbursements received following damages which occurred to the WDF - waste derived fuel and energy recovery plants in Ravenna and the waste-to-energy plant in Modena. During the first half of 2010, reimbursements were for moderate damages, mainly regarding the Parent company and the subsidiary Hera Luce S.r.l., for a total of Euro 386 thousand.

"White and grey certificates" record income generated from invoicing done by the Parent company which occurred during the reporting period.

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

"Use and re-assessment of provisions" mainly includes uses of the provision for doubtful debts, for Euro 8,000 thousand, the provision for staff disputes and legal costs, for Euro 150 thousand and the provision for sundry risks, for Euro 269 thousand, as well as Euro 2,293 thousand for use of labour, leachate and resource hour costs as regards Group landfills.

"Gains from the sale of assets" were totalled from the disposal of the real estate complex in Bologna on Via Ranzani, as well as of resources, waste disposal bins and sundry equipment.

"Other revenues" are mainly made up of revenues pertaining to the contract stipulated for the exploitation of biogas produced by landfills and of the recovery of costs for environmental services. The decrease in this item compared to the previous period is mainly due to fewer environmental services, Euro 3,745 thousand, and to activities related to the brokerage of waste processing for partner plants, Euro 2,310 thousand, classified starting from 30 June 2010 under the item revenues from sales and services.

6 Use of raw materials and consumables (net of changes in inventories of raw materials and stock)

	1st half 2010	1st half 2009	Change
Electricity ready for sale	533,979	873,514	-339,535
Methane ready for sale and LPG net of inventory changes	451,336	537,821	-86,485
Charges and revenues from derivatives	-12,776	-24,601	11,825
Charges and revenues from certificate valuation	-7,905	-6,338	-1,567
Fuel for heat generation	1,297	2,006	-709
Water	16,562	15,865	697
Maintenance materials: handling and spare parts net of change in stock	23,855	27,681	-3,826
Electricity for industrial use	8,917	4,646	4,271
Fuels and lubricants	6,129	5,618	511
Methane for industrial use	5,904	2,563	3,341
Chemical products	7,064	6,996	68
Consumables and sundry materials	2,085	3,504	-1,419
Total	**1,036,447**	**1,449,275**	**-412,828**

Please see the Directors' Report for the analysis of trends in the costs of raw materials and consumables. Please see note 22 of the balance sheet for the item "Charges and revenues from derivatives".

The item "Electricity ready for sale" also includes the effect of optimizing green, grey and white certificates for a total of Euro 13,582 thousand (Euro 2,955 thousand for white certificates, Euro 6,048 thousand for grey certificates and Euro 4,579 thousand for green certificates). The item "Charges and revenues from certificate valuation" includes the fair value measurement of green certificates, Euro 3,484 thousand and of grey certificates, Euro 4,421 thousand.

7 Costs for services

	1st half 2010	1st half 2009	Change
Industrial utilities (water, methane, heat and electricity)	1,071	1,590	-519
Charges for works and maintenance	124,720	174,708	-49,988
Transport and storage	63,921	49,396	14,525
Insurance costs	6,400	6,412	-12
Cleaning and security costs	2,643	2,698	-55
Waste transportation, disposal and collection services	81,967	76,003	5,964
Announcements and advertising	3,137	4,044	-907
Transportation	619	1,070	-451
Technical services	6,063	6,716	-653
Legal, tax and organisation professional services	9,591	10,459	-868
Remuneration of Directors and Statutory Auditors	2,544	2,791	-247
Meter reading	2,657	2,661	-4
Postal and telephone costs	7,796	8,938	-1,142
Recruiting, training and other staff costs	5,317	5,307	10
IT and CED services	7,147	2,994	4,153
Laboratory analyses	1,671	1,799	-128
Bank fees and other charges	3,730	3,455	275
Fees paid to local authorities	35,142	37,240	-2,098
Rents and leases payable	8,445	13,864	-5,419
Rental expenses	1,903	1,579	324
Other	11,446	9,419	2,027
Total	**387,930**	**423,143**	**-35,213**

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

"Charges for works and maintenance". This item includes costs relating to the construction, or improvement, of infrastructures held in concession. The value relative to the first half of 2010 has been exposed for comparison purposes to reflect the application of the interpretation of IFRIC 12. In this regard, see the first paragraph of these notes. In terms of higher costs, the effect equals Euro 55,944 thousand. The decrease from last year is mainly due to the total demerger of the Territorial Operative Companies (TOC), effective during the 2009 financial year. In particular, with this transaction, the service contract by the same TOC on behalf of the parent company was terminated. These services were then capitalised by Hera Spa with a balancing entry the item "Capitalised costs".

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

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

"IT and CED services"; the increase of Euro 2,700 thousand is due to a restatement carried out on 30 June 2010 by a Group company of the costs for telephony services to other operators (costs which as at 30 June 2009 were classified under the item "rents and leases payable").

"Fees paid to local authorities"; the decrease is mainly due to the advance termination of the rental contract with Area Asset and Con.Ami as at 1 July 2009. As a consequence, a decrease was recorded in the first half of 2010 compared to the same period of the previous year.

8 Personnel costs

	1st half 2010	1st half 2009	Change
Wages and salaries	128,453	126,004	2,449
Social security contributions	44,782	41,934	2,848
Employee leaving indemnity	654	378	276
Other costs	10,692	10,046	646
Total	**184,581**	**178,362**	**6,219**

The increase in labour costs compared to the first half of 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:

	1st half 2010	1st half 2009	Change
Executives	126	127	-1
Managers	328	323	5
White-collar	3,249	3,149	100
Blue-collar	2,809	2,964	-155
Average number	**6,512**	**6,563**	**-51**

The total, average, per capita cost of labour in the first half of 2010 was Euro 28 thousand, a 4.3% increase over the same period in the previous year.

As at 30 June 2010, the effective number of employees was 6,513 units.

9 Amortisation, depreciation and allocations

	1st half 2010	1st half 2009	Change
Depreciation of tangible fixed assets and amortisation of intangible fixed assets	113,020	107,445	5,575
Allocation to provisions for doubtful receivables	14,633	7,946	6,687
Allocations to provisions for risks	11,010	12,289	-1,279
Total	**138,663**	**127,680**	**10,983**

For further information on the items, please see comments under “tangible fixed assets”, “intangible assets”, “trade receivables” and “provision for risks and charges”.

10 Other operating costs

	1st half 2010	1st half 2009	Change
State rentals	2,614	2,201	413
Taxation other than income taxes	2,346	2,443	-97
Membership fees and other fees	3,484	1,615	1,869
Special landfill levy	5,818	5,558	260
Losses on the sale of assets	775	1,514	-739
Losses on receivables	0	22	-22
Other minor charges	3,784	2,667	1,117
Total	**18,821**	**16,020**	**2,801**

The only significant change compared to the same period of last year is related to the item "Membership fees and other fees" and relates to the method adopted by a Group subsidiary for recording gas distribution system charges (UG1, UG2 components, etc.). These charges are also recorded among costs and do not impact the group since they are the responsibility of the final customer.

11 Capitalised costs

	1st half 2010	1st half 2009	Change
Increases in fixed assets for internal works	22,035	85,132	-63,097
Total	**22,035**	**85,132**	**-63,097**

Increases for internal works in the first half of 2010 mainly include directly chargeable labour capitalised on works carried out, and directly chargeable financial charges and other charges, such as outbound inventory movements and motor car hours. The value relative to the first half of 2010 has been exposed for comparison purposes to reflect the application of the interpretation of IFRIC 12. In this regard, see the first paragraph of these notes. In terms of lower capitalised costs, the effect equals Euro 19,212 thousand. The decrease from last year is mainly due to the total demerger of the Territorial Operative Companies (TOC), effective during the 2009 financial year. In particular, with this transaction, the service contract by the same TOC on behalf of the parent company was terminated. These services were then capitalised by Hera Spa with a balancing entry the item "Capitalised costs".

12 Portion of profits (losses) pertaining to associated companies

	1st half 2010	1st half 2009	Change
Profits	6,173	2,296	3,877
Losses	-1,836	-284	-1,552
Total	**4,337**	**2,012**	**2,325**

The portions of “profits (losses) pertaining to associated companies” include the effects generated from measurement using the equity method. The increase in the item "Profits" is mainly ascribable to the results of the associated companies Set and Aimag, which were recorded pro-quota. As regards the item "Losses", it is noted that the Oikothen equity investment was written down due to the extraordinary losses recorded by the company.

13 Financial income and charges

	1st half 2010	1st half 2009	Change
Customers	1,803	2,135	-332
Derivatives on rates and exchanges	46,631	1,212	45,419
Income from valuation of financial liabilities at fair value	6,191		6,191
Banks	257	606	-349
Other financial income	454	1,818	-1,364
Total financial income	**55,336**	**5,771**	**49,565**

	1st half 2010	1st half 2009	Change
Bonds	37,713	23,620	14,093
Mortgage expenses	5,471	9,640	-4,169
Discounting of provisions and financial leases	7,188	8,462	-1,274
Derivatives on rates and exchanges	15,043	7,047	7,996
Income from valuation of financial liabilities at fair value	43,942		43,942
Overdrafts	1,317	5,013	-3,696
Other financial charges	3,774	5,820	-2,046
Total financial charges	**114,448**	**59,602**	**54,846**

The change in the balance of financial operations is described, overall, in the Report on Operations.

For the items "Income and charges from derivatives on rates" and "Income and charges from valuation of financial instruments at fair value", please see note 22 of the balance sheet.

The item “Other financial income” decreased compared to the same period of last year, since the first half of 2009 included Euro 1,400 thousand of income generated by the renegotiation of the Put Extendable bond, totalling Euro 200 million.

The item “Bonds” comprises the following:

- Euro 28,461 thousand related to financial charges effectively paid;
- Euro 9,252 thousand from charges calculated by applying the amortised cost. 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 mainly due to a the issue, in the second half of 2009, of a 15-year bond loan for the amount of 20 billion Japanese Yen, with a Euro hedge of Euro 150 million, and the issue of another bond loan of Euro 500 million, at the fixed rate of 4.5%, effective as from November 2009.

As regards "other financial charges", this item includes charges paid for the transfer of credits without recourse. The decrease compared to the first half of 2009 is due to the fact that that period included financial charges paid following the recovery pursuant to the "tax moratorium" (Euro 2,083 thousand). 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:

	1st half 2010	1st half 2009	Change
Restoration of third party assets	3,362	4,170	-808
Post-closure landfills	2,813	2,343	470
Employee leaving indemnity and other benefits	675	1,453	-778
Financial leases	338	496	-158
Total	**7,188**	**8,462**	**-1,274**

14 Other non-operating costs

	1st half 2010	1st half 2009	Change
Other non-operating costs	0	2,729	-2,729
Total	**0**	**2,729**	**-2,729**

In the first half of 2009, this item included costs for taxes paid in relation to the "tax moratorium", described in note 15 below.

15 Income taxes

	1st half 2010	1st half 2009	Change
Prepaid, deferred and current taxes	50,911	37,293	13,618
Total	**50,911**	**37,293**	**13,618**

The impact of income taxes on the pre-tax profit is 42.4%, compared to 41.8% in 2009.

In calculating the tax impact, a 6.5% increase was included of the IRES tax, the so-called “Robin tax”, applicable to companies which operate in the segment of gas and electricity production and/or sale.

While calculating taxes for the year, the effects resulting from the IAS tax reform introduced by Law no. 244 of 24 December 2007 were duly kept in consideration, and especially the derivation principle set out by Art. 83 of the Consolidation Act on Income Taxes which now sets out that for entities that apply international accounting standards, also notwithstanding provisions set out by the Consolidation Act on Income Taxes, “criteria regarding definition, time-based recognition and classification in the balance sheet, as set out by the above-mentioned accounting principles” 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 S.p.a.) 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 purpose, the amount expected to be paid, for only the capital share, is equal to Euro 3,362 thousand. As of today, the payment slip has not been received yet. 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, in relation to the above, no cost has been accounted for, also in consideration of future disbursements deriving from the second-instance ruling. 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 30 June 2010, outstanding receivables for collection, related to all payments made by Hera spa for the position related to the former Seabo, up to 20 October 2009, amounted to Euro 1,595 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 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.

Regarding the former SAT Sassuolo, which was incorporated into Hera as at 1 January 2008, on 3 and 17 April 2007, the company was issued with nine notices and injunctions by the regional revenue agency (six of these related to Alpegas and Seacs, companies that were already incorporated within SAT), and was asked to pay a total of Euro 9,502 thousand for the tax recovery periods in question. On 13 June 2007, the company filed appeals against these notices and injunctions with the provincial tax commission, requesting the suspension of the payment injunctions. On 30 July 2007, the company received nine demands for payment for Euro 10,194 thousand in total from the collection agency. On 19 September 2007, the provincial tax commission of Modena issued ordinances rejecting the suspension requests and scheduling a hearing of the case for 12 December 2007. On 10 March 2008, all the company's appeals were formally rejected, and on 2 April 2008 and 10 June 2008 respective payments of Euro 7,334 thousand and Euro 3,216 thousand were made, amounting to Euro 10,550 thousand in total. On 12 March 2009, appeals against the first-instance rulings were presented to the Bologna regional tax commission. The Regional tax commission's judgements, stated on 13 November 2009, rejected the appeals, confirming the first-instance decision.
The petitions to the Supreme Court were presented on 4 June 2010.

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 while waiting for the meeting for the proceedings to discuss the supplemental assessment notices, pending before section 17.
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.
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 S.p.a. did not take part in the ruling in question for any of the positions mentioned above.

Updates 2008 – Law Decree no. 135/2001

Art. 19 of 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 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 – 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 six appeals to the Bologna provincial tax commission to cancel the assessment notices of 2 October 2009, regarding the positions of both former Seabo and former Meta. They appeared before the court on 01 December, and as of today the date for the public hearing procedure has not been set for any of the prepared appeals.

Except for the still-outstanding disputes, aimed at recovering what as 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.

15.1 Earnings per share

	Esercizio 2010 I° semestre	Esercizio 2009 I° semestre
Utile (perdita) del periodo di Gruppo (A) (importi in migliaia di euro):	62.573	46.769
Numero medio ponderato delle azioni in circolazione ai fini del calcolo dell'utile (perdita) per azione:		
di base (B)	1.111.896.904	1.030.236.331
diluito (C)	1.111.896.904	1.030.236.331
Utile (perdita) per azione (in euro)		
- di base (A/B)	0,056	0,045
- diluito (A/C)	0,056	0,045

Key: Group earnings (loss) for the year (A) (amounts in thousands of Euro):
Average weighted number of outstanding shares for the calculation of earnings (loss) per share:
base (B)
diluted (C)
Earnings (loss) per share (in Euro)
- base (A/B)
- diluted (A/C)

Base earnings per share are calculated according to the profit attributable to holders of ordinary capital instruments of the Parent Company entity. 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. The average weighted number of the issued shares during the 2010 financial year, compared with 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 and Area Asset Spa.

16 Tangible fixed assets

	30-Jun-10	31-Dec-09	Change
Land and buildings	333,855	314,450	19,405
Plants and machinery	1,051,708	985,686	66,022
Other moveable assets	106,797	116,749	(9,953)
Work in progress and accounts	317,045	360,507	(43,462)
Total	**1,809,405**	**1,777,392**	**32,012**

Tangible fixed assets are disclosed net of accumulated amortisation. Their composition and changes in the period are as follows:

		Land and buildings	Plants and machinery	Other moveable assets	Work in progress and advances	Total tangible fixed assets
Acquisition cost						
Balance as at	**31/12/2009**	**372,879**	**1,526,623**	**336,311**	**360,507**	**2,596,320**
Increases		**9,173**	**15,933**	**6,669**	**65,096**	**96,871**
Disposals		**(495)**	**(1,640)**	**(14,064)**	**(103)**	**(16,302)**
Changes in scope of consolidation						**-**
Other changes		**14,621**	**86,401**	**984**	**(108,455)**	**(6,449)**
Balance as at	**30/06/2010**	**396,178**	**1,627,317**	**329,900**	**317,045**	**2,670,440**
Accumulated depreciation						
Balance as at	**31/12/2009**	**58,429**	**540,937**	**219,562**		**818,928**
Depreciation for the year		**3,924**	**42,132**	**13,507**		**59,563**
Disposals			**(653)**	**(8,993)**		**(9,646)**
Changes in scope of consolidation						**-**
Other changes		**(30)**	**(6,807)**	**(973)**		**(7,810)**
Balance as at	**30/06/2010**	**62,323**	**575,609**	**223,103**	**-**	**861,035**
Net value						
Balance as at	**31/12/2009**	**314,450**	**985,686**	**116,749**	**360,507**	**1,777,392**
Balance as at	**30/06/2010**	**333,855**	**1,051,708**	**106,797**	**317,045**	**1,809,405**

For a better understanding of the tables above and hereunder, it should be noted that figures as at 31 December 2009, related to items "Land and buildings" and “Plants and machinery” were restated under intangible assets, under item “Licences”, for a total amount of Euro 1,478,320 thousand, in order to comply with the application of IFRIC 12 interpretation.

Item “Land and buildings”, equal to Euro 333,855 thousand as at 30.06.2010, mainly relates to company-owned properties. Item “Increases” includes the following: the purchase of a portion of land from the Municipality of Bologna, related to the “Berti Pichat" area, the extraordinary maintenance works carried out at the company headquarters of Bologna and Modena and the building works on the cogeneration plant in Imola. Decreases mainly include the sale of a portion of the headquarter in Viale Berti Pichat – via Ranzani side.

Item “Plant and machinery”, amounting to Euro 1,051,708 thousand as at 30 June 2010, mainly relates to the water, gas and electricity distribution grids and networks and waste treatment and disposal, purification and composting plants. The increase for the half year mainly include the coming into operation of the cogeneration plant in via Casalegno – Imola, amounting to Euro 84,097 thousand. The decreases also include the disposal of electricity meters and of some company’s assets which were damaged by fire.

Item “Other moveable assets”, equal to Euro 106,797 thousand as at 30 June 2010, includes the equipment, waste disposal bins, furniture, electronic machines, motor vehicles and motor cars. The increases for the year mainly include the purchases of electronic office machines and other fittings, while disposals related to waste disposal bins and motor vehicles, mainly referring to the waste management sector.

Item “Investment in progress”, equal to Euro 317,045 thousand, essentially represents the costs incurred for the construction of electric grids, district heating networks and waste-to-energy plants that, as at 30 June 2010, were still unfinished. The decrease is mainly due to the cogeneration plant in Imola, that underwent its final test at the beginning of 2010 and started to be depreciated in the same period.

Tangible assets increased by a total amount of Euro 32,013 thousand with respect to 31 December 2009. Please see the Report on Operations for a thorough analysis of investments in the period.

17 Intangible fixed assets

	30-Jun-10	31-Dec-09	Change
Patents and know-how	33,664	38,614	(4,950)
Licences, trademarks and similar rights	1,416,651	1,408,306	8,345
Work in progress and advances	206,381	197,621	8,759
Other	28,847	30,393	(1,545)
Total	**1,685,543**	**1,674,934**	**10,609**

Intangible fixed assets comprise:

		Patents and know-how	Licences, trademarks and similar rights	Other	Work in progress and advances	Total intangible assets
ACQUISITION COST						
Balance as at	**31/12/2009**	**154,927**	**1,928,396**	**68,591**	**197,621**	**2,349,535**
Increases		357	11,689	1,176	53,338	66,560
Disposals		-	(30)	(17)	-	(47)
Changes in scope of consolidation		-	-	-	-	0
Other changes		3,002	45,903	(7)	(44,578)	4,320
Balance as at	**30/06/2010**	**158,286**	**1,985,958**	**69,743**	**206,381**	**2,420,368**
ACCUMULATED AMORTISATION						
Balance as at	**31/12/2009**	**116,313**	**520,090**	**38,198**	**-**	**674,601**
Amortisation for the year		8,309	42,356	2,788	-	53,453
Disposals		-	(5)	(17)	-	(22)
Changes in scope of consolidation		-	-	-	-	0
Other changes		-	6,866	(73)	-	6,793
Balance as at	**30/06/2010**	**124,622**	**569,307**	**40,896**	**-**	**734,825**
Net value						
Balance as at	**31/12/2009**	**38,614**	**1,408,306**	**30,393**	**197,621**	**1,674,934**
Balance as at	**30/06/2010**	**33,664**	**1,416,651**	**28,847**	**206,381**	**1,685,543**

Item “Patents and know-how”, totalling Euro 33,664 thousand as at 30 June 2010, mainly relates to costs incurred for the purchase and implementation of IT systems SAP R/3 and ECC6 and related application systems. These costs are amortised over five years.

Item “Licences, trademarks and similar rights” amounts to Euro 1,416,651 thousand as at 30 June 2010 comprises the following:

- Euro 86,328 thousand for the licences held by the parent company Hera Spa, mainly composed of the value of rights regarding gas, water, and purification plants, as well as licences, trademarks and similar rights.
- Euro 1,329,100 thousand for the licences held that, following the application of IFRIC 12, were restated under this item (1,329,100 as at 31 December 2009).

Item “Other intangible assets”, equal to Euro 28,847 thousand as at 30 June 2010, mainly relates to the expenses incurred for the mapping, Geographical Information System (GIS), other sundry long-term charges, rights of use of networks and infrastructures for the passage and laying of optical fibre telecommunication networks.

Item “Work in progress and prepayments”, equal to 206,381 thousand as at 30 June 2010, mainly refer to the value of infrastructures that, in light of the interpretation IFRIC 12 were restated in intangible assets (Euro 165,723 thousand as at 31 December 2009), in addition to IT projects still unfinished at this report date.

18 Goodwill

	30-Jun-10	31-Dec-09	Change
Goodwill	320,387	321,838	-1,451
Difference in consolidation	56,788	56,736	52
Total	**377,175**	**378,574**	**-1,399**

Items "Goodwill" and "Goodwill from consolidation procedure", as at 30 June 2010, amounted to Euro 377,175 thousand. The main amounts break down 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, Euro 41,659 thousand. Said goodwill represents the additional value of the purchase cost compared to the fair value of the assets and liabilities recognised for the Group. 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, 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 difference in consolidation, 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 of by incorporation Sat Spa, this value was determined referring to 1 January 2008, day in which the transaction was actually concluded.

The decrease, compared with the previous year and equal to Euro 1,451 thousand, is attributable to the allocation, during 2009, of item "Goodwill" to the value of the business branch assets, assigned through the capital increase of the subsidiary Marche Multiservizi Spa.

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 consolidation difference items refer to minor operations.

19 Equity investments

	30-Jun-2010	31-Dec-2009	Change
Subsidiaries			
Calor Più Italia Scrl	6	6	0
Consorzio Akhea		200	-200
Consorzio Energia Servizi BO	5	5	0
Consorzio Frullo	4	4	0
Ingenia Srl	63	63	0
Total	**78**	**278**	**-200**
Associated			
Aimag Spa	35,992	35,030	962
Dyna Green Srl	162	147	15
Feronia Srl	867	883	-16
FlamEnergy Trading Gmbh		1,985	-1,985
Modena Network Spa	1,152	1,177	-25
Refri Srl	2,422	2,440	-18
Set Spa	34,238	31,048	3,190
Sgr Servizi Spa	13,474	11,720	1,754
Sei Spa	702	702	0
So.Sel Spa	434	414	20
Tamarete Energia Srl	4,036	4,150	-114
Other minor companies	742	374	368
Total	**94,221**	**90,070**	**4,151**
Other companies			
Calenia Energia Spa	9,073	9,073	0
Energia Italiana Spa	13,233	13,233	0
Galsi Spa	9,062	8,022	1,040
Other minor companies	445	567	-122
Total	**31,813**	**30,895**	**918**
Total investments	**126,112**	**121,243**	**4,869**

Equity investments in non-consolidated subsidiaries

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

Consorzio Akhea Fondo Consortile, made up by companies Herambiente Srl and Akron Spa, became operational in January 2010 and was therefore fully consolidated.

Equity investments in associated companies

The main differences compared to 31 December 2009 relate to:

- FlamEnergy Trading Gmbh, jointly controlled by Hera Trading (50%) and VNG-Erdgascommerz Gmbh (50%), that is consolidated using the proportional method,
- valuation at equity of associated companies: Set Spa, Aimag Spa, Sgr Spa and Oikothen Scarl, with following impact on the value of the equity investment of the pertaining portion of profit/loss, changes in shareholders' equity.

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, the payment of the first tranche was made, with a share capital increase from Euro 34,838,000 to Euro 35,838,000.

Item "Other companies" decreased compared with 31 December 2009 by Euro 121 thousand, after the disposal of the equity investment in ISGAS Energit Scarl on 10 June 2010.

20 Financial assets

	30-Jun-2010	31-Dec-2009	Change
Loan receivables from associated companies and other	8,847	10,109	-1,262
Receivables for mortgages to be collected and advance commissions	624	425	199
Fixed-income securities	1	1	0
Total	**9,472**	**10,535**	**-1,063**

Item “loan receivables from associated companies and other” comprises the following loans, non-interest bearing or regulated at rates in line with the market, granted by the Parent Company to the following companies:

- Set Spa, Euro 4,816 thousand;
- Sei Spa, Euro 2,828 thousand.
- Oikothen Scarl, Euro 243 thousand;
- Modena Network Spa, Euro 960 thousand.

The decrease in the loan granted to the associated company Oikothen Scarl, equal to Euro 1,561 thousand, is to be noted after its “use” within the hedging of losses and formation of the share capital. The loan granted to the company Sei Spa increased by Euro 298 thousand compared with 31 December 2009.

21 Deferred tax assets

	30-Jun-10	31-Dec-09	Change
Prepaid tax assets	76,143	60,432	15,711
IAS/IFRS prepaid tax assets	11,299	13,164	-1,865
Total	**87,442**	**73,596**	**13,846**

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”.

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

	30-Jun-10	31-Dec-09	Change
Ias 38 Intangible Assets	131	328	-197
IAS 37 Restoration of third party assets and post-closure landfills	378	1,161	-783
Ias 16 Fixed Assets	185	44	141
Ias 17 Financial leasing	14	15	-1
Ias 19 Employee leaving indemnity and employee benefits	859	1,108	-249
Ias 39 Derivatives	9,721	9,231	490
Ias 32 Spin-off charges	12	15	-3
Ifrs 3 Business combinations		1,262	-1,262
Total	**11,299**	**13,164**	**-1,865**

The change for “IFRS 3 – Business Combinations” refers to the transfer of the business branches by companies Area Asset Spa and Con.Ami. The reclassification under prepaid taxes refers to tax benefits that will be generated after the amortisation of higher tax values than the recorded ones.

22 Financial instruments – derivatives

Non-current assets / Liabilities thousands of Euro	Underlying asset/liability hedged	No. Active contracts	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate hedges					
- *Interest rate Swap*	Loans	4	37.3 m	360	
- *Interest rate Swap*	Loans	25	1,180.6 m		35,792
Foreign exchange derivatives					
- *Cross Currency Swap*	Loans	1	20 bn JPY	35,504	
Total				**35,864**	**35,792**

Non-current Assets / Liabilities thousands of Euro	Underlying asset/liability hedged	No. active contracts	Notional	Fair Value Assets	Fair Value Liabilities
Derivatives on commodities					
- *Swap*	Foreign Gas Hubs	5	1.589.760 MWh	3,262	
- *Swap*	Crude oil	24	923.500 BBL	1,127	
- *Swap*	Commodities	56	539.200 TON	4,989	
- *Swap*	EUR/USD exchange rate	11	116.000.000 USD	2,948	
- *Swap*	Electricity formula	153	7.450.959 MWh	23,106	
- *Swap*	Fuel formula	4	262.800 MWh	803	
	Electricity formula	1	1.033.680 MWh	2,649	
- *Swap*	Crude oil	19	705.900 BBL		910
- *Swap*	Commodities	47	605.600 TON		4,284
- *Swap*	EUR/USD exchange rate	9	50.500.000 USD		1,743
- *Swap*	Electricity formula	135	4.994.620 MWh		17,488
- *Swap*	Fuel formula	7	427.335 MWh		2,228
Total				**38,884**	**26,653**

Derivative financial instruments classified under non-current assets amount to Euro 35,864 thousand, (Euro 419 thousand as at 31 December 2009); Euro 360 thousand refer to interest rate derivatives, and Euro 35,504 thousand refer to foreign exchange derivatives. Derivative financial instruments classified under non-current liabilities amount to Euro 35,792 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 30 June 2010, the Group net exposure is negative by Euro 35,432 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 due to unfavourable fluctuations in interest rates (within the context of hedges implemented), as well as to the subscription of new hedging derivatives which, as at 30 June 2010, showed a negative fair value, as compared to their subscription date.

Conversely, the fair value on foreign exchange derivatives, as at 30 June 2010, is positive by Euro 35,504 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 38,884 thousand (Euro 50,199 thousand as at 31 December 2009) and relate to the positive fair values of commodity derivatives contracts in existence at the balance sheet date.

Derivative financial instruments classified under current liabilities amount to Euro 26,653 thousand (Euro 54,633 thousand as at 31 December 2009) and relate to the negative fair values of commodity derivatives contracts in existence at the date in question.

The remarkable reduction in fair value, both in assets and liabilities, 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 and, therefore, to a decrease in the opening of new positions, within a context of general economic crisis that has been lasting since 2009.
It should be also noted that energy price reduction helped the above-mentioned decrease, although in a more limited way.

The fair value used as the basis for the interest rate swap valuations derives from market prices. If there are no market prices, the discounting back of future cash flows valuation method is used, which takes the interest rate curve as a reference. The fair value of the commodity derivatives is calculated on the basis of market prices. All derivative contracts entered by the Group are with leading institutional counterparties.

Interest rate derivative instruments held as at 30 June 2010, subscribed in order to hedge loans, can be classed into the following two categories (figures in thousands of Euro):

Interest rate hedges	Underlying	Notional	Asset Fair Value	Liability Fair Value	Income	Charges
- *Cash Flow Hedge*	Loans	633.4 m	0	33,330	0	11,124
- *Fair Value Hedge*	Loans	649.8 m	35,504	1,310	46,294	3,637
- *Non Hedge Accounting*	Loans	84.5 m	360	1,152	336	282
Total			**35,864**	**35,792**	**46,630**	**15,043**

Interest rate derivatives identified as cash flow hedges show a residual notional amount of Euro 633.4 million 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 already illustrated previously with regard to the reduction in fair value, 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 implemented) in interest rates and to the subscription, in the second half-year of 2009, of new hedging derivative contracts which determined an increase in the reference notional amount. It should be added that this effect was partially offset by the progressive reduction in the notional of some derivatives, which are being concluded.
The degree of ineffectiveness of this class of interest rate derivative led to the recording of net charges totalling Euro 194 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 20,623 million, of the related tax effect.

Interest rate derivatives identified as fair value hedges show a residual notional amount of Euro 694.8 million, 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. These derivatives caused the recording of financial income, amounting to Euro 46,294 thousand, and financial charges, amounting to Euro 3,637 thousand. In parallel, however, a fair value assessment of the underlying loans was performed, recording financial income for a total of Euro 6,191 thousand and financial charges for Euro 43,942 thousand, net of the share pertaining to future flows.

The remaining interest rate derivatives not in the hedge accounting have a notional residual value of Euro 84.5 million; 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 strict 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 30 June 2010 can be classed into the following two categories (figures in thousands of Euro):

Derivatives on commodities	Asset Fair Value	Liability Fair Value	Income	Charges
- Cash Flow Hedge	2,649	0	1,518	879
- Non Hedge Accounting	36,235	26,653	56,818	44,682
Total	**38,884**	**26,653**	**58,336**	**45,561**

The derivatives on commodities recorded in the hedge accounting are represented by one swap contract on electricity prices and has a residual notional amount of 1,033,680 MWh. This contract led to the recording at equity of a reserve, amounting to Euro 1,645 thousand, net of the related tax effect.
Commodity derivatives recorded in non-hedge accounting also include contracts entered into with substantial hedging objectives. These contracts which, under strict criteria envisaged in the international standards, cannot be dealt with under hedge accounting, nevertheless generate income and charges relating to the higher/lower purchase cost of raw materials and as such are classified as operating costs.
On the whole, in the first half of 2010, the commodity derivatives generated Euro 58,336 thousand in income and Euro 45,561 thousand in charges, for a net gain to the income statement of Euro 12,775 thousand.

Interest rate risk and currency risk

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 rates fluctuation, with a consequent impact on the amount of the net financial charges. 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 expense.
To mitigate interest rate volatility risk, the Group has stipulated derivative instruments on rates against part of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives to fully hedge loans in foreign currency.

Market risk

In relation to the brokerage 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.

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 commodity-swap agreements, aimed at pre-establishing the effects on the sales margins irrespective of the changes in the aforementioned market conditions.

Even though these transactions are basically put in place as hedges, they do not always comply with the strict requirements of IAS 39 and cannot be accounted for under hedge accounting.

23 Inventories

	30-Jun-10	31-Dec-09	Change
Raw materials and stocks	45,268	41,185	4,083
Semi-finished products	57	132	-75
Finished products	766	823	-57
Advance payments	2,812	4,928	-2,116
Total	**48,904**	**47,068**	**1,836**

Inventories as at 30 June 2010 are stated net of an obsolescence provision amounting to Euro 572 thousand (Euro 661 thousand as at 31 December 2009). Inventories of raw materials and stocks are made up mainly of spare parts and equipment used for the maintenance and running of operating plants and gas stocks. The change, compared with 31 December 2009, is attributable to higher stocks of gas destined to the civil market with the beginning of the thermal season. Item “Advance payments", amounting to Euro 2,812 thousand, relates to advance payments on gas supply.

24 Trade receivables

	30-Jun-10	31-Dec-09	Change
Receivables from customers	651,044	516,410	134,634
Receivables from customers for invoices to be issued	392,944	607,869	-214,925
Receivables from associated	8,986	12,797	-3,811
Total	**1,052,974**	**1,137,076**	**-84,102**

Trade receivables as at 30 June 2010 total Euro 1,052,974 thousand (Euro 1,137,076 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 30 June 2010. Receivables are stated net of a provision for doubtful receivables of Euro 63,169 thousand (Euro 66,624 thousand as at 31 December 2009) deemed fair and prudent in relation to the estimated realisable value of said receivables.

The following gives the movements of the provisions for doubtful receivables during the year.

	31-Dec-09	Change in the scope of consolidation	Provisions	*Uses and other movements*	30-Jun-10
Provision for doubtful receivables	66,624	-	14,633	-18,088	63,169

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”.

Credit risk

The book value of the trade receivables shown in the financial statements is the maximum theoretical exposure to credit risk for the Group as at 30 June 2010. Even if not standardised, there is a procedure for providing credit to customers that provides for individual evaluations to be made. This modus operandi makes 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. If the single positions are fully or partially non-recoverable, they will be written down. With regard to the receivables that do not undergo individual writedowns, allocations are made on the basis of historic analysis for 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 creditor).

25 Contract work in progress

	30-Jun-10	31-Dec-09	Change
Contract work in progress	30,568	19,904	10,664
Total	**30,568**	**19,904**	**10,664**

As at 30 June 2010, contract work in progress recorded a balance of Euro 30,568 thousand and concerned work on third party plants lasting several years. The increase, compared with 31 December 2009, is attributable to construction works of the waste-to-energy plant in Modena and Rimini.

26 Financial assets

	30-Jun-10	31-Dec-09	Change
Receivables for mortgages to be collected	597	376	221
Financial receivables from associated companies	19,560	13,384	6,176
Portfolio securities and financial policies	12,304	7,274	5,030
Receivables for loans granted to others	412	756	-344
Total	**32,873**	**21,790**	**11,083**

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

- Tamarete Energia Srl, Euro 19,222 thousand;
- Set Spa, Euro 130 thousand;
- Refri Srl, Euro 181 thousand;
- Sei Spa, Euro 27 thousand.

The increase of the item, equal to Euro 6,176 thousand, is attributable to further loans granted by the Parent Company to Tamarete Energia Srl, during the first six-month period of 2010.

Item "Portfolio securities and financial policies" includes bonds issued by Banca di Credito Cooperativo, amounting to Euro 4,299 thousand, and securities of Banca Popolare dell'Emilia, with maturity term on 1 August 2010, amounting to Euro 5,500 thousand. The latter were subscribed in the first half of 2010.

27 Other current assets

	30-Jun-10	31-Dec-09	Change
Guarantee deposits	22,650	21,857	793
VAT, excise duties and additional payments	4,717	16,239	-11,522
Energy efficiency bonds and emissions trading	58,689	51,843	6,846
Equalisation Fund for the electricity sector	17,368	20,959	-3,591
Advances for direct taxes	3,239	1,182	2,057
Withholdings on interest	254	91	163
Sundry tax receivables	14,661	9,807	4,854
Contributions	5,958	6,994	-1,036
Advances to suppliers/employees	3,715	6,181	-2,466
Receivables from social security institutions	515	805	-290
Insurance costs	2,009	2,469	-460
Costs to asset companies	4,054	1,731	2,323
Prepaid costs for substitute taxes	0	5,431	-5,431
Prepaid costs for leases and rentals	4,565	3,555	1,010
Receivables from municipalities for tax moratorium	1,033	1,082	-49
Insurance reimbursements	44	59	-15
Other receivables	43,955	28,607	15,348
Total	**187,426**	**178,892**	**8,534**

Breakdown and changes in the main items are described compared with 31 December 2009.

The item “Energy efficiency bonds and emissions trading” is composed of:

- green certificates, Euro 31,356 thousand (Euro 27,681 thousand as at 31 December 2009);
- white certificates, Euro 15,887 thousand (Euro 18,786 thousand as at 31 December 2009);
- grey certificates, Euro 11,446 thousand (Euro 4,366 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 Srl, 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 16,287 thousand, based on provisions envisaged by Art. 1, paragraphs 1117 and 1118 of Law no. 296/2006 (2007 Finance Act). 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 financial bill itself (1 January 2007). In particular: a) signature of the special agreement with GSE b) almost completed plant and c) necessary authorisations.

Guarantee deposits include:

- the deposit made in relation to structures of Acosea Impianti Srl, Euro 12,000 thousand;
- other minor deposits in favour of public institutions and companies, Euro 3,145 thousand (Euro 3,417 thousand as at 31 December 2009);
- deposits in favour of the Tax Authority (*Ufficio Tecnico Erariale*), Euro 2,094 thousand (Euro 2,100 thousand as at 31 December 2009);
- deposits in favour of GSE, Euro 5,411 thousand (Euro 4,340 thousand as at 31 December 2009).

The decrease recorded in item “Equalisation Fund for the Electricity Sector" relates to the equalisation of the Gas sector (new regulation as per resolution AEEG no. 159/08 and 64/09) following prepayments received for the 6th two-month period of 2009, in addition to invoicing to end-customers of the system components of the Gas sector, already paid in advance to the Equalisation Fund over the year 2009.

The Item "VAT, excise and additional taxes", amounting to Euro 4,717 thousand, consists of VAT credits, for Euro 1,427 thousand, and of excise and additional taxes, for Euro 3,290 thousand. The change, compared with 31 December 2009, is due to a decrease in receivables for excise and additional regional taxes amounting to Euro 10,258 thousand (Euro 13,548 thousand as at 31 December 2009) and receivables for VAT, amounting to Euro 1,264 thousand (Euro 2,691 thousand as at 31 December 2009). These changes are to be related to changes shown in liabilities, item “Tax liabilities” - note 36.
To understand these changes, particularly with regards to excise duties and additional components, note must be taken of the procedures that regulate financial relations with the Tax Authorities. In particular, advance payments during the year were calculated according to quantities of gas and electricity billed in the previous year. Using these methods, credit/debit positions can be generated with differences that are also significant between one period and another.

Item “Sundry tax receivables”, equal to Euro 14,661 thousand, mainly relate to tax receivables for district heating. The Euro 4,854 thousand increase, compared with 31 December 2009, was due to the reform introduced by Article 1(53) of Law No. 244 dated 24 December 2007, under which as of 1 January 2008 the use of such receivables is limited to an annual Euro 250,000. Any surplus amount can be offset only three years after the year in which the surplus was generated.

Item “Receivables for contributions”, amounting to Euro 5,958 thousand, down compared with 31 December 2009, chiefly relates to payments to a sinking fund by various Entities, but still to be collected.

Item “Advances for direct taxes” (IRES and IRAP – Corporate Income Tax and Regional Income Tax), equal to Euro 3,239 thousand (Euro 1,182 thousand as at 31 December 2009) is mainly made up of advance payments made.

28 Cash and cash equivalents

As at 30 June 2010, cash and cash equivalents totalled Euro 250,663 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 210 thousand. This item also includes bank and financial institution deposits available for current transactions and post office accounts totalling Euro 250,453 thousand. To better understand the financial dynamics occurred over the first half of 2010, refer to the Cash flow statement.

29 Share capital and reserves

Share capital

The share capital as at 30 June 2010 was Euro 1,115,013,754, fully paid-up, and represented by 1,115,013,754 ordinary shares with a par value of Euro 1 each.

Reserves for treasury shares

Item "Reserve for treasury shares at par value" has a negative value of Euro 3,453 thousand; it reflects the number of treasury shares in the portfolio as at 30 June 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 positive value of Euro 210 thousand and a negative value of Euro 2,253 thousand, respectively. These reserves, established in compliance with the accounting standards of reference, reflect the treasury shares transactions carried out as at 30 June 2010. The change during the year generated losses amounting to Euro 304 thousand, attributed directly to shareholders' equity reserves.

Reserves

Item "Reserves", equal to Euro 461,279 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 38,740 thousand,
- "share swap surplus" for Euro 42,408 thousand,
- "IFRS3 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 88,432 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 30 June 2010, this reserve had a negative balance of Euro 18,978 thousand following changes determined by fair value valuation of reference derivatives.

The statement of changes in shareholders' equity is shown in section 2.01.04 of these consolidated financial statements.

30 Payables to banks and medium/long- and short-term loans

As at 30 June 2010, medium/long term loans totalled Euro 2,160,172 thousand (Euro 2,144,857 thousand as at 31 December 2009), and relate to mortgages and loans of Euro 483,876 thousand and the bond issues of Euro 1,676,296 thousand.

Medium/long-term amounts due to banks also include loans subscribed by the subsidiary Fea Srl for a total of Euro 60,100 thousand. These loans are guaranteed by mortgages and special privileges for the banking pool underwriting the loan. Repayment, expiring on 30 June 2019, is established under contract in half-yearly floating rate instalments indexed to the 6-month Euribor rate.

The list below shows the main mortgages existing as at 30 June 2010:

Lender	*Residual amount '30-Jun-10*	*Portion due within the year*	*Poriton due by the 5th year*	*Portion due after the 5th year*
UNICREDIT BANCA	35,500,000	5,450,000	12,785,000	17,265,000
BANCA INTESA	14,200,000	2,180,000	5,114,000	6,906,000
BANCA INTESA	7,100,000	1,090,000	2,557,000	3,453,000
BANCA POPOLARE DI MILANO	14,200,000	2,180,000	5,114,000	6,906,000
BANCA INTESA	4,750,000	1,187,500	3,562,500	
EFIBANCA	5,164,769	516,657	4,131,655	516,457
CASSA DI RISPARMIO DI CENTO	4,906,528	299,071	2,532,798	2,074,659
BANCA DI ROMAGNA	227,550	152,260	75,290	-
BANCA DI IMOLA	1,260,919	398,951	861,968	-
B.CR. COOPERATIVO RAVENNATE E IMOLESE	2,252,500	530,000	1,722,500	-
BANCO DI SARDEGNA	8,943,222	957,425	5,393,357	2,592,440
CASSA DEPOSITI E PRESTITI	158,495	15,082	88,999	54,415
BANCA INTESA	3,270,165	241,165	1,310,550	1,718,449
CARIM S.P.A.	3,485,332	401,661	2,292,755	790,916
BANCA DELLE MARCHE	15,841,332	870,713	4,032,409	10,938,211
BANCA DELL'ADRIATICO SPA	593,782	51,646	282,949	259,187
CARIFANO SPA	756,176	186,011	570,164	-
B.CR. COOPERATIVO DEL METAURO	326,786	88,264	238,522	
B.CR. COOPERATIVO RAVENNATE E IMOLESE	3,533,372	2,194,831	805,483	533,058
B.CR. COOPERATIVO RAVENNATE E IMOLESE	1,729,132	174,092	813,025	742,016
BANCA DI BOLOGNA	665,085	163,816	399,745	101,524
UNICREDIT BANCA	125,000	125,000	-	
BANCA INTESA	9,865,265	2,259,923	7,605,342	-
CASSA DEPOSITI E PRESTITI	448,371	71,747	234,244	142,380
UNICREDIT BANCA	2,962,855	604,954	2,357,902	-
BANCA DELLE MARCHE	211,402	211,402	-	-
BANCA INTESA	48,034,501	24,376,103	16,265,680	7,392,718
BANCA POP. VERONA E NOVARA	399,583	399,583	-	-
BEI	180,000,000	-	-	180,000,000
BNL	10,500,000	1,500,000	5,250,000	3,750,000
CARISBO	3,308,360	946,369	2,361,990	-
CASSA DI RISP. DI CESENA	1,826,962	282,853	1,061,447	482,662
CASSA DI RISP. DI RAVENNA	1,651,641	103,925	406,159	1,141,556
DEXIA CREDIOP	28,571,429	7,142,857	21,428,571	-
FON SPA	3,118,795	636,793	2,482,002	-
ISTITUTO SAN PAOLO	1,097,869	358,041	392,370	347,458
MONTE DEI PASCHI DI SIENA	3,490,691	2,309,243	1,181,448	-
UNICREDIT BANCA	1,491,121	1,147,126	343,995	-
CASSA DEPOSITI E PRESTITI	18,164,734	3,048,192	8,937,937	6,178,605
	444,133,723	**64,853,256**	**124,993,757**	**254,286,711**

On 16 February 2006, Parent Company Hera Spa issued a Euro 500 million 10-year eurobond repayable in full on maturity. The loan is regulated by 4.125% fixed rate annual warrants.

The Parent Company also issued or underwrote the following bonds or loans.

- 17 May 2007, a put bond for Euro 100 million entirely subscribed by Deutsche Bank AG London;
- 2 August 2007, an extendable put bond for Euro 200 million entirely subscribed by BNP Paribas;
- 13 November 2007, an extendable step-up put loan for Euro 50 million with Royal Bank of Scotland Plc;
- 28 November 2007, similar to previous point, with Barclays Bank Plc.
- 25 September 2008, “puttable, callable, resettable" bond organised with Banca IMI, BNP Paribas, and The Royal Bank of Scotland for Euro 200 million, extendable to Euro 250 million, expiring in 2031. The terms for exercising the call and put options envisaged in the structure and transferred to third parties point out that the transaction as a whole is basically a fixed-rate loan, both during the first three years and during the years that follow, should the call option be exercised, without prejudice to the possibility of early repayment if bondholders exercise the put option. The contractual terms of this loan are therefore similar to the other "put bonds" stipulated by the Group.

The above-mentioned bond loans and loans incorporate put options meeting the criteria specifying that that need not be valued independently according to the instructions given in IAS 39, paragraph AG30, letter g.

In late July 2009, Hera Spa issued a Japanese Yen 20 billion 15-year bond simultaneously hedged in Euro, for a total value of around Euro 150 million, in order to eliminate the exchange rate risks. The bond was fully subscribed by a single investor and settled by 2.925% fixed rate semi-annual coupons.

Towards the end of November 2009, Hera Spa successfully issued a Euro 500 million 10-year Eurobond repayable in full on maturity. The loan was placed at a price of Euro 99.28 and is settled by 4.5% fixed rate annual coupons.

The valuation of these transactions according to the amortised cost entailed entering interest expense equal to Euro 9,251 thousand (Euro 13,360 thousand for the entire 2009).

For a thorough description of these transactions, please refer to the “Financial Policy and Rating” section of the Report on Operations.

As at 30 June 2010, short term loans totalled Euro 123,442 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 sufficient to meet future financial needs. In particular, as at 30 June 2010, there are unused credit lines totalling Euro 1,177,955 thousand.

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 consist of the credit, which the employees will accrue as of the date they will presumably leave 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. For both cases, recalculations have been made, using the same actuarial techniques applied for employee leaving indemnities.

The “tariff reduction provision” has been provided to cover the charges deriving from the acknowledgement to retired staff of tariff concessions for electricity consumption.

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

	31-Dec-09	Provisions		Uses and other	Changes in scope of	30-Jun-10
		provisions	financial charges	movements	consolidation	
Employee leaving indemnities	92,558	202	632	-2,992	0	90,400
Gas discount	2,473	51	17	-162		2,379
Premugas provision	2,586	241	26	-226		2,627
Tariff reduction provision	3,400	161	39	-120		3,480
Total	**101,017**	**655**	**714**	**-3,500**	**0**	**98,886**

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

32 Provisions for risks and charges

	31-Dec-09	Provisions		Uses and other movements	Changes in the scope of consolidation	30-Jun-10
		Provisions	Financial charges			
Provision for the restoration of third-party assets	69,905	5,158	3,362			78,425
Landfill closure and post closure costs provision	85,357	2,302	2,813	-2,559		87,913
Provision for staff disputes and legal costs	16,423	450	0	-1,860		15,013
Other provisions for risks and charges	14,515	3,155	0	-5,176		12,494
Total	**186,200**	**11,065**	**6,175**	**-9,595**	**0**	**193,845**

The **provision for the restoration of third-party assets** equal to Euro 78,425 thousand includes the provisions made in relation to the legal and contractual restrictions encumbering the parent company and the subsidiaries Marche Multiservizi Spa and Herambiente Srl, in their capacity as leaseholders of the distribution networks owned by the asset companies. These provisions have been made on the basis of the normal depreciation rates envisaged for the assets in question; rates established contractually for the purpose of compensating the lessor companies for the wear and tear of the assets used for the business activities, applied to the value of the assets received under lease.
In observance of the matters laid down by IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (as a rule on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The **landfill closure and post-closure costs provision,** equal to Euro 87,913 thousand, represents the amount set aside by the Group 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 2,559 thousand, as follows:

- "use of funds" for Euro 5,209 thousand, of which Euro 2,293 thousand booked as a contra entry to "other revenues" (please refer to note 5 of the income statement),
- Increase of funds for Euro 2,650 thousand, mainly due to the establishment of a new landfill acquired from a Group subsidiary.

The **provision for staff disputes and legal costs** amounting to Euro 15,013 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees.

The provisions also include Euro 5,044 thousand 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 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.

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.

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 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 is equivalent to a total of 4.29% more than what has to be paid for INPS personnel.

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.

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 5,044 thousand 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 21.2 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 12,494 thousand, comprises provisions made against sundry risks. The main items are summarised below:

- Euro 1,715 thousand for the MIS quota, charges for electrical service continuity and equal distribution;
- Euro 2,126 thousand, expenses of restoration of freely transferable assets of the Rosola river aqueduct system under concession;
- Euro 1,153 thousand, “water service leaks provisions” for potential customer compensation;
- Euro 1,703 thousand, provision known as "Valle Savio", 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 449 thousand, provision for the cost of disposal of waste stored at Group plants;
- 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 same companies have been accorded a part of these expenses from merchants wholesalers, as well as re-negotiated with shippers about the existing conditions of raw material supply. The amount outstanding as at 31 December 2009 corresponds to the more prudent scenario in relation to that which may be granted to the end customers.

33 Deferred tax liabilities

	30-Jun-10	31-Dec-09	Change
Deferred tax liabilities	59,591	42,350	17,241
Other deferred ias/ifrs taxes	74,874	90,451	-15,577
Total	**134,465**	**132,801**	**1,664**

Deferred tax liabilities are generated by temporary differences between the balance sheet profit and taxable income. Details about the change compared to 31 December 2009 can be found below.

Deferred tax payables generated by IAS/IFRS effects are reported separately. These liabilities refer to application of the following principles:

	30-Jun-10	31-Dec-09	Change
Ias 38 Intangible Assets	30	5	25
Ias 37 Restoration of third party assets and landfill post-closure	25,394	25,929	-535
Ias 16 Fixed assets	35,526	35,656	-130
Ias 17 Financial leasing	4,119	4,304	-185
Ias 19 Employee leaving indemnity and other employee benefits	5,346	5,304	42
Ias 39 Derivatives	4,459	1,691	2,768
Ifrs 3 Business combination	0	17,561	-17,561
Total	**74,874**	**90,450**	**-15,601**

The change due to "IFRS 3 Business Combinations" refers 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; these taxes were reclassified as “deferred tax liabilities”.

34 Financial leasing payables

	30-Jun-10	31-Dec-09	Change
Financial leasing payables	14,275	16,527	-2,252
Total	**14,275**	**16,527**	**-2,252**

This item comprises the leasing payables following 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 30 June 2010 is shown below, broken down between the short-term and long-term portions.

	amount outstanding	short-term	long-term
Financial leasing payables	14.275	6.635	7.640
Total	**14.275**	**6.635**	**7.640**

35 Trade payables

	30-Jun-10	31-Dec-09	Change
Payables to suppliers	461,040	500,154	-39,114
Payables to suppliers for invoices to be received	362,966	521,305	-158,339
Payables for advance payments received	11,804	9,570	2,234
Payables to non-consolidated subsidiaries	137	175	-38
Payables to associated companies	5,679	17,010	-11,331
Total	**841,626**	**1,048,214**	**-206,588**

"Payables to suppliers", entirely commercial in nature and inclusive of sums set aside for invoices to be received, came in at Euro 824,006 as at 30 June 2010, compared with Euro 1,021,459 thousand as at 31 December 2009. The decline was mainly due to fluctuations caused by seasonal factors in purchases of raw materials.

The item "payables for advance payments received" consists primarily of advance payments received for tender contracts for environmental decontamination and gas supply.

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

- Modena Network Spa, Euro 327 thousand;
- Set Spa, Euro 754 thousand;
- SoSel Spa, Euro 2,064 thousand;
- Estense Global Service Scarl, Euro 1,518 thousand;
- Service Imola Srl, Euro 943 thousand.

The decrease compared to 31 December 2009 is mainly due to the consolidation of Flame Energy Trading Gmbh, which as at 31 December 2009 was valued as associated company, and to the reduced debt exposure to Set Spa.

36 Income tax liabilities

	30-Jun-10	31-Dec-09	Change
Income tax payables	67,178	9,273	57,905
Excise and additional payments	100,690	25,741	74,949
Withholding to employees	8,837	9,869	-1,032
Value Added Tax	29,578	9,492	20,086
Substitute tax	7,206	7,220	-14
Sewage fees	566	569	-3
Other tax liabilities	17,620	18,049	-429
Total	**231,675**	**80,213**	**151,462**

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

“Income tax payables” relate to Ires and Irap. The increase compared to 31 December 2009 is attributable to the setting aside of taxes ascribed to the income generated during the period.

“Excise and additional payments” increased considerably 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.

Item “Withholding to employees” decreased by Euro 1,032 thousand as at 30 June 2010, due to the adjustments made in December 2009.

Payables for "substitute tax" of Euro 7,206 thousand, reflects the option described in article 1, paragraph 48 of Law no. 244/2007, to which some of the companies in the group adhered from 31 December 2007. The payables for substitute tax are required to be fully paid within the next year.

37 Other current liabilities

	30-Jun-10	31-Dec-09	Change
Payables to other social security and welfare institutions	26,758	17,669	9,089
Employees	28,658	24,177	4,481
Directors, Statutory Auditors and Territory Committees	193	237	-44
Guarantee deposits	61,411	60,614	797
Customers	2,253	1,394	859
Equalisation fund for the electricity sector	3,601	2,123	1,478
Payables due to shareholders for dividends	10,312	7,364	2,948
Municipalities for “environmental inconvenience” and as guarantees	7,025	6,004	1,021
Capital grants	61,294	61,923	-629
Works for third parties for studies and design projects	4,746	6,823	-2,077
Insurance and exclusions	2,826	4,681	-1,855
Other liabilities	29,739	30,319	-580
Total	**238,815**	**223,328**	**15,487**

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

“Payables to employees” take account of accrued leave not taken as at 30 June 2010, productivity bonuses and accrual of 14th-month salary payments. Likewise with social security payables, the increase compared with 31 December 2009 is predominantly due to the portions of wages accrued but still not paid.

"Payables due to shareholders for dividends" refer to the parent company Hera spa (Euro 1,288 thousand) and to the subsidiaries Fea Srl (Euro 9,016 thousand) and Akron (Euro 8 thousand) towards the minority shareholders.

The "Equalisation Fund for the electricity sector" as at 30 June 2010 shows a balance of Euro 3,601 thousand (Euro 2,123 thousand as at 31 December 2009). The increase compared to the previous year mainly concerns the standardisation of the electricity sector.

IFRS 8: Information by operating segment

Income statement June 2010

	Gas	Electricity	Water Cycle	Waste management	Other Services	Structure	Total	Consolidated financial statements
Direct revenues	640.0	615.7	221.2	301.7	36.7	38.6	1,853.8	1,853.8
Infra-cycle revenues	27.1	26.9	3.7	27.9	11.2	5.2	102.1	
Total direct revenues	**667.1**	**642.6**	**224.8**	**329.6**	**47.9**	**43.8**	**1,955.9**	**1,853.8**
Indirect revenues	10.9	3.8	7.0	21.2	0.8	-43.8	0.0	
Total revenues	**678.0**	**646.4**	**231.9**	**350.8**	**48.7**	**0.0**	**1,955.9**	**1,853.8**
EBITDA	**109.3**	**31.8**	**67.5**	**97.1**	**7.8**	**0.0**	**313.5**	**313.5**
Direct prov. and am./dep.	29.8	12.3	29.6	43.6	8.6	14.7	138.7	138.7
Indirect prov. and am./dep.	3.6	2.1	4.2	4.3	0.5	-14.7	0.0	
Total prov. and am./dep.	**33.4**	**14.4**	**33.8**	**47.9**	**9.2**	**0.0**	**138.7**	**138.7**
O.I.	**75.9**	**17.4**	**33.7**	**49.2**	**-1.3**	**0.0**	**174.9**	**174.9**

Income statement June 2009

	Gas	Electricity	Water Cycle	Waste management	Other Services	Structure	Total	Consolidated financial statements
Direct revenues	723.3	895.3	212.3	294.3	40.8	11.8	2,177.9	2,177.9
Infra-cycle revenues	28.8	34.0	3.7	16.7	11.6	1.5	96.2	
Total direct revenues	**752.1**	**929.3**	**216.0**	**311.0**	**52.4**	**13.3**	**2,274.1**	**2,177.9**
Indirect revenues	4.4	2.4	3.6	2.3	0.6	-13.3	0.0	
Total revenues	**756.5**	**931.7**	**219.6**	**313.3**	**53.0**	**0.0**	**2,274.1**	**2,177.9**
EBITDA	**90.9**	**25.9**	**59.5**	**84.3**	**10.7**	**0.0**	**271.3**	**271.3**
Direct prov. and am./dep.	26.8	9.9	25.7	38.0	8.9	18.3	127.7	127.7
Indirect prov. and am./dep.	3.9	2.6	5.3	5.7	0.9	-18.3	0.0	0.0
Total prov. and am./dep.	**30.7**	**12.5**	**31.0**	**43.7**	**9.8**	**0.0**	**127.7**	**127.7**
O.I.	**60.2**	**13.5**	**28.4**	**40.7**	**0.9**	**0.0**	**143.7**	**143.7**

Balance Sheet June 2010

	Net Working Capital	Net fixed assets	Funds	Shareholders' equity	Net Financial Position	Consolidated Financial Statements
Total assets	**1,358.8**	**4,087.3**	**0.0**	**0.0**	**327.3**	**5,773.3**
Financial assets and cash and cash equivalents					327.3	327.3
Tax-related assets	36.2	87.4				123.6
Non allocated Group assets		319.7				319.7
Business sector	**1,322.6**	**3,680.1**	**0.0**	**0.0**	**0.0**	**5,002.7**
- of which:						
GAS	486.1	883.0				1,369.1
Electricity	323.0	517.8				840.8
Water cycle	183.5	1,047.9				1,231.4
Waste management	270.4	1,095.7				1,366.2
Other services	59.6	135.6				195.2
Total liabilities	**1,338.8**	**35.8**	**427.2**	**1,673.7**	**2,297.9**	**5,773.3**
Financial liabilities and loans					2,297.9	2,297.9
Tax-related liabilities	231.7		134.5			366.1
Non allocated Group liabilities		35.8	2.2	1,673.7		1,711.6
Business liabilities	**1,107.1**	**0.0**	**290.6**	**0.0**	**0.0**	**1,397.7**
- of which:						
GAS	347.5		68.6			416.1
Electricity	253.0		13.8			266.8
Water cycle	172.2		58.9			231.1
Waste management	285.6		142.4			428.1
Other services	48.8		6.8			55.6
Grand total	**20.0**	**4,051.5**	**-427.2**	**-1,673.7**	**-1,970.6**	**0.0**

Balance sheet December 2009

	Net Working Capital	Net fixed assets	Funds	Shareholders' equity	Net Financial Position	Consolidated Financial Statements
Total assets	**1,433.1**	**4,026.2**	**0.0**	**0.0**	**382.7**	**5,842.0**
Financial assets and cash and cash equivalents					382.7	382.7
Tax-related assets	40.9	73.6				114.5
Non allocated Group assets		319.1				319.1
Business sector	**1,392.2**	**3,633.4**	**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	287.7	1,082.0				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 liabilities and loans					2,274.4	2,274.4
Tax-related liabilities	80.2		132.8			213.0
Non allocated Group liabilities		40.4	2.4	1,700.7		1,743.6
Business 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	**26.8**	**3,985.8**	**-420.0**	**-1,700.7**	**-1,891.8**	**0.0**

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

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 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 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. Gas distribution tariffs are fixed, pursuant to the regulations in force and periodical resolutions on the part of AEEG (for 2009 tariffs were defined by the resolution 159/09). The territory in which Hera carries out the gas distribution services consists of "tariff areas" in which a distribution tariff is uniformly applied to the various categories of customers.

In the case of electricity, the purpose of the concessions (expiration term: 2030) is energy distribution activity, including, amongst other things, management of the distribution networks and operation of connected plants, ordinary and extraordinary maintenance and programming and identification of development initiatives. 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 in force when the Financial Statements for the year were approved (to which this report is attached) was resolution no. 348/2007 ("Integrated provisions for carrying out electricity transmission, distribution and measurement for the regulatory period 2008-2011 and provisions regarding the economic conditions regulating the provision of the connection service"), which superseded the previous tariff option system and established 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 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 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 urban waste management. The purpose of agreements with the AATOs is the exclusive management of urban waste services: waste collection, waste transport, road cleaning and waste recovery.

The duration of the agreements is fixed by the regional regulations as ten years. 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. It is worth noting that the company HERAmbiente Srl, 100% held by the parent company Hera SpA, was formed on 1 July 2009. The corporate reorganization involved the transfer of the business unit of Hera SpA to a company already existing in the Group (Ecologia Ambiente, 100% owned by Hera SpA). The division included the plants of collection, treatment and disposal of urban and special waste, the activities for their management and trade, as well as equity investments in other companies of this sector. Nowadays, Herambiente is the leader operator, in Italy, in the waste management services sector.

Management of the networks, plants and equipment

The infrastructure required for the provision of services, including local gas pipelines and aqueduct and sewage systems, are partly owned by Hera and partly owned by third parties (municipalities, consortia of municipalities, asset companies owned by local authorities). The dealings between the service operators and the owners of the operating assets are disciplined by specific agreements concluded between the parties and by regional laws; the regulation of the economic elements is, in some cases, covered by rental agreements, which fix the fee payable by the operator to the owners for the use of the networks and plants.
Under these contracts, Hera is required to carry out, at its own responsibility and expense, ordinary and extraordinary maintenance works, as well as network extensions, as set out in the investment plan agreed with the asset companies, and in plans drawn up by the AATOs where applicable.

Upon expiry of the contract, Hera SpA will return the business unit and, at the same time, pay the difference between the initial value of the assets on stipulation of the rental contract (equal to the value booked by the asset company, minus accrued depreciation) and the final value, equal to the initial value minus accrued depreciation since the time the lease began, including extraordinary maintenance carried out by Hera on the leased assets, net of the accrued amortisation.

Agreements for the use of infrastructures instrumental to the provision of the service were signed with the asset companies to which the municipal authorities (usually Hera's shareholders) transferred the ownership of the assets. The asset companies benefited, in relation to capital assets, from the spin-off of the business unit made at the same time as the spin-off and merger of former local public service companies in favour of Seabo Spa. These transactions led to the creation of Hera Spa, to which the management business unit was assigned by virtue of the service concessions granted to the newly-established company.
In the case of Con.Ami, the spin-off of the business unit with transfer of the assets to the public consortium company (entirely state-owned) took place before the spin-off and merger date of the former local public service companies into Hera.

Values shown in the table as at 30 june 2010, refer to the related parties hereunder:

Group A. Related parties - subsidiaries which are not consolidated:

Ingenia Srl

Consorzio Frullo

Consorzio energia servizi Bologna in liquidazione

Calorpiù Italia scarl in liquidazione

Consorzio Akhea Fondo Consortile

Group B. Related parties - associated companies:

Italcic Sr.l.

Modena Network Spa

Aimag Spa

Natura Srl

Tamarete Energia Srl

Adriatica Acque Srl

Estense Global Service Soc.Cons. a r.l.

SO. SEL Spa

Oikothen S.c.r.l.

Service Imola Srl

SET Spa

REFRI Srl

SGR Servizi Spa

DYNA Green Srl

FlamEnergy Trading Gmbh

Feronia Srl

Sei Spa

Group C: Related parties with remarkable influence:

Comune di Bologna

Comune di Modena

Group D: Other related parties:

Megas.Net Spa

Acosea Reti

Calenia

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 (ex AMF - assets)

Fiorano Gestioni Patrimoniali Srl

AMIR - assets

AREA - assets

TEAM - assets

SIS - assets

Energia Italiana Spa

Galsi Spa

3.04 Net financial indebtedness

3.04.01 Consolidated net financial indebtedness

(in millions of Euro)		30/06/2010	31/12/2009
a	**Cash on hand**	**250,7**	**350,3**
b	**Other current loans**	**31,6**	**20,7**
	Current bank indebtedness	-31,6	-22,5
	Current portion of bank indebtedness	-76,5	-75,1
	Other current loans	-14,0	-14,3
	Financial leasing payables – maturing within the next year	-6,6	-7,1
c	**Current financial indebtedness**	**-128,7**	**-119,1**
d=a+b+c	**Net current financial indebtedness**	**153,6**	**251,9**
e	**Non-current loans**	**8,8**	**10,1**
	Non-current bank liabilities	-363,6	-394,0
	Bonds issued	-1.642,2	-1.631,5
	Other non-current loans	-119,6	-118,9
	Financial leasing payables – maturing beyond the next year	-7,6	-9,4
f	**Non-current financial indebtedness**	**-2.133,0**	**-2.153,8**
g=e+f	**Net non-current financial indebtedness**	**-2.124,2**	**-2.143,7**
h=d+g	**Net financial indebtedness**	**-1.970,6**	**-1.891,8**

3.04.02 Net financial indebtedness - resolution 15519 of 27 July 2006

	(millions of Euro)	30.6.10	'hich related pa A B C D	31.12.09	'hich related pa A B C D
a	**Cash on hand**	**250,7**		**350,3**	
b	**Other current loans**	**31,6**		**20,7**	
	of which related parties		***19,3***		***13,4***
	Current bank indebtedness	-31,6		-22,5	
	Current portion of bank indebtedness	-76,5		-75,1	
	Other current loans	-14,0		-14,3	
	Financial leasing payables – maturing within the next year	-6,6		-7,1	
c	**Current financial indebtedness**	**-128,7**		**-119,1**	
d=a+b+c	**Net current financial indebtedness**	**153,6**	**19,3**	**251,9**	**13,4**
e	**Non-current loans**	**8,8**		**10,1**	
	of which related parties		***8,8***		***10,1***
	Non-current bank liabilities	-363,6		-394,0	
	Bonds issued	-1.642,2		-1.631,5	
	Other non-current loans	-119,6		-118,9	
	Financial leasing payables – maturing beyond the next year	-7,6		-9,4	
f	**Non-current financial indebtedness**	**-2.133,0**		**-2.153,8**	
g=e+f	**Net non-current financial indebtedness**	**-2.124,2**	**8,8**	**-2.143,7**	**10,1**
	of which related parties				
h=d+g	**Net financial indebtedness**	**-1.970,6**		**-1.891,8**	
	of which related parties		***28,1***		***23,5***

Changes in related parties:		
Hera spa disbursed an interest-bearing loan to Tamarete Energia Srl	19,1	12,5
Herambiente disbursed an interest-bearing loan to Refri Srl	0,2	
Acantho Spa disbursed an interest-bearing loan to Modena Network Spa	0	0,9
Hera Spa disbursed an interest-bearing loan to Modena Network Spa	1,0	1,0
Hera Spa disbursed an interest-bearing loan to Oikothen Scral	0,2	1,8
Hera spa disbursed an interest-bearing loan to Set Spa	4,8	4,8
Hera spa disbursed an interest-bearing loan to Sei Spa	2,8	2,5
	28,1	**23,5**

3.05 Equity Investments: list of consolidated companies

Subsidiaries	Registered office	Share capital	Percentage held		Total	Overall share
			direct	indirect		
Parent Company: Hera Spa	**Bologna**	**1.115.013.754**				
Acantho Spa	Imola (Bo)	17.375.781	62,44%		62,44%	62,44%
Agea Reti Srl	Ferrara	19.000.000	100,00%		100,00%	100,00%
Acque Srl	Pesaro	102.700		40,64%	40,64%	40,64%
Akron Spa	Imola (Bo)	1.152.940		57,50%	57,50%	57,50%
ASA Spa	Castelmaggiore (Bo))	1.820.000		51,00%	51,00%	51,00%
Consorzio Akhea Fondo Consortile	Bologna	200.000		79,18%	79,18%	79,18%
Eris Scrl	Ravenna	300.000		51,00%	51,00%	51,00%
Famula On-line Spa	Bologna	4.364.030	100,00%		100,00%	100,00%
Frullo Energia Ambiente Srl	Bologna	17.139.100		51,00%	51,00%	51,00%
Gal.A. Spa	Bologna	300.000		60,00%	60,00%	60,00%
HeraAmbiente Srl	Bologna	271.148.000	100,00%		100,00%	100,00%
Hera Comm Srl	Imola (Bo)	53.136.987	100,00%		100,00%	100,00%
Hera Comm Marche Srl	Urbino (Pu)	1.458.332		76,26%	76,26%	76,26%
Hera Comm Mediterranea Srl	Carinaro (Ce)	250.000		50,01%	50,01%	50,01%
Hera Energie Srl	Bologna	926.000		51,00%	51,00%	51,00%
Hera Energie Rinnovabili Spa	Bologna	1.832.000	100,00%		100,00%	100,00%
Hera Luce Srl	San Mauro Pascoli (Fc)	1.000.000	89,58%		89,58%	89,58%
Hera Servizi Funerari Srl	Bologna	10.000	100,00%		100,00%	100,00%
Herasocrem Spa	Bologna	2.218.368	51,00%		51,00%	51,00%
Hera Trading Srl	Imola (Bo)	22.600.000	100,00%		100,00%	100,00%
Marche Multiservizi Spa	Pesaro	13.450.012	40,64%		40,64%	40,64%
Medea Spa	Sassari	4.500.000	100,00%		100,00%	100,00%
MMS Ecologica Srl	Pesaro	95.000		40,64%	40,64%	40,64%
Nuova Geovis Spa	Sant'Agata Bolognese (Bo)	2.205.000		51,00%	51,00%	51,00%
Romagna Compost Srl	Cesena (Fc)	3.560.002		60,00%	60,00%	60,00%
Satcom Spa	Sassuolo (Mo)	2.000.000	62,50%		62,50%	62,50%
Sinergia Srl	Forlì (Ce)	579.600		59,00%	59,00%	59,00%
SIS Società Intercomunale di Servizi Spa	Pesaro	103.300		16,97%	16,97%	16,97%
Sotris Spa	Ravenna	2.340.000	5,00%	70,00%	75,00%	75,00%
Uniflotte Srl	Bologna	2.254.177	97,00%		97,00%	97,00%

Subsidiaries	Registered office	Share capital	Percentage held		Total	Overall share
			direct	indirect		
FlamEnergy Trading Gmbh	Vienna	3.000.000		50,00%	50,00%	50,00%

Subsidiaries	Registered office	Share capital	Percentage held		Total	Overall share
			direct	indirect		
Adriatica Acque Srl	Rimini	89.033		25,44%	25,44%	25,44%
Aimag Spa	Mirandola (Mo)	78.027.681	25,00%		25,00%	25,00%
Dyna Green Srl	Milano	30.000		33,33%	33,33%	33,33%
Estense Global Service Soc.Cons.arl	Ferrara	10.000		23,00%	23,00%	23,00%
Feronia Srl	Finale Emilia (Mo)	2.430.000		40,00%	40,00%	40,00%
Modena Network Spa	Modena	3.000.000	14,00%	18,73%	32,73%	32,73%
Oikothen Scarl	Siracusa	1.101.730	46,10%		46,10%	46,10%
Refri Srl	Reggio Emilia	6.800.000		20,00%	20,00%	20,00%
Service Imola Srl	Borgo Tossignano (Bo)	10.000	40,00%		40,00%	40,00%
Set Spa	Milano	120.000	39,00%		39,00%	39,00%
So.Sel Spa	Modena	240.240		26,00%	26,00%	26,00%
Sgr Servizi Spa	Rimini	5.982.262		29,61%	29,61%	29,61%
Tamarete Energia Srl	Ortona (Ch)	3.600.000	32,00%		32,00%	32,00%

3.06 Attesting declaration for the abbreviated half-year financial statements pursuant to article 154 b, paragraph 5, of Legislative Decree 58/98

1 – We the undersigned: Maurizio Chiarini, Managing Director, and Luca Moroni, the Director responsible for preparing the corporate accounting statements of Hera SpA, hereby declare, in accordance with article 154 b, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998, that:

- the appropriateness for the nature of the company, and
- the effective application

of the administrative and accounting procedures for preparing the abbreviated half-year financial statements during the first half-year of 2010.

2 – We further declare that:

2.1 the abbreviated half-year financial statements:

a. were prepared in compliance with the applicable International Accounting Principles recognised by the European Community pursuant to Regulation 1606/2002 (EC) of the European Parliament and the Council of 19 July 2002;
b. accurately represent the figures contained in the accounting records;
c. provide a truthful and accurate representation of the balance sheet and income statement of the issuer and of all its consolidated companies;

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

Bologna, 26 August 2010

Managing Director	Director responsible for preparing the corporate accounting statements
Maurizio Chiarini	Luca Moroni

1 - I sottoscritti, Maurizio Chiarini, in qualità di Amministratore Delegato e Luca Moroni, in qualità di Dirigente Preposto alla redazione dei documenti contabili societari di Hera Spa, attestano, tenuto anche conto di quanto previsto dall'articolo 154-*bis*, commi 3 e 4, del decreto legislativo 24 febbraio 1998, n.58:

- l'adeguatezza in relazione alle caratteristiche dell'impresa e
- l'effettiva applicazione,

delle procedure amministrative e contabili per la formazione del bilancio semestrale abbreviato, nel corso del primo semestre 2010.

2 - Si attesta, inoltre, che:

2.1 il bilancio semestrale abbreviato:

a. è redatto in conformità ai principi contabili internazionali applicabili riconosciuti nella Comunità Europea ai sensi del regolamento (CE) n.1606/2002 del Parlamento Europeo e del Consiglio, del 19 luglio 2002;

b. corrisponde alle risultanze dei libri e delle scritture contabili;

c. è idoneo a fornire una rappresentazione veritiera e corretta della situazione patrimoniale, economica e finanziaria dell'emittente e dell'insieme delle imprese incluse nel consolidamento;

2.2 la relazione intermedia sulla gestione comprende un'analisi attendibile dei riferimenti agli eventi importanti che si sono verificati nei primi sei mesi dell'esercizio e alla loro incidenza sul bilancio semestrale abbreviato, unitamente a una descrizione dei principali rischi e incertezze per i sei mesi restanti dell'esercizio. La relazione intermedia sulla gestione, comprende, altresì, un'analisi attendibile delle informazioni sulle operazioni rilevanti con parti correlate.

Bologna, 26 agosto 2010

L'Amministratore Delegato

Maurizio Chiarini

Il Dirigente Preposto alla redazione dei documenti contabili societari

Luca Moroni

3.07 Report of the Indipendent Auditig Firm

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

To the Shareholders of
Hera SpA

1 We have reviewed the consolidated condensed interim financial statements of Hera SpA and subsidiaries ("Hera Group") as at 30 June 2010, comprising the statement of financial position, the income statement and the statement of comprehensive income, the statements of changes in shareholders' equity and cash flows and the related selected explanatory notes. Hera SpA's Directors are responsible for the preparation of the consolidated condensed interim financial statements in accordance with the international accounting standard (IAS 34), applicable to interim financial reporting, as adopted by the European Union. Our responsibility is to issue this report based on our review.

2 Our work was conducted in accordance with the criteria for a review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with Resolution no. 10867 of 31 July 1997. The review consisted principally of inquiries of company personnel about the information reported in the consolidated condensed interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the above mentioned consolidated financial statements. The review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual consolidated financial statements, we do not express a professional audit opinion on the consolidated condensed interim financial statements.

The consolidated condensed interim financial statements show as comparatives the amounts of the prior year's consolidated financial statements and the prior's year consolidated condensed interim financial statements. As illustrated in the explanatory notes, the comparative amounts of the prior year's consolidated financial statements and the prior

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year's consolidated condensed interim financial statements, which we, respectively, audited and reviewed and on which we reported on 13 April 2010 and 28 August 2009, were restated to reflect the changes in financial reporting introduced by IFRIC 12 "Service Concession Arrangements". We have reviewed the method applied to restate the amounts and the disclosures made to the aforementioned comparatives, for the purposes of issuing our report on the consolidated condensed interim financial statements for the six months ended 30 June 2010.

3 Based on our review, nothing has come to our attention that causes us to believe that the consolidated condensed interim financial statements of Hera Group as at 30 June 2010 have not been prepared, in all material respects, in accordance with the international accounting standard (IAS 34), applicable to interim financial reporting, as adopted by the European Union.

Bologna, 27 August 2010

PricewaterhouseCoopers SpA

Edoardo Orlandoni
(Partner)

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

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