



'08

Six-Monthly Financial Report

as at 30th June 2008

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".*



Company Officers

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
Vice Presidente	Giorgio Razzoli
Managing Director	Maurizio Chiarini
Director	Mara Bernardini
Director	Filippo Brandolini
Director	Luigi Castagna
Director	Mauro Cavallini
Director	Piero Collina
Director	Piergiuseppe Dolcini
Director	Ferruccio Giovanelli
Director	Lanfranco Maggioli
Director	Alberto Marri
Director	Nicodemo Montanari
Director	Roberto Sacchetti
Director	Luciano Sita
Director	Francesco Sutti
Director	Bruno Tani
Director	Stefano Zolea
Board of Statutory Auditors	
Chairman	Sergio Santi
Standing Auditor	Fernando Lolli
Standing Auditor	Antonio Venturini
Alternate Auditor	Roberto Picone
Alternate Auditor	Stefano Ceccacci
Executive Management Committee	
Chairman	Tomaso Tommasi di Vignano
Vice-Chairman	Giorgio Razzoli
Member	Maurizio Chiarini
Independent Auditors	
PricewaterhouseCoopers	

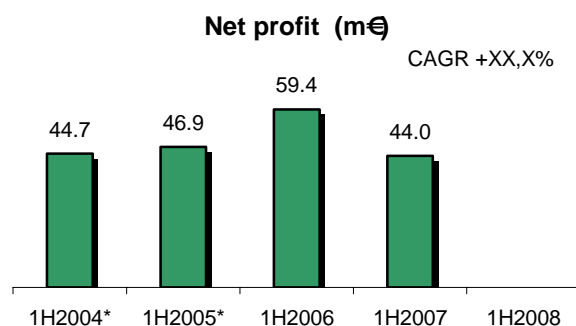
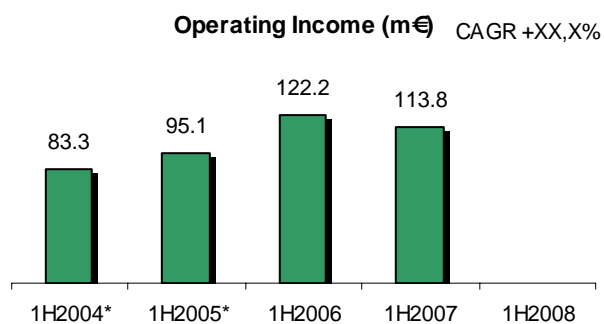
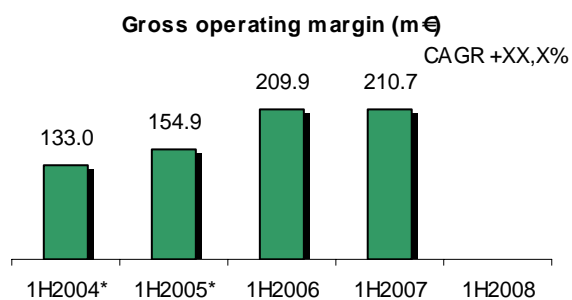
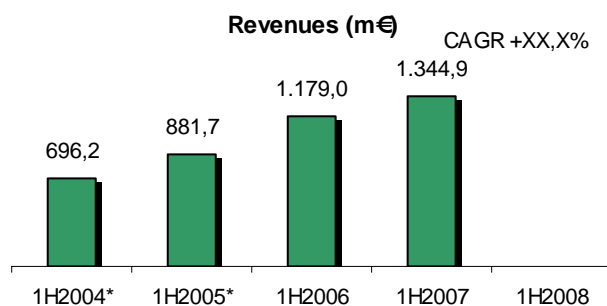
The members of the Board of Directors listed above were appointed by the shareholders' meeting on 29 April 2008.

On 30 April 2008, the Board of Directors confirmed Mr. Tomaso Tommasi di Vignano, Mr. Maurizio Chiarini and Mr. Giorgio Razzoli in their respective positions as chairman, managing director and vice chairman, and also confirmed the current members of the executive committee.

Half-year financial statements as at 30 june 2008

1 - First half Directors' Report

1.01 Highlights



Economic figures (m€)	1H2004*	1H2005*	1H2006	1H2007	1H2008	Cagr %
Revenues	696.2	881.7	1,179.0	1,344.9		(100.0%)
Gross operating margin	133.0	154.9	209.9	210.7		(100.0%)
Operating income	83.3	95.1	122.2	113.8		(100.0%)
Net profit	44.7	46.9	59.4	44		(100.0%)

* IAS adjusted

1.02 Introduction

This half-year financial statements as at 30 June 2008 was drawn up pursuant to article 154 ter of the Legislative Decree no. 58/98 and was prepared in compliance with the international accounting principles (IFRS) issued by the International Standard Board (IASB) and approved by the European Union, and pursuant to the provisions issued in compliance with art. 9 of the Legislative Decree no. 38/2005. Specifically, being an interim situation, the IAS 34 – interim financial statements was applied.

1.03 Strategy

The internal growth strategy

Hera's main strategic objectives since its inception in 2002, involve the reorganisation of business activities in order to increase efficiency and develop markets by exploiting its strong points.

The significant size achieved through the mergers, allowed Hera to exploit the economies of scale in purchasing management, and in management costs, while the reorganisation of activities within the Territorial Operative Companies' (TOC) model meant that operational management of services could be more efficient, also as a result of internal benchmarking.

The business portfolio was rationalised by eliminating activities which were considered to be non-strategic and not in keeping with the core business. This simplified and improved the operating profit. The reorganisation also led to the centralisation of some activities within the "divisions" so advantage could be taken of any common factors among the different businesses: one example of this would be the unitary management of maintenance of the gas and water networks leading to considerable rationalisation, and the integrated management of the waste disposal plants situated in various locations around the area leading to significant savings in logistics.

The multi-business strategy also established cross-selling policies which quickly led to the expansion of the electricity and the special waste market due to the extensive captive client base already using other services.

In its pursuit of further synergy, the internal line growth strategy involved taking advantage of the deregulation of the energy markets by developing trading activities in addition to exploiting the contribution of "normal" growth policies such as price adjustments, increasing the customer base, and completing the plant coverage over the area.

The total sum of these management strategies that sustained most of the growth contributed to the Hera model in the industrialisation of the management of public utility services, and it was made into a "system" and used in all the merger operations carried out by the Group.

The external growth strategy

The growth strategy by external lines contributed to a Euro 114 million increase in EBITDA in five years through the finalisation of a significant number of mergers and acquisitions.

Two main principles guided the expansion strategy by external lines: expansion through mergers with multi-business companies operating in bordering geographical areas and upstream integration of deregulated activities into the business chain.

The **multi-business development** line involved five companies, four of which are in the Emilia Romagna region.

(ml€)	Integration	Revenues	EBITDA
Agea	2004	144	25
Meta	2005	278	65
Aspes	2006	90	13
Geat	2006	13	2
Sat	2008	62	12

The acquisition of Geat (Riccione), Agea (Ferrara), Meta (Modena) and Sat (Sassuolo - Modena) have given the Group a 70% coverage of the region in the activities that comprise Hera's main business. As with Hera's original merger model, these operations were carried out by fully merging the company into Hera, mainly through share swaps.

Hera also extended its activities into the region of Marche, acquiring a holding in Marche Multiservizi which is the most important multi-utility company in the region, created by the merger of Aspes Multiservizi Spa of Pesaro and Megas di Urbino.

This strategy of further extending its multi-business and identifying certain domestic players to operate with has gained growing consensus among both public and private investors. In May, Hera signed a letter of intent with the management of Enia and Iride, for the purpose of realising a project of complete corporate and industrial integration. The Steering Committee, comprised of the chairmen and managing directors of the parties, is currently negotiating the key aspects of the merger (such as exchange ratios, governance, business plan) developed by working groups with the support of financial and legal advisors.

Such negotiations are expected to terminate within the end of the year. The realisation of this project would lead to the inception of a Group leader in the utility sector at a national level.

In addition to its multi-business development activities over the past five years, the company has also been involved in M&A operations with **single business** companies to strengthen its hold in the deregulated market of special waste management and energy activities.

The expansion of the gas sale and distribution activities was pursued through the acquisition of small to medium-sized companies operating in the reference market and leading to the company having over 90% penetration in the area.

Acquisitions in the gas sector	Activity	Ownership
Argile Gas (Bologna)	Sale	100,0%
Gasgas (Ferrara)	Sale	100,0%
Tecnometano (Ferrara)	Distribution	100,0%
TS Distribuzione (Bologna)	Distribution	100,0%
TS Energia (Bologna)	Sale	100,0%
SGR Servizi (Rimini)	Sale	29,6%
Geat Gas (Riccione)	Sale & Distribution	100,0%
Megas Trade (Urbino)	Sale	100,0%

In 2007 Hera also increased its holding to 10.4% of the share capital of Galsi in a joint venture with other international operators. Galsi was set up to construct a gas pipeline between Italy and Algeria. Its participation in the project allowed the Group to secure a 15-year term contract for the import of 1 billion cubic metres of gas directly from Algeria.

In July 2008, Hera formalised the purchase of Megas Trade, company operating in the province of Urbino, active in the sale of gas and electricity with over 36,000 clients, which represents a further step in the territorial consolidation in the Marche region, and which allowed the realisation of the 2007-2010 business plan for the Marche region. Such transaction comes in addition to the acquisition by Hera Group of Liguria Gas Service and 3,600 clients in the province of Modena.

Furthermore, Hera was recently assigned a transport capacity on the TAG equal to 120 million cubic meters of gas for a period of 20 years, starting in October 2009.

In the electricity sector, Hera acquired an indirect 5.5% holding in Tirrenopower Spa in 2003, and a 15% holding in Calenia Energia (a company set up to build an 800 MW CCGT - *combined cycle gas turbine* - plant in Sparanise in Campania) and a 39% holding in Set Spa (a company set up to build a 400 MW CCGT plant in Teverola in Campania) in 2004. The electricity distribution network for 18 municipalities in the province of Modena was also acquired from Enel in 2006, strengthening the regulated portion of the business.

The Group's 2007-2010 investment plans include the construction of a new CCGT cogeneration plant in Imola, with an installed capacity of 80 MW. These initiatives will mean that the Group will be able to cover a significant portion of the supply demand by customers through own electricity power generation which it intends to balance out fully over the next few years.

Acquisitions in the electricity sector	Installed capacity	Ownership
Tirreno Power	Generation (2.600 MW)	5.5%
Calenia Energia	Generation (800 MW)	15.0%
Set	Generation (400 MW)	39.0%
Rete energia elettrica (prov. Modena)	Distribution	100.0%
Megas Trade	VeSalendita	100.0%

As regards the **waste** management business, Hera has strengthened its position as a market leader with the acquisition of the *Centro Ecologia Ambiente* in Ravenna from the Eni Group providing a waste to energy (WTE) plant for the treatment of special waste. this operation completed the range of services offered in the treatment of special waste.

The strategy of development of waste management plant infrastructures was pursued also through a programme of upgrading existing plants. Specifically, the Wte plants in Bologna, Ferrara (started in the first half of the year) and Forlì (started in July) were strengthened. A further three plants in Modena and Rimini are under construction, and will bring the Group's WTE capacity a total of approximately 1 million tonnes of waste per year, with a generation capacity of over 100 Mwh.

This strategy of upstream integration means that the Group can now offer a wider range of competitive, quality services which is effective in gaining customer loyalty and can be further developed in the future.

Sustainability

Hera's multi-stakeholder approach forms part of the Group's **mission** and encompasses the long standing tradition of sustainable management of public services inherited from the companies that now form part of the Group.

This "DNA" has shaped the way that Hera's activities are organised and managed and regulated into a new ethics **code which** informs the actions of all the main Group components.

The organisation of company departments reflects the importance of sustainability and the continued **dialogue** with the key Group stakeholders: the Corporate Social Responsibility (CSR), Quality, Safety and Environment, external relations, and investor relations departments now report directly to the top management to guarantee continuous, qualified, and transparent communication.

The introduction of a remuneration-incentive scheme based on the **balanced scorecard** and **strategic planning** that sets targets (including targets relating to sustainability policy) ensured the commitment to continuously improve the main key performance indexes (KPIs) over the last five years.

Indicators	2007	2006	2005	2004	2003	2002
Value added [^] (ml€)	797.8	792.4	715.4	535.5	408.0	367.7
Hours of training per capita	24.3	20.1	18.5	17.2	13.5	14.1
Accident frequency index*	42.4	47.5	50.1	56.8	67.6	73.2
Average waiting time at call centres (sec)	46.2	34.5	70.2	102.9	-	-
Value of supplies from local suppliers (% of total)	62%	70%	70%	-	-	-
Value of supplies from ISO9001 certified suppliers (% of total)	68%	60%	61%	-	-	-
Quota of energy produced from renewable and similar resources**	69.8%	71.4%	68.0%	72.4%	87.2%	94.5%
Wte issues compared with legal limits***	23.7%	25.0%	28.5%	27.5%	29.1%	-
Separate waste collection****	38.4%	33.5%	30.9%	30.4%	29.3%	26.2%
Low environmental impact vehicles***** (% of total)	32.0%	25.4%	13.0%	13.9%	13.3%	-

[^] 2005 figure includes Meta, 2006 and 2007 figures include the Aspes Group

* Calculated as number of accidents/hours worked x 1,000,000

** Includes waste to energy production

*** Calculated as effective concentrations/regulatory limits (optimal value <100%)

**** Calculated using the DPCM [Prime Minister's decree]

***** Methane, electric power and biodiesel

Since its inception, the Group has drawn up a **sustainability report**, which illustrates the results of the social and environmental policies implemented. In developing these policies over the last 5 years, the Group increased value added available for stakeholders by 2.2 times, up to Euro 800 million.

The significant improvements in the certification of the plants and the systems managed by the Group, and the increasing attention to energy saving and the reduction of pollution are just some examples of the efforts made and the future commitments included in the company plans regarding **environmental matters** that are especially important due to the intense use of water, energy, and environmental resources in the management of public services.

Over the past 5 years, significant investments and improvements have been made in **customer** assistance services through the establishment of more efficient call centres, integrated customer relationship management (CRM) systems, and improved sales branches, in order to exploit the real potential for further growth in the energy and environmental services, among other things.

The sustainable model was improved by continuously engaging with and supporting the **people that work** for Hera who are a key factor in its success. The Group has invested heavily in this resource in terms of involvement in management and profit sharing, professional growth, protection of rights and equal opportunities, and work safety.

The industrial plans

Since its IPO, the strategic objectives of Hera have always formed part of its industrial plans. The plans are established with a bottom-up logic and updated on an annual basis, both to examine previous Group expansion, and to update the objectives by developing macro reference scenarios.

The strategy pursued over the past five years was re-confirmed in the **2007-2010 industrial plan**, presented in September 2007, i.e. focusing on achieving the right cost - revenue balance (cross selling and increases in water and environmental rates), completion of new electricity generation plants from renewable and conventional sources, external growth strategies with the objective of increasing the size of the Group further, and strengthening its activities in the deregulated upstream market.

The economic and financial targets to 2010 provide for double figure growth even when just considering the internal growth only, represented by the balance of cost and revenue and the construction of new WTE plants and electricity generation.

As regards the increase in water and municipal waste tariffs, negotiations with ATO are currently in progress and determined an increase by over 5% for the current year, while definitive agreements are being discussed with reference to the tariff increases and the 2008-2012 investment plan. The definitive agreements are expected to include plans for the amortisation of the unexpected management costs incurred in the 2005-2007 regulatory period.

As regards the construction of the plants provided for in the plan, it should be noted that 2 new WTE (Ferrara e Forlì) were started during this six month period; 3 additional plans (Modena and Rimini) are currently under constructions together with a co-generation CCGT in Imola.

The expected growth will be supported by the 2008-2010 investment plan of over Euro 1 billion, mainly financed with the cash flows generated by the business. The fact that the investments will be self-financing will provide the basis for a solid financial structure up to 2010, capable of supporting support the policy to increase dividends over the term of the plan.

1.04 Business Sectors

Hera has maintained a balanced development in all of its businesses, maintaining a balance between regulated services (integrated water services, collection and disposal of municipal waste, distribution of methane gas and electricity and district heating), and its non-regulated businesses (sale of methane gas and electricity, disposal of special and industrial waste and public lighting).

In addition to strengthening its market positions in its main businesses, significant growth was achieved in the electrical energy sector.

The low risk profile of the portfolio was especially clear in 2006 and 2007 when, following the unusually warm winter season, the negative trends in gas and heating activities were more than compensated for by profits of other business areas.

Waste Management

Hera is the leading domestic operator in the waste management sector by quantity of waste collected and disposed of. The Hera Group is an example of excellence in an Italian context characterised by a considerable dearth of infrastructures in this sector, with one of the nation's most impressive plant infrastructures comprising 70 plants capable of covering the full range of possible waste treatment and waste to energy transformation.

This plant capacity can treat over 4.5 million tonnes of waste per year, of which 1.7 million tonnes of municipal waste produced in the provinces of Emilia Romagna, approximately 1.8 million tonnes produced by company customers, and approximately 1 million of special waste from by-products of plants. This result was achieved because of the continued development of treatment capacity in the plants, and a constant increase in separate waste collection which has almost doubled in the five year period, increasing from 300 thousand to 640 thousand tonnes annually.

Hera is also one of the leading waste to electricity generators in Italy thanks to an installed capacity of 74 megawatts, which can produce over 358.6 Gwh per year.

Impianti	Capacità di trattamento (ton)	Potenza installata (MW)
Termovalorizzatore Forlì*	120.000	11
Termovalorizzatore Ravenna	56.500	6
Termovalorizzatore Rimini	127.600	10
Termovalorizzatore Modena	140.000	7
Termovalorizzatore Ferrara*	140.000	13
Termovalorizzatore FEA	180.000	22
Termovalorizzatore Ecologia-Ambiente	40.000	4
Totale	804.100	74

* new already active plants

Integrated Water Cycle

The Hera Group is the second largest operator in Italy in the management of the complete water cycle, i.e. from the collection and purification of waste water to the distribution of drinking water. Hera is the only operator to carry out this service in seven provinces in Emilia Romagna and Marche in accordance with long term concession agreement contracts (on average up to 2022).

The increased efficiency in the management of over 25,000 kilometres of water networks, the economies of scale in purchasing, and the adjustment of charges to meet legal requirements were the key factors behind the EBITDA growth over the last five years for Euro 46 million. This result was further supported by the growth by external lines that contributed a further Euro 20 million in the five year period, from the integration of Agea, Meta, Aspes and SAT.

Energy

Thanks to the mergers made over the last five years, Hera has consolidated its position in the gas market and now covers the reference area almost completely. It is the leader among "local" companies, and the third largest in the country.

With over 1 million clients (increased by approximately 40,000 units thanks to the customers acquired from Megas Trade and Liguria Gas Service), Hera sells over 2.3 billion cubic meters per year, up by more than 10% YoY.

Hera used the opportunity provided by the complete deregulation of energy product sales in Italy to develop a dual fuel sales offer (a combined offer of gas and electricity services) that notably increased the size of the electricity business by earning the trust of the gas customers and selling them electricity.

This strategy, along with the merger with Meta and the acquisition of Enel's electricity distribution grid in 18 municipalities of the province of Modena led to the Group selling over 4.3 terawatts to over 270,000 customers in 2007, with a distribution grid of 5,500 kilometres.

Hera expanded its electricity generation and distribution capacity, effecting operational investments of approximately Euro 80 million over the five year period, and over Euro 145 million in gas distribution infrastructures. Energy trading activities have been significantly developed over the past five years and diversification has improved the provisioning portfolio with the agreement of long term contracts with various national and foreign suppliers.

Other Businesses

Further to the considerable rationalisation of Hera Group activities, which shall be completed in 2008, the "other businesses" that complement the core business have been reorganised and provided with integrated management.

Hera is a leading Italian company in the district heating sector with almost 400 GWh supplied in 2007, and the country's second largest operator in public lighting with approximately 320,000 light points managed.

The growth in this business was mainly supported by internal development policies: rationalisation and decrease of non-strategic activities, reduction of costs and more efficient operations.

1.05 Hera on the Stock Exchange

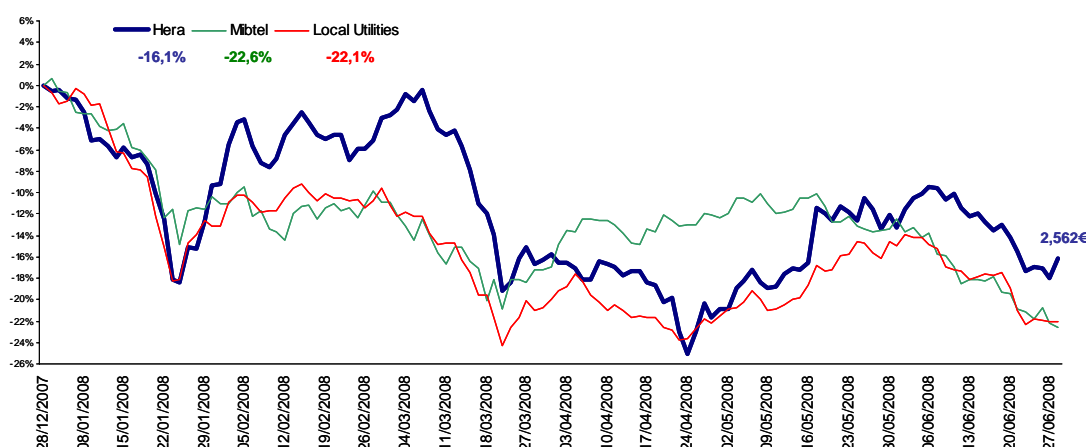
In the first few months of 2008, all securities in the utilities sector were harshly affected by the global macroeconomic trend and by the plummeting of stock markets worldwide due to fears of an economic recession in the United States, as well as to the Sogen and Bear Sterns cases and the effect of the subprime mortgage crisis on world markets.

The Italian utilities sector was characterised by a great deal of activity, as regards the consolidation process within the sector, mainly promoted by Hera, which started negotiations with Iride and Enia, and by fears for increases in European interest rates..

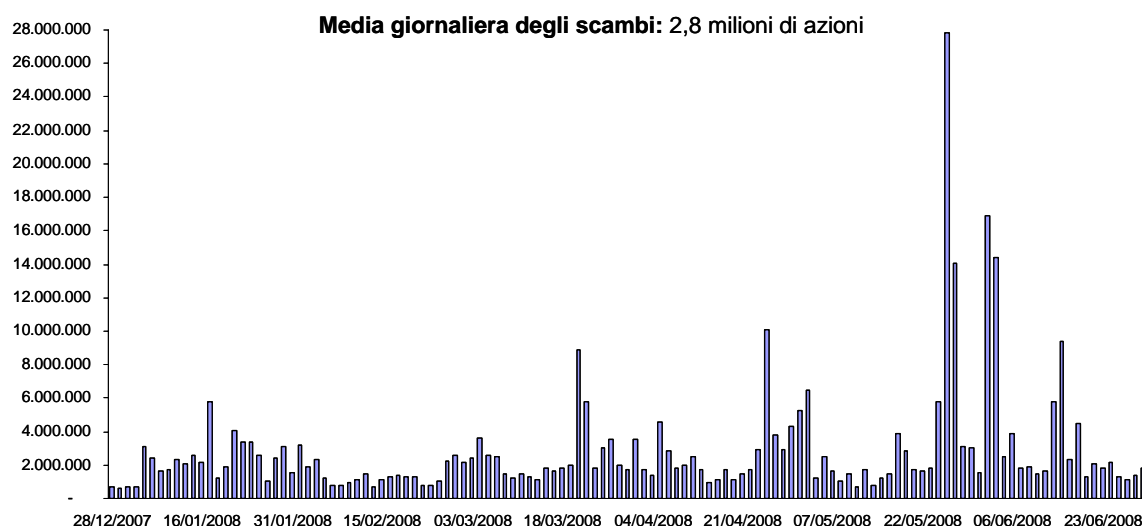
In this scenario, Hera shares, at the end of January, outperformed Mibtel and the Local Utility Index, while in February registered the best performance against the benchmark since the beginning of the year (-2.7%). In March, despite the presentation of the 2007 annual results and the inclusion in the Dow Jones Stoxx Index 600, Hera shares registered a negative performance, ending the quarter at -16.3%, still better than the performance registered by Mibtel (-17.2%) and by the Local Utility Index (-20.8%).

In April, many meetings took place to present the 2007 annual results to the international financial community, and the share was heavily affected by the increase in traded volumes, attributable to some institutional funds subject of restructuring transactions or affected by a liquidity crisis. In May the news flow related to the consolidation process brought positive results also in the performance of the shares on the Stock Exchange, with an overperformance against the Local Multi Utilities Index. Hera shares closed the first half with an official price of Euro 2.562 and a negative performance (-16.1%) which was better than that of the Mibtel (-22.6%) and of the average of the Italian local utilities (-22.1%).

Hera Share Performance in the first half of 2008



Hera share volumes traded in the first half of 2008



Average daily volumes: 2.8 million shares

The average level of liquidity recorded in the trading of Hera shares rose in the first half of 2008 for the fourth year running, with an average of 2.8 million shares exchanged daily (for a daily average equivalent of Euro 7.7 million), continuing to overperform the reference indexes.

For a few years now, Hera's shares have been listed on the "Dow Jones Stoxx TMI" and "TMI Utility" indices, as well as on the "Axia Ethical Index" and "Kempen SNS Smaller Europe SRI Index" ethical indices. At the end of November 2007 Hera shares were also included on the MSCI small cap index.

The increase in liquidity and quotation levels in Hera shares between 2003 and today led to its inclusion in the Dow Jones Stoxx 600 on 25 March 2008. This includes the 600 most highly capitalised companies in 18 European countries.

Share coverage

At present, 15 independent analysts regularly cover Hera Group's shares, and half of these analysts are international, namely: Axia (ethical analysis), Banca Akros, IMI, Banca Leonardo, CAI Cheuvreux, Cazenove, Centrobanca, Citigroup, Dresdner Kleinwort, Euromobiliare, Intermonte Securities, Kepler, Mediobanca, Merrill Lynch, and Santander.

Analysts' consensus remained virtually unchanged since the beginning of the year, at Euro 3.2 per share, and all the recommendations are either positive or neutral.

Rating

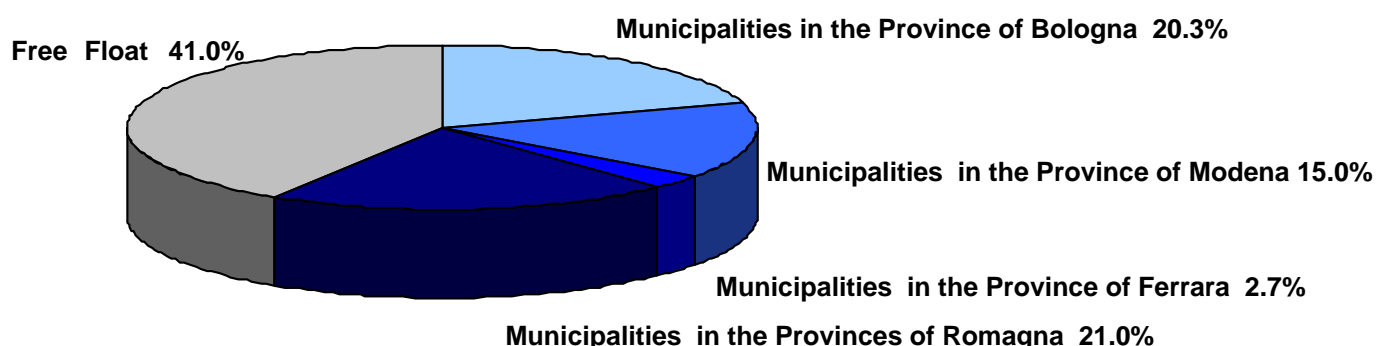
Hera restructured its debts by issuing a fixed rate ten-year Euro 500 million eurobond (4.125%) in 2006, a Euro 100 million put-bond and a Euro 200 million extendable put-bond in 2007.

The financial strength and profitability of the Group guaranteed an excellent rating both by Moody's (A1), and Standard&Poor's, which in June 2008 revised the rating from "A with stable outlook" to "A with negative outlook", (A for long term debt and A-1 for short term debt).

Shareholding Structure

The increase in share capital decided by the extraordinary shareholders' meeting of 16 October 2007 to Euro 1,032,737,702 took effect on 1 January 2008 (corresponding to the same number of ordinary shares with a nominal value of 1 euro each) due to the incorporation of Sat Sassuolo, the most recent merger of a multi-utility which had already been integrated into the Territorial Operating Company of Modena.

The absence of a controlling shareholder in its structure (the largest shareholder is the municipality of Bologna with approximately 15%) is a feature which distinguishes Hera from the other local utilities companies making it the only company with this type of structure in Italy. The Hera shareholding comprises over 180 public institutions (mainly municipalities in the areas covered) that have a total holding of more than 58% (of which 51% restricted by a shareholders' agreement), about 300 Italian and foreign institutional investors, and almost 25,000 private shareholders.



In 2006 Hera started a repurchase programme of its treasury shares for a maximum of 15 million shares, program which was renewed by the shareholders' meeting of 26 April 2007 for a total amount of Euro 60 million, up from Euro 45 million. This plan was used to fund the acquisition of a division of Geat of Riccione, and will be exercised in future to reduce the dilutive effect of any further mergers with small companies.

The Shareholders' Meeting held on 29 April 2008 approved the renewal for a further 18 months of the authorisation for the purchase of treasury shares for a countervalue of up to Euro 60 million.

Hera held around 300,086 treasury shares in its portfolio as at 30 June 2008.

Relations with the financial market

Since its listing, Hera's relations with financial market operators have been marked by transparency, clarity, and continuity to create long term trust. Over the years, meetings by management with international institutional investors, mainly when presenting the annual results and industrial plans, have gradually increased.

On 27 March 2008, the annual results for 2007 were approved by the Board of Directors and presented to the international financial community.

In April the Hera Group organised an international Road Show covering the main financial markets (London, Paris, Geneva, Zurich, Toronto and New York), which involved its management in over 80 meetings.

In addition, Hera maintained the contacts with further 90 investors and analysts since the publication of the quarterly results; following the signing of the letter of intent for the merger project with Iride and Enia, Hera decided to reduce the number of meetings with analysts and investors in order to honour the confidentiality clause provided for in the arrangements made with the counterparties.

The Hera Investor Relations division maintains close contacts with the institutional investors also via the website. Financial communication is mainly carried out through the investor relations section on the website (www.gruppohera.it). It is constantly updated and has specific sections for each main investor category (professional, private and ethical) and for the bondholders.

On 12 March 2008 the new Hera Group website went on line, completely revamped in terms of sections and graphic design: thus, the site has become a more interactive, complete instrument for customers, investors, suppliers and personnel.

In March 2008, when the annual results were released, all the figures related to the year 2007 were made available in real time and in an accessible format. The figures could be downloaded by the analysts directly from the website immediately after they were approved by the Board of Directors.

In May 2008 a webcasting with conference call was organised to present the 2008 quarterly results to the financial community, immediately after their approval by the Board of Directors.

1.06 Corporate Events and Group Structure

The first half of 2008 was characterised by the continuation of the rationalisation of the Group's structure, which led to the sale / liquidation of n. 4 investee companies, to the deletion from the Register of Companies of no. 3 companies in liquidation, to no. 4 new investments in / incorporations of companies, and to no. 1 conferral in kind.

In 2007 the continued rationalisation of the Group's corporate structure already led to the disposal / liquidation of 6 investee companies, to the deletion from the Register of Companies of 5 companies in liquidation, and to 2 mergers, including the merger by incorporation of Sat Spa in Hera Spa.

The main **mergers and acquisitions** that took place during the year are listed below:

Galsi Spa:

On 13 February 2008, following the exit from the shareholding structure of Wintershall Ag, the remaining shareholders of Galsi Spa, company focused on the analysis of technical feasibility for the realisation of a gas pipeline from Algeria to Italy, through the Sardinia island, acquired on a pro rata basis the 13.5% equity investment offered for sale by the leaving shareholder.

Consequently, Hera Trading Srl, company of the Group already partner of Galsi and active in the field of production, supply, import, purchase, sale, export of natural gas and electricity, as well as of any other energy product or type of energy, increased its equity investment in Galsi Spa from 9% to 10.40%.

MOdena Network Spa

On 19 February 2008, Hera Spa sold to Acantho Spa, company active in the designing, realisation, development, installation, maintenance, management and supply of public and private telecommunication networks and telecommunication services, 30% of the share capital of MOdena Network Spa, company operating in the telecommunications sector.

Satcom Spa:

On 18 March 2008, Hera Spa sold to Infracom Italia Spa and to Con.Ami 47.5% and 5% respectively of the share capital of Satcom Spa, company operating in the designing, realisation, development, installation, maintenance, management and supply of public and private telecommunication networks and fixed and/or mobile telecommunication services, including over radio frequency, thus keeping a 47.5% equity investment in the company share capital.

Sei Spa:

On 9 May 2008, Hera Spa acquired from Rätia Energie Ag 20% of the share capital of Sei Spa, company focused on the design, development of the authorisation process, financing and construction of plants for the production of electricity.

Ecologia Ambiente Srl:

Effective on 1 April 2008, Hera Spa contributed its business unit BURS (Special Waste Business Unit) in Ecologia Ambiente Srl, company focused on waste management services and interventions.

Consequent to this transaction, the share capital of Ecologia Ambiente Srl went up from Euro 20,000,000 to Euro 23,780,000.

1.07 Performance of the Hera Group in the First Half of 2008

Consolidated summary results of the Group

(millions of €)	30 giugno 2007	Inc.%	30 giugno 2008	Inc.%	% Change
Revenues	1.344,9		1.752,4		+30,3%
EBITDA	210,7	15,7%	257,6	14,7%	+22,2%
Operating Margin	113,8	8,5%	142,7	8,1%	+25,4%
Risultato Ante-Imposte	77,6	5,8%	85,5	4,9%	+10,2%
Net Profit	44,0	3,3%	49,6	2,8%	+12,7%

1.07.01 Financial and Economic Results

The first half of 2008 was characterised by a more favourable climate compared with the same period of 2007, but with average temperatures still above historical trends.

As regards the territorial and business development, financial year 2008 benefits from two extraordinary transactions effective 1 January:

- the incorporation of SAT Sassuolo, multiutility company active in the territory of the municipalities of Sassuolo, Fiorano Modenese, Formigone, Serra Mazzoni and Maranello, in the gas and water distribution and environmental hygiene sectors.
- the expansion of the perimeter in the Marche region, with the integration in Aspes Multiservizi Pesaro of Megas Spa, company active in the territory of Urbino, integration which led to the incorporation of Marche Multiservizi Spa, which completes the combination process of the local public services in the province of Pesaro-Urbino.

The effects of such transactions are discussed, when relevant, within this report.

The following statements were prepared in full application of IAS standards, as established by the law for listed companies.

The results of the first half of 2008 are characterised by the growth of all the indicators compared with the corresponding period of 2007, as reported in the table below which summarises the main results of the group.

Income statement (mln/€)	30-Jun-07	Inc.%	30-Jun-08	Inc%	Abs. Chg	% Change
Revenues	1,344.9		1,752.4		+407.5	+30.3%
Chg inv.fin. Products & wk in progress	(0.1)	0.0%	2.2	0.1%	+2.3	-3128.8%
Other operating revenues	20.0	1.5%	29.6	1.7%	+9.6	+47.7%
Raw materials and consum. materials	(740.0)	-55.0%	(1,096.4)	-62.6%	+356.5	+48.2%
Service costs	(338.4)	-25.2%	(355.8)	-20.3%	+17.4	+5.1%
Other operating expenses	(27.1)	-2.0%	(19.5)	-1.1%	-7.6	-28.1%
Personnel costs	(150.6)	-11.2%	(172.9)	-9.9%	+22.3	+14.8%
Capitalised costs	102.0	7.6%	118.0	6.7%	+16.0	+15.7%
EBITDA	210.7	15.7%	257.6	14.7%	+46.9	+22.2%
Amortis. Deprec. & Provisions	(96.9)	-7.2%	(114.9)	-6.6%	+18.0	+18.5%
EBIT	113.8	8.5%	142.7	8.1%	+28.9	+25.4%
Financial operations	(36.2)	-2.7%	(51.6)	-2.9%	+15.4	+42.6%
Other non operating costs	-	0.0%	(5.6)	-0.3%	+5.6	+0.0%
Profit before tax	77.6	5.8%	85.5	4.9%	+7.9	+10.2%
Tax	(33.6)	-2.5%	(35.9)	-2.0%	+2.3	+6.9%
Net profit for the Financial Year	44.0	3.3%	49.6	2.8%	+5.6	+12.7%

In the first half of 2008, revenues amounted to Euro 1,752.4 million, up by 30.3% compared to Euro 1334.9 million of the same period of 2007. The EBITDA rose from Euro 210.7 in 2007 to Euro 257.6 million in 2008, with an increase of 22.2%, while the EBIT reached Euro 142.7 million from Euro 113.8 million, which corresponds to an increase of 25.4%. The before tax profit is up by 10.2%, from Euro 77.6 million in the first six months of 2007, to Euro 85.5 million totalled in the corresponding period of 2008, while the net profit is up by 12.7% compared with the first half of the previous year, reaching Euro 49.6 million from Euro 44.0 million.

The significant increase in **Revenues**, equal to Euro 407.5 million, +30.3%, is connected with the increase registered in the revenues of the Electricity Area, for over 60%, and with the increase in the Gas area for further 25%. As regards the Electricity, the increase is related to the trading activities, which contribute to the increase with nearly Euro 190 million, while the remainder is connected with revenues deriving from commercial management activities towards final clients. As regards the Gas area, the increase is connected with the higher volumes of gas sold and distributed thanks to the more favourable climate conditions.

The remainder of the increase is connected with the increase in revenues from urban hygiene services and integrated water cycle, with reference to the adjustments of the tariffs achieved, and to the expansion of the consolidation perimeter to the municipalities of Sassuolo and the province of Urbino.

The increase in **Costs of raw materials and consumable materials**, equal to Euro 356.5 million (+48.2%) is linked to the rise in costs associated with higher volumes of electricity traded as well as to the higher volumes of gas sold and distributed.

The increase in **Service costs**, equal to Euro 17.4 million (+5.1%), reflects the integration of SAT and Megas. The decrease in **Other operating costs**, equal to Euro 7.6 million (-28.1%), reflects the different treatment of certain accounting items in the financial year 2008, for the details of which reference should be made to the explanatory notes: net of such reclassifications, the increase in costs is equal to approximately Euro 5 million.

As reported at the end of the first quarter of 2008, the significant increase in **Personnel costs**, which is up to Euro 172.9 million in the first quarter of 2008 from the Euro 150.6 million registered in the corresponding period of 2007 (+14.8%), mainly reflects: (i) the expansion of local areas of activity (ii) the higher charges connected to the social security reform which took place in 2007 (iii) the considerable increases connected to the renewal of the national labour contracts for all the main contractual areas of the Group. Furthermore, the figures as at 30 June reflect an extraordinary provision for approximately Euro 2.3 million.

The percentage impact of **Personnel costs** on total revenues is down to 9.9% in the first half of 2008, from 11.2% of the first half of 2007.

The increase in the **Capitalised costs**, which rose from Euro 102.0 million to Euro 118.0 million, is connected with the higher investments made, especially in the water cycle, due to the expansion of the consolidation perimeter, for the details of which reference should be made to the appropriate section.

The consolidated **EBITDA** of the Group as at 30 June is up by 22.2%, rising from Euro 210.7 million in 2007 to Euro 257.6 million in 2008: this result was achieved thanks to the constant focus on the curbing of operating costs, despite the increased volumes, and to the profits derived from the new businesses.

The percentage impact of the EBITDA on the Revenues is down from 15.7% in the first six months of 2007 to 14.7% in the corresponding period of 2008, due to the increase in the electricity trading activities and to the higher volumes of gas sold and distributed.

Amortisation, Depreciation and Provision are up by 18.5%, from Euro 96.9 million registered in the first half of 2007 to Euro 114.9 million in 2008, due to the investments and the higher provisions made. The percentage impact of this item on the revenues is down from 7.2% registered in the first half of 2007 to 6.7% in 2008.

In light of the foregoing, the first half of 2008 closes with a 25.4% increase in the **EBIT** compared with the corresponding period of 2007, rising from Euro 113.8 million to Euro 142.7 million.

Financial Operations cost registers a result of Euro 51.6 million, against the Euro 36.2 million of the corresponding period of the previous year, and it includes Euro 5.6 million of extraordinary interest expenses, as detailed in the explanatory notes. Despite the increases in interest rates which characterised the financial markets, this value remained in line with the result registered in the first quarter, thanks to the financing policies adopted by the Group.

The increase compared with the previous year is mainly connected to the increased indebtedness which reflects higher business volumes and the investments of the Group.

The **Before Tax Profit** is also affected by **Other Operating Costs** for Euro 5.6 million, in connection with ...(report the statements of the directors included in the explanatory notes). Thus, the first half of 2008 closes with a profit of Euro 85.5 million, up by more than 10% against the previous year.

The estimated taxes led to a tax rate equal to 42.0%, compared with the 43.3% registered in the corresponding period of the previous year, due to the decrease in IRES rates.

Consequently, the **Net Profit** is up by 12.7%, reaching Euro 49.6 million against the Euro 44.0 million registered in the corresponding period of the previous year.

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 2007 and for the situation as at 30 June 2008.

Capitale investito e fonti di finanziamento (mln/€)	31-dic-07	Inc. %	30-giu-08	Inc %	Var. ass.	Var. %
<i>Immobilizzazioni Immateriali</i>	535,9	18,1%	575,9	19,0%	40,0	+7,5%
<i>Immobilizzazioni Materiali</i>	2.546,0	85,9%	2.738,5	90,4%	192,5	+7,6%
<i>Saldo Attività/Passività non correnti</i>	166,8	5,6%	139,3	4,6%	(27,5)	-16,5%
Immobilizzazioni nette	3.248,8	109,7%	3.453,7	114,0%	205,0	+6,3%
Capitale circolante netto	119,8	4,0%	6,0	0,2%	(113,8)	-95,0%
(Fondi)	(406,0)	-13,7%	(430,6)	-14,2%	(24,7)	+6,1%
Capitale investito netto	2.962,6	100,0%	3.029,1	100,0%	66,5	+2,2%
Patrimonio netto	1.538,6	51,9%	1.549,4	51,2%	10,8	+0,7%
<i>Debiti finanziari a lungo</i>	1.395,9	47,1%	1.384,0	45,7%	(11,9)	-0,9%
<i>Posizione netta a breve</i>	28,1	0,9%	95,7	3,2%	67,6	+240,7%
Posizione finanziaria netta	1.424,0	48,1%	1.479,7	48,8%	55,7	+3,9%
Totale fonti di finanziamento	2.962,6	100,0%	3.029,1	100,0%	66,5	+2,2%

The net capital invested in the first half of 2008 rose from Euro 2,962.6 million to Euro 3,029.1 million, reflecting the integration of SAT in Sassuolo and Megaz in Urbino, in addition to the investments made.

With regards to net fixed assets, there was an increase in tangible and intangible fixed assets which as at 30 June 2008 amounted to Euro 3,453.7 million against Euro 3,248.8 in December 2007. This increase is due, besides the amount of investments made during the first six months of 2008 which are detailed in the pertinent section, to the integration of the aforementioned companies.

Provisions as at 30 June 2008 amounted to Euro 430.6 million, compared with Euro 406.0 million as at 31 December 2007. The increase is essentially attributable to provisions for the post-closure of landfills and provisions for restoring networks and plants granted under use to the Group owned by the spun-off companies. The new law on employee leaving indemnities (TFR) and the accounting methods compliant with international accounting standards resulted in a decrease in the provision for employee leaving indemnities, net of the integration of the aforementioned companies.

The net working capital decreases from Euro 119.8 million as at 31 December 2007 to Euro 6.0 million as at 30 June 2008. Such decrease is attributable to seasonal effects and to a favourable, in terms of timing, trend in the tax position, which shall be stabilised during the current financial year. For a breakdown of the single items that affected the evolution of the net working capital, the reader is referred to the explanatory notes.

The shareholders' equity rose from Euro 1,538.6 million to Euro 1,549.4 million, reflecting, besides the integration in the perimeter of the companies in Sassuolo and Urbino, the payment of the dividends for the previous financial year.

Financial situation of the Hera Group

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

	(mln/€)	30-Jun-08	Inc.%	31-Dec-07	Inc%	Abs. Chg	% Chg
a	Cash on hand	136.6		211.0			
b	Other current loans	7.5		10.0			
	Current bank indebtedness	-147.4		-149.6			
	Current portion of bank indebtedness	-81.6		-86.1			
	Other current loans	-17.3		-7.6			
	Current financial assets/liabilities from derivative instruments	11.7		-0.2			
	Payables for financial leases maturing within the following financial year	-5.2		-5.6			
c	Current financial indebtedness	-239.8		-249.1			
d=a+b+c	Net current financial indebtedness	-95.7	6.5%	-28.1	2.0%	+67.6	-70.6%
e	Non current loans	8.0		6.6			
f	Non current Assets/Liabilities from derivative instruments	9.7		7.8			
	Non current bank indebtedness	-466.1		-475.9			
	Bonds issued	-799.1		-798.2			
	Other non current financial indebtedness	-122.3		-122.4			
	Payables for financial leases maturing beyond the following financial year	-14.2		-13.9			
g	Non current financial indebtedness	-1,401.7		-1,410.4			
h=e+f+g	Net non current financial indebtedness	-1,384.0	93.5%	-1,396.0	98.0%	-12.0	+0.9%
i=d+h	Net financial indebtedness	-1,479.7	100.0%	-1,424.1	100.0%	+55.6	-3.8%

The net financial position rose from the Euro 1,424.1 million registered as at 31 December 2007 to Euro 1,479.7 million registered as at 30 June 2008. The modest increase is due to the increase in the turnover and to the significant investment plan realised.

The indebtedness is confirmed as comprised mainly of medium/long term debts which, as at 30 June 2008, represent nearly 95% of the total indebtedness, exactly matching the asset structure of the Group characterised by a high level of fixed assets.

Hera Spa's long term ratings are confirmed as "A1 stable" for Moody's and "A negative" for Standard & Poor.

Investments

The tangible and intangible investments of the Group made in the first six months of 2008 amount to Euro 185.0 million, compared with Euro 181.3 million registered in the corresponding period of the previous financial year.

In the same period financial investments were also made amounting to Euro 3.1 million. These investments refer to the increase in the potentials of the energy sectors through investments in new plants (e.g. Galsi).

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

Totale investimenti (mln €)	30-giu-07	30-giu-08	Var. Ass.	Var. %
Area gas	11,6	18,0	+6,4	+54,5%
Area energia elettrica	10,7	18,9	+8,2	+77,2%
Area ciclo idrico integrato	64,8	64,1	-0,6	-0,9%
Area ambiente	63,4	52,2	-11,2	-17,6%
Area altri servizi	12,1	11,2	-1,0	-8,4%
Struttura centrale	18,7	20,6	+1,9	+10,2%
Totale Investimenti Operativi	181,3	185,0	+3,7	+2,1%
Investimenti Finanziari	3,6	3,1	-0,4	-12,5%
Investimenti Totali	184,9	188,2	+3,3	+1,8%

Investments relating to the Gas service in the area in question mainly regard expansion, enhancement and upgrading of networks and plant systems. Investments by the company Medea regard the construction of a methane gas pipeline in Sassari. The increase in the investments in this sector is mainly connected to the start of the extraordinary maintenance program of the general restructuring plan of the gas distribution system.

Gas (mln €)	30-giu-07	30-giu-08	Var. Ass.	Var. %
Territorio	10,8	17,1	+6,3	+58,8%
Marche Multiservizi	0,3	0,4	+0,2	+59,2%
Medea	0,6	0,5	-0,1	-22,6%
Totale Gas	11,6	18,0	+6,4	+54,5%

The investments of the Electricity service refer to the expansion of the service and to the extraordinary maintenance of plants and distribution networks in the territories of Modena and Imola, and to the coordination of electricity networks, with an increase compared with the corresponding period of the previous financial year which is due to the renovation and enhancement of the plants and networks, in order to guarantee a service to match the growing demand. The investments in combined cycle electricity and heat thermal power plants (CCGT) refer to the Imola plant, currently under construction.

Energia Elettrica (mln €)	30-giu-07	30-giu-08	Var. Ass.	Var. %
Territorio	6,0	9,8	+3,9	+64,6%
CCGT	4,7	9,1	+4,4	+93,1%
Totale En.El.	10,7	18,9	+8,2	+77,2%

The investments related to the water cycle, determined in compliance with the agreements entered into with the reference ATOs with the consequent inclusion in the tariff, mainly refer to expansions, redevelopment and enhancements of networks and plants. This figure includes investment in Sassuolo for approximately Euro 1.8 million.

Ciclo Idrico Integrato (mln €)	30-giu-07	30-giu-08	Var. Ass.	Var. %
Acquedotto	31,3	37,5	+6,3	+20,1%
Depurazione	13,9	8,9	-5,0	-36,2%
Fognatura	19,6	17,7	-1,8	-9,2%
Totale Ciclo Idrico	64,8	64,1	-0,6	-0,9%

In the Waste Management area, projects carried out on plants located throughout the area increased compared to last year. The investments in waste-to-energy plants are focused on the completion of the plants of Canal Bianco (FE) and Forlì, as well as on the plants of Modena and Rimini.

Ambiente (mln €)	30-giu-07	30-giu-08	Var. Ass.	Var. %
Impianti esistenti capogruppo	12,1	13,5	+1,4	+11,5%
Impianti esistenti partecipate	11,3	10,9	-0,4	-3,4%
<i>Nuovi impianti:</i>				
WTE Canal Bianco (FE)	22,6	5,9	-16,7	-73,9%
WTE Modena	8,9	11,0	+2,2	+24,4%
WTE Forlì	8,5	6,2	-2,2	-26,3%
WTE Rimini	0,0	4,6	+4,6	-
Totale Ambiente	63,4	52,2	-11,2	-17,6%

Investments in the district heating service are mainly related to expansion of the service in the area of Bologna (Euro 5.4 million), Imola (Euro 1.2 million) and Ferrara (Euro 1.1 million). The interventions in the heat management and microgeneration services are focused on the realisation of new co-generation plants at entities located on the territory, and on interventions on thermal plants related to the heat generation services, while the item "other" includes investments in the Public Lighting and other minor services.

Altri servizi (mln €)	30-giu-07	30-giu-08	Var. Ass.	Var. %
TLR	6,8	9,0	+2,2	+32,5%
Gest.Calore e Microcogen.	2,3	0,4	-1,9	-84,2%
Altro	3,1	1,9	-1,2	-38,8%
Totale Altri Servizi	12,1	11,2	-1,0	-8,4%

Amongst the other most significant investments in the central structure there is the maintenance of the considerable real estate assets of the group and the investments to renovate the operating vehicles fleet, together with the IT systems, which registered a considerable decrease and, in the last few years, were subject to in depth restructuring activities. The increase in the item "other investments" is connected to investments in the structure of Marche Multiservizi and to the new Remote Control Hub in Forlì.

Struttura Centrale (mln €)	30-giu-07	30-giu-08	Var. Ass.	Var. %
Interventi immobiliari	4,9	6,4	+1,5	+31,5%
Sistemi informativi	8,1	5,8	-2,2	-27,5%
Flotte	4,3	5,2	+0,9	+19,8%
Altri investimenti	1,4	3,2	+1,7	+121,2%
Totale Struttura	18,7	20,6	+1,9	+10,2%

1.07.02 Regulatory Framework and regulated revenues

Main changes occurred in the regulatory framework and tariff system in the reference markets

1. Evolution of the regulatory framework

In the first half of 2008, the discussions on the evolution of the regulatory framework in the energy sector were dominated by the will to oppose or offset the significant **increases in the final prices** partly caused by the performance in the international markets.

The legislators intervened on alleged extra-profits in the industry, by increasing the tax pressure on the profits gained by energy companies (the so called Robin Tax); this measure does not affect the parent company, which essentially operates in the regulated services, unaffected by the tax rule, and has lower revenues deriving from the sale and production of electricity.

The discussions on the strategy for **promoting renewable sources** continue, not without paying attention to the issue of the costs which encumber on the system. The introduction, through the 2008 Financial Act, of new incentive rules (particularly as regards the extension of the incentive period through green certificates) was not followed by the relevant implementation decrees.

As regards the prohibition of "public incentives and financing" to the plants using sources assimilated to renewable sources, sanctioned by the 2007 Financial Act and confirmed in the 2008 Financial Act, the ministerial decree with the case by case derogations to such prohibition for the plants under construction, was expected by 31 March, with the implementation of the new regime. The premature end of the legislature prevented the completion of the process; the due date for the derogation decree has therefore been **extended to 31 December 2008**.

The major development in the sector of public utility services is the enactment, within the context of the conversion into law of the decree containing urgent measures for the economic development and the public finance, of the **pro-competitive reform of the local economically significant public services sector** (for the details of which, please see the appropriate paragraph of this chapter). This organic reform affects sectors, such as the local distribution of gas, already regulated under vertical regulations; in the development of the resulting regulations, it will be necessary to render the existing and partly consolidated rules compatible with the new ones.

2.1 Electricity

Regulation

In the electricity sector, the regulation activities were mainly directed to the preparation of the rules in support of the complete liberalisation of the market, which took place in 2007, and to the problems experienced in the generation and dispatching markets.

Downstream

As regards the correct functioning of the market and of the distribution platform following the liberalisation, the following should be noted:

- the determination of the procedures for compensating the costs incurred by the distributors in applying the so called **social tariff**, which provides for the implementation of a uniform communication mechanism between operators and local entities, responsible for the identification of economically disadvantaged clients.
- the introduction of rules to manage **defaults**, dispatching **users succession** on the same intake point, and the conventional determination of the **time slots** for dispatching purposes.

In addition, the body of coordinated rules, particularly significant in light of the higher sophistication of a system in which the electricity grid is increasingly more actively involved in spreading renewable sources and distributed generation, for the **active connections**, was definitively approved (integrated text for active connections or TICA-Testo Integrato Connessioni Attive); a similar measure establishes the procedures and economic terms for the realisation of the **exchanges on site** or TISP (Testo Unico Scambi sul Posto).

Finally, the consultations regarding the new rules for the **commercial quality of the sale services**, conducted simultaneously for electricity and gas, were terminated; the relevant resolution is expected soon.

Upstream

A considerable and increasing portion of the consultations, of the measures and of the interventions in the regulatory discussions promoted by the Authority, referred to the global issue of the functioning of the electricity bulk market, in which the regulator recently detected anomalies and alleged malfunctions.

The Authority took urgent measures to identify, in those areas of the market deemed critical for the purposes of price formation, additional **plants relevant** for the security of the system. Conversely, any decisions on the controversial proposal by Terna to further subdivide what is currently the **North-West area**, was postponed; the operator of the transmission grid, which is required to submit to the Authority a new grounded proposal by the end of 2009, is urged to make the investments contemplated and necessary to eliminate or reduce the congestions that currently determine price differentials mostly deemed not compatible with the rationalisation and efficiency goals underlying the electricity exchange.

Similarly to the approach adopted for gas, as mentioned below, the Authority, implicitly recognising the limited scope of the regulatory interventions possible in an unchanged structure, promoted ample discussions on the “**basis and rationale** of the areas and potential impact on the electricity market”. This infers the reasonable preference by the regulator for a pondered in depth study rather than the adoption of emergency measures with limited scope.

At the same time, the Authority pursues market transparency and higher efficiency, having initiated a specific **monitoring** of the generation and dispatching markets and having entered into an agreement with the Stock Exchange Authority (CONSOB) for the supervision of the **forward markets**.

Tariff framework and regulated revenues

The tariff regulation of the electricity distribution experienced, in the first half of the year, some important amendments following the entry into force of the provisions of the resolution 248/2007, which establishes the rules for the new tariff period started on 1 January 2008: in addition to the review of the tariff and permitted revenues levels, there was the shift from tariff options freely determined by the distributor, even though subject to the restriction system imposed by the Authority, to unique tariffs per each category of users, determined for the entire national territory.

In such a context, the revenues from the distribution of electricity were, for the first half of 2008, equal to Euro 22.2 million, against a level of distributed volumes of approximately 1,121 million kWh and an average return of 1.98 Euro cent/kWh. Therefore, against distributed volumes virtually unchanged (up by 0.4%, from 1,116 to 1,121 million kWh), there is an 8.3% drop in revenues, from Euro 24.2 million to Euro 22.2 million in absolute terms.

The drop is attributable, as for Euro 0.5 million, to the effects of the separation from the distribution tariff of a portion of the remuneration for marketing activities, which from 2008 goes to the selling entities, while the remaining Euro 1.5 million reflect the actual review of the tariffs levels introduced by the resolution No. 348/07. Therefore, taking into account the perimeter of the distribution activities remunerated in the tariff, the actual drop in revenues registered against the first half of 2007 is equal to 6.4%.

Conversely, the adjustment of the corresponding remuneration element of the sale and marketing costs was such that it more than offset the drop registered in the distribution activity; in the client category for which it is possible to make a comparison, that with a higher protection (essentially domestic use and small enterprises), the net effect is positive for approximately 1 million on a semi-annual basis.

2.2 Natural gas

Regulation

The first half of 2008 was characterised by intense consultations, proposals and talks aimed at reforming and replacing significant sections of the regulations, which will be defined in the second half of 2008 and in 2009, with considerable impacts on the entire gas production chain. The Authority is also vested with the responsibility to support the government in the definition of the scopes and mechanisms which shall regulate the competition in the distribution market.

Downstream

According to the Law the Authority is responsible to propose to the Government the subdivision of the national territory into **optimal areas for carrying out the tenders** provided for in the Letta decree for the granting of distribution licenses. The regulator initiated consultations on a proposal which envisages, based on the optimality achieved by the analysis on the possible scale economies, 44 types of tender. Pending delivery to the Government of the definitive proposal, first submitted to operators and interested parties for remarks and comments, the Authority initiated discussions (through working groups) on other aspects of the regulation of the competitive procedures, including the definition of "standard service agreement".

Extremely important for the operators and for the development of the sector is the approval of the new consolidated law with the rules for the **quality of technical and commercial services** in the distribution, which, as from 1 January 2009, shall supersede the previous consolidated law (resolution 168/2004). The new law:

- confirms and enhances the protection of the quality of the services in favour of the clients, also through higher penalties for default in the performances subject to standard, specifying the roles of the different players (distributors and vendors) in the achievement of the final quality
- establishes the requirement to participate to the award/penalty scheme (consolidated in the electricity sector) as regards security and continuity of service, although with considerable flexibility (the requirement shall be mandatory starting in 2010, while the operators will be able to enter the scheme on a voluntary basis as from 2009)
- provides stricter rules for the protection of security, in particular by stating the responsibilities concerning the reliability of the emergency service.

The process for the review of the rules for the **commercial quality of sales**, coordinated with the similar process for electricity, is separated from the integrated law for the quality of the distribution services, and is not terminated yet.

Upstream

At the expiration of the temporary provision which, following the considerable increases in international prices, set, until 30 June 2008, a fixed component within the consideration for bulk sales, the Authority initiated consultations on a proposal for the global **reform of the economic conditions applicable to the sale to protected clients**, which included the rebasing of the adjustment index of final prices. In the consultations, the operators objected the timing of the possible adjustment provision (which would have been issued after the stipulation of the vast majority of the bulk supply contracts) as well as the relevant effects which the proposed rebasing would have on the remuneration of the sale service of consumer protection.

The Authority extended the validity of the aforementioned component without acting on the indexing, thus leaving **unchanged the current update mechanism** for the economic conditions applied to protected clients upon any change in the bulk prices and, at the same time, setting a joint working group which shall be responsible to analyse the reform of such mechanism in accordance with the principles of certainty and predictability.

Also in this case, underlying the continuing inadequateness which still characterises the competitiveness of the gas market, the Authority extended the discussions by promoting an important consultation on the growth perspectives of the spot market, currently still in an embryonic stage, with the objective to build a liquid and efficient "**organised gas platform**".

Finally, with reference to the resolution no. 79/07, on 1 July the Authority issued a new resolution (89/08) which outlines the procedures for refunding the final clients of the amounts originated in the first half of 2006 following the regulation of the terms of supply and sale to protected customers. It is, however, worth noting that, as regards the resolution no.79/07:

the legal proceeding opened pursuant to the appeals filed by certain operators and associations is still pending;

following the negotiations related to the price of the raw materials, provided for under resolution no. 79/07, Hera, together with some other companies, reported to the Authority the non compliance of the outcome of such negotiations with the regulatory provisions, and the Authority itself reserved the right to review the outcome of the individual negotiations;

the Administrative Court of Lombardy reaffirmed, in a recent decision, the neutral impact on the sale company of the contested regulation (79/07), specifying that, if, on one hand, the power of the Authority to intervene on bulk prices is obvious, this power should, however, be appropriately exercised vis-à-vis the proper object and subjects.

The terms for filing the appeal against resolution no. 89/08 shall expire at the end of September.

Tariff framework and regulated revenues

The first half of 2008 saw, with the end of the 2007 financial period, a stable regulation framework on the mechanisms to determine tariffs for gas distribution. The tariff regulation for the current period, which shall terminate at the end of the thermal year or, more likely, at the end of the 2008 calendar year, has already been defined by two provisions dating back to 2006 and 2007:

- the resolution 218/2006 sets the levels of the annual scheduled productivity recovery rate which encumbers on the recognised costs, through an adjustment mechanism which substantiates the statutory incentive to business combinations. Thanks to some significant merger transactions conducted in recent years, such incentive mechanism resulted in Hera Spa being recognised company-specific productivity recovery rates of 3.7% for the thermal year 2005/06, of 3.1% for the thermal year 2006/07, and of 2.5% for the thermal year 2007/2008, compared to base values of 4.8%, 4.6% and 4.4% respectively, recognised to companies not affected by merger processes.
- The resolution 261/07 dated October 2007, officially approves the distribution tariffs of Hera Spa for the thermal year 2007/2008. The financial statements for the first half of 2008, reflecting the tariff levels approved for the last thermal year, are therefore based on stable tariff parameters.

Against this backdrop, gas distribution revenues for the first half of 2008 amounted to Euro 62.8 million, with distribution volumes of 1,269 million of cubic metres, with a corresponding unit return of Euro cents 4.95 per cubic metre.

Compared with the first half of 2007, characterised by an exceptionally mild winter climate, the overall revenues register, against a 12% increase in distributed volumes (from 1,077 to 1,204 cubic meters), a lower growth, in the region of 7% (from Euro 56.9 million to 59.8 million).

The comparison of the results with the first half of 2007 is performed by isolating the effect of the expansion of the perimeter due to the merger with SAT Sassuolo, whose revenues were not considered at the end of the first half of 2007.

The lower percentage growth in revenues compared with the growth in volumes reflects the drop of the average unit return by approximately 6% (from 5.29 to 4.96 Euro cent per cubic meter), which is not the result of any reduction in the levels of the approved tariffs compared with the previous year, but is rather due to the automatic effect of the tariff structure.

Such tariff structure is based on variable quotas per brackets, decreasing with the increase in consumptions; the progressive filling of the subsequent brackets determines, against a considerable increase in the distributed volumes, extended to all users characterised by thermal uses, the reduction of the average tariff consideration per distributed cubic meter.

Taking into consideration also Marche Multiservizi (which does not benefit from any incentive productivity recovery) in the consolidation perimeter as at 30 June 2008, it should be noted that the consolidated value of the revenues from gas transport for Hera Group is equal to Euro 68.8 million for over 1,361 million cubic meters distributed, which correspond to an average tariff of Euro cent 5.05 per cubic meter.

3. Local public services: the evolution of the regulatory framework

With the conversion into law of the decree law no. 112 dated 25 June 2008, which contains provisions for the economic development and public finance, the Parliament gave a definitive structure to the controversial **pro-competitive reform of the local economically significant public services**.

During the previous legislature, the approaches to such reform, first materialised in the so called Lanzillotta bill, and then in the inclusion in the financial act of the relevant urgent measures, were not finalised; the interest in this subject, which received equal consideration in the current legislature, is demonstrated by the presentation, in the first three month of parliamentary activities, of not less than three independent non government bills.

With the inclusion in the bill for the conversion of the decree 112/2008 of article 23 bis, definitively approved on 5 August, the reform is now effective: though appropriate regulations, the Government is required, having consulted the Unified Conference State- Regions and the competent parliamentary Commissions, to issue operational provisions finalised, inter alia, to strictly separate ownership and regulation, to manage the transitional phase towards the liberalisation of the market, to basically uniform regulations and rules in the different segments of public local services and to identify further services and segments which might be liberalised, in accordance with the guarantees of public services.

The law provides for:

- the resort to the **tender as a general principle for the assignment**, with the exception of the direct assignment in specific situations of objective difficulty in resorting to the market, provided this is in compliance with the European Community laws.
- the **protection of existing licenses and assignments**; the direct assignee, however, will not be able to participate in the assignment of the service in any fields other than that managed, nor in additional services. Such prohibition does not apply to listed companies
- as an exception to the aforementioned protection, **as regards the water service it is envisaged the resort to the tender** with the early termination of the existing assignments; the requirement is waived in the event that the direct assignment was granted in a situation of impracticable resort to the market, and in compliance with the European Community laws.

Hera's water operations, assigned in accordance with the European Community laws (although not "in house") and on the basis of positive national and community rules still in force, are not subject to the

requirement of tender call, which, in fact, essentially regard the direct assignments officially granted under the "in house" procedure to entities not having the required characteristics.

Although to be completed with the operational provisions, and despite the uncertainty generated by the presence of additional "parallel" bills on this subject, the reform has the merit of clarifying the principles and represents, for dynamic industrial entities such as the listed multiutilities with regional scope, a positive development opportunity.

4 Integrated Water Service: regulated revenues

As from 1 January 2008, the new law of the Emilia Romagna Region, which regulates the integrated water cycle, is fully in force. In this context, the increases in regulated revenues are consistent with the agreements entered into with the ATOs.

Overall, in the first half of 2008, the regulated revenues from the management of the water cycle amount to Euro 184.4 million with 122.0 million cubic meters sold, including also, as from 1 January 2008, the former SAT perimeter.

5 Urban Hygiene: regulated revenues

In the first half of 2008, the Urban Hygiene service was provided to 158 municipalities, including Pesaro Urbino and the SAT perimeter. Of these, 51% (80 Municipalities) adopted the tariff system in accordance with Presidential Decree 158/99 covering 62% of the population in the areas served.

Compared with the first half of 2007, excluding the SAT perimeter, regulated revenues are equal to :

Urban Hygiene (consolidating Marche Multiservizi, excluding Sat)	30 giugno 2007	30 giugno 2008	% Increases
Revenues (Mln Euro)	167	177	6.1%
Residents served ('000)	2,462	2,528	2.7%
Average revenue per unit (Euro/Resident)	67.08.00	70.02.00	3.1%

The comparison between the first six months of 2007 and 2008 shows an increase in revenues for the Urban Hygiene services to franchised Municipalities equal to 6.1%. This increase is mainly due to the growth in services and to the shift from tax to tariff (+2.4%) as well as to the growth in population (+2.7%), the increase in the average revenue per resident (3.1%) was off-set by a realignment of the volumes produced.

As regards the complete perimeter of the first half of 2008, including SAT and Marche Multiservizi, the regulated revenues from urban hygiene are equal to:

Urban Hygiene (consolidating Marche Multiservizi and Sat)	30 giugno 2007	30 giugno 2008
Revenues (Mln Euro)		187
Residents served ('000)		2,647
Average revenue per unit (Euro/Resident)		70.65

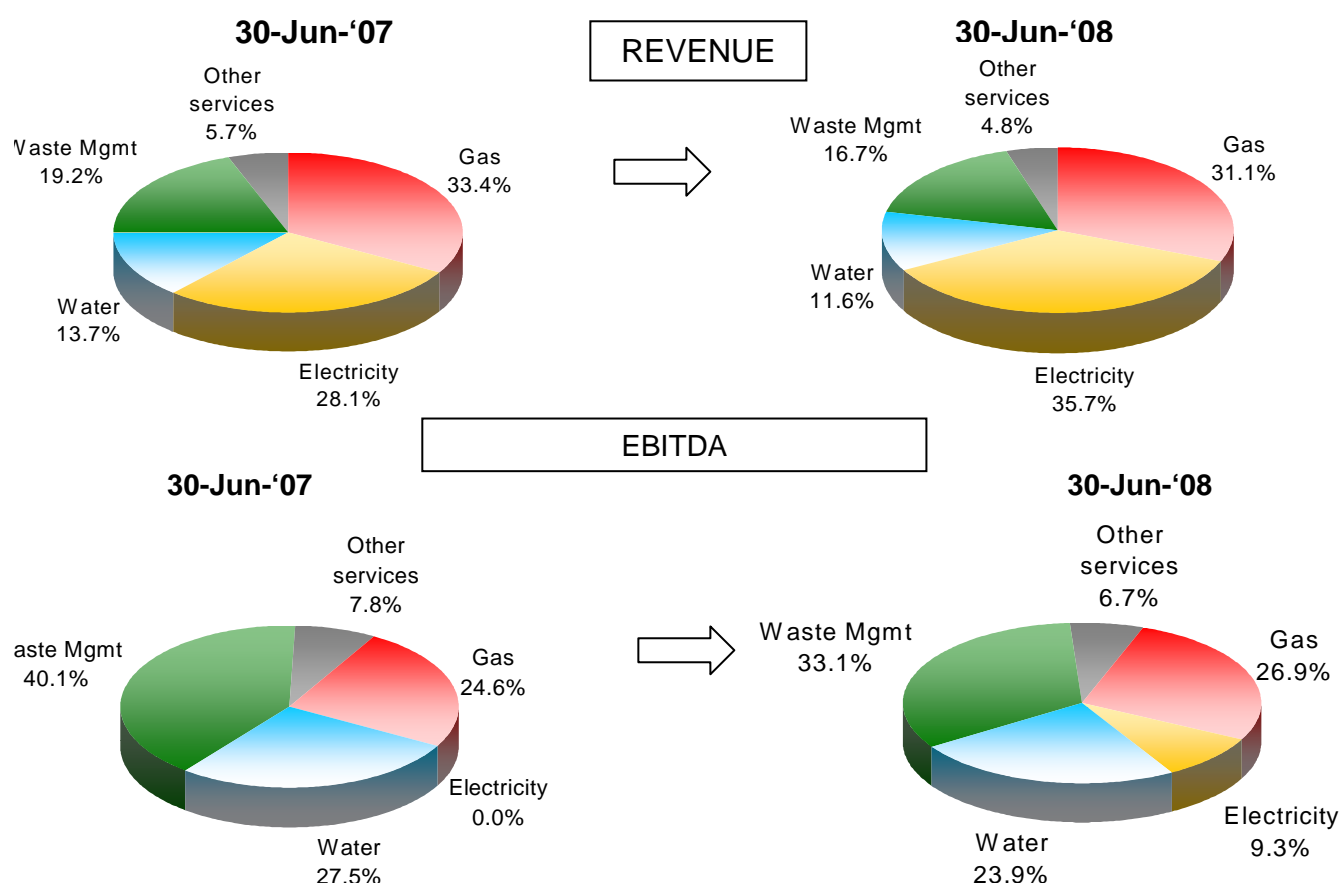
1.07.03 Analysis by Business Area

An analysis of the operating results achieved in the business segments in which the Group operates is presented below: (i) sector concerned with the distribution and sale of methane gas and LPG, (ii) sector concerned with the distribution and sale of Electricity, (iii) Integrated Water Cycle sector (Aqueducts, Purification and Sewerage), (iv) Waste Management Sector (Waste Collection and Treatment) and (v) other activities (District Heating, Public Lighting, Heat Management and other minor services).

The business segments did not undergo any substantial change in 2008 compared to 2006: as regards the contribution to the EBITDA in the first six months, the Gas Area benefits from the more favourable climate trend compared with the same period of the 2007 financial year, with the subsequent reduction of the contribution of other areas, except for the electricity area, which continues to increase significantly its business volume.

In order to provide the necessary details on the performance in the first quarter of 2008, an analysis is shown of the various business segments in which the Group operates, presented on a comparative basis with the 2007 figures. The composition and the evolution in time, in terms of Revenues and EBITDA, is outlined in the graphs below:

BREAKDOWN OF THE BUSINESS PORTFOLIO



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

It should also be noted that the analysis of the business segments includes the increases in construction on a time and materials basis/work in progress and, therefore, the related costs. These items, as envisaged in the indications of the IAS standards, are indicated by way of a cost adjustment as costs capitalised in the individual tables.

Analysis of the Gas Area

In the first six months of 2008, the importance of the Gas segment, which includes sales and distribution activities, increased, when compared with the same period last year, by approximately ten percentage points in terms of margin contribution.

The importance of this business segment with respect to total Group activities is illustrated below:

(mln/€)	30-giu-07	30-giu-08	Var. Ass.	Var. %
Margine operativo lordo area	47,3	69,2	+21,9	+46,2%
Margine operativo lordo gruppo	210,6	257,6	+47,0	+22,3%
<i>Peso percentuale</i>	<i>22,5%</i>	<i>26,9%</i>	<i>+4,4 p.p.</i>	

2008 benefited from a more favourable climatic trend compared with the first half of 2007, although not in line yet with the historical average levels.

The table below quantifies this data and describes the change in volumes in the two periods examined, which affected the distribution and sales activity results.

Dati quantitativi	30-giu-07	30-giu-08	Var. Ass.	Var. %
Volumi distribuiti (milioni di mcubi)	1.118,1	1.360,7	+242,6	+21,7%
Volumi venduti (milioni di mcubi)	1.249,3	1.478,2	+228,9	+18,3%
<i>- di cui volumi Trading</i>	<i>157,1</i>	<i>182,1</i>	<i>+25,0</i>	<i>+15,9%</i>

As regards the climatic trend, the distributed volumes rose from 1,181.5 cubic meters in the first six months of 2007 to 1,360.7 cubic meters of the corresponding period of 2008, with an increase of 21.7%. On the other hand, sold volumes rose from 1,249.3 million cubic meters in 2007 to 1,478.2 million cubic meters in 2008, with an increase of 18.3%. It is worth noting that the higher increase of the distribution compared to sales is due to the contribution of SAT Sassuolo for approximately 65 million cubic meters, which impacts only on the distributed share. The business perimeter of the

company from Urbino, on the other hand, contributes both on the sales and on the distribution for approximately 90 million cubic meters.

These factors contributed to the financial results summarised below:

Income statement (mln/€)	30-Jun-07	Inc.%	30-Jun-08	Inc%	Abs. Chg	% Chg
Revenues	470.1		576.8		+106.7	+22.7%
Operating costs	(415.2)	-88.3%	(502.9)	-87.2%	+87.7	+21.1%
Personnel costs	(20.8)	-4.4%	(25.1)	-4.4%	+4.3	+20.8%
Capitalised costs	13.1	2.8%	20.4	3.5%	+7.2	+55.1%
EBITDA	47.3	10.1%	69.2	12.0%	+21.9	+46.2%

The revenues from the Gas Area rose by 20.9%, from Euro 477.7 million in 2007 to Euro 577.5 million in 2008, as regards to the higher distributed and sold volumes, which impact the operating costs in the opposite direction.

The higher capitalised costs and the higher personnel costs reflect the territorial expansion of the perimeter of activities and extraordinary interventions on the networks aimed at enhancing their overall security.

Compared with the previous year, the Group registered an increase of the EBITDA in this area equal to Euro 21.9 million, from Euro 47.3 million to Euro 69.2 million, with an increase of the percentage profit, which rises from 10.1% in 2007 to 12.0% in 2008.

The excellent result achieved reflects the higher volumes traded, while maintaining an uniform cost structure, and benefits also from a temporary positive effect connected to the valuation of the hedging instruments on the purchase of raw materials which is expected to be offset before the end of the current financial year.

Analysis of the Electricity Area

The Electricity Area continues in its growth path, both in terms of turnover as well as in terms of percentage margins. With the acquisition of the former Enel network in the province of Modena, and with the further development of sale and trading activities, it contributes for over one third to the aggregate turnover of the Group with a continuous increase in the overall EBITDA.

The first half of 2008, registers an increase of Euro 5.7 million in the EBITDA, which rose from Euro 18.3 million in 2007 to Euro 24.0 million in 2008.

The increase of the percentage weight on the total of the Group compared with 2007 is of 0.6 percentage points, from 8.7% in 2007 to 9.3% in 2008, as evidenced in the table below.

(mln/€)	30-Jun-07	30-Jun-08	Abs. Chg	% Chg
EBITDA per area	18.3	24.0	+5.7	+31.3%
Group EBITDA	210.6	257.6	+47.0	+22.3%
<i>Percentage weight</i>	8.7%	9.3%	+0.6 p.p.	

An analysis of the electricity segment results is given below:

Income statement (mln/€)	30-Jun-07	Inc.%	30-Jun-08	Inc%	Abs. Chg	% Chg
Revenues	401.0		661.1		+260.1	+64.9%
Operating costs	(381.6)	-95.2%	(637.5)	-96.4%	+255.9	+67.1%
Personnel costs	(9.3)	-2.3%	(11.0)	-1.7%	+1.7	+18.3%
Capitalised costs	8.1	2.0%	11.4	1.7%	+3.2	+39.6%
EBITDA	18.3	4.6%	24.0	3.6%	+5.7	+31.3%

The higher volumes traded, mainly connected to trading activities, represent the main reason of the increase in revenues, which rose from Euro 401.0 million in the first half of 2007 to Euro 661.1 million in 2008, up by +64.9%.

The opening in 2007 of the electricity production plants of Teverola and Sparanise, in which the Group holds an equity investment, led to the increase in the commercial capacity, benefiting of an increased supply of raw materials at competitive prices.

The increased activities reflect the proportional increase in operating costs due to the purchase of raw materials, while the percentage margins drops from 4.6% in the first half of 2007 to 3.6% in 2008, in connection with the higher volumes traded.

The increase in Labour costs compared with the first half of 2007 is connected with the development of the sales activities, while the increase in capitalised costs is due to the higher investments made on the networks of the Group.

The following table gives a detailed breakdown of the revenues by type:

(milioni di euro)	30-giu-07	Inc. %	30-giu-08	Inc %	Var. Ass.	Var. %
Ricavi da vendita	188,7	47,1%	263,7	39,9%	+74,9	+39,7%
Ricavi da distribuzione	25,0	6,2%	22,2	3,4%	-2,8	-11,1%
Trading / altro	187,3	46,7%	375,3	56,8%	+188,0	+100,4%
Totale ricavi	401,0	100,0%	661,1	100,0%	+260,1	+64,9%

The strengthening of the sales activities and the increase of the average energy price on the market determined an increase of +39.7% in the sales revenues. Distribution revenues, on the other hand, decreased following the application of the new tariffs issued by the AEEG at the end of 2007. The significant increase in trading revenues on the electricity market is in line with the development of the business.

The quantitative data for the area, which do not include trading activities, demonstrate the trend in the volumes linked to the afore-mentioned management policies:

Dati quantitativi	30-giu-07	30-giu-08	Var. Ass.	Var. %
Volumi venduti (Gw/h)	2.080,8	2.438,3	+357,5	+17,2%
Volumi distribuiti (Gw/h)	1.116,2	1.121,1	+4,9	+0,4%

As at 30 June 2008, the EBITDA registered a 31.3% increase compared with the first six months of 2007, totalling Euro 24.0 million from the 18.3 million of the previous year.

Analysis of the Integrated Water Cycle Area

The Group currently operates in the Integrated Water Cycle management sector in over 180 municipalities, with more than 2.5 million inhabitants, with almost complete coverage of the area in question.

Hera operates through seven ATOs in the Provinces of Ravenna, Ferrara, Forlì-Cesena, Rimini, Modena, Bologna and Pesaro-Urbino.

Agreements were set up with all of the aforementioned Agencies regulating the Integrated Water Service, and in addition to lengthening the license terms up to 2022 on average, also guarantee the Group the return on its capital investment over the next few years.

In the first six months of 2008, the Integrated Water Cycle area shows an enhancement in its results compared with the same period of the previous year.

(mln/€)	30-giu-07	30-giu-08	Var. Ass.	Var. %
Margine operativo lordo area	52,9	61,6	+8,8	+16,6%
Margine operativo lordo gruppo	210,6	257,6	+47,0	+22,3%
Peso percentuale	25,1%	23,9%	-1,2 p.p.	

The EBITDA at the end of the first half of 2008 increased by Euro 8.8 million, passing from Euro 52.9 million in 2007 to Euro 61.6 million in 2008 (+16.6%).

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

Income statement (mln/€)	30-Jun-07	Inc.%	30-Jun-08	Inc%	Abs. Chg	% Chg
Revenues	195.4		215.2		+19.9	+10.2%
Operating costs	(164.6)	-84.3%	(169.1)	-78.6%	+4.5	+2.7%
Personnel costs	(44.4)	-22.7%	(52.3)	-24.3%	+8.0	+17.9%
Capitalised costs	66.5	34.0%	67.9	31.5%	+1.3	+2.0%
EBITDA	52.9	27.1%	61.6	28.6%	+8.8	+16.6%

Revenues are up by 10.2% compared with the first half of 2007, showing a trend in line with expectations. The increase in business volumes mainly reflects (i) the expansion of the business perimeter to the areas of Sassuolo and Urbino for approximately 13 million, (ii) the reduction in the works carried out for approximately Euro 6 million, (iii) the adoption of the tariff scheme approved by the ATOs.

It should be noted that in the first half of the previous year, due to the particularly dry climate, the Group incurred in lower costs for the purchase of water from third parties for approximately Euro 4 million, with a consequent positive impact on the results.

The increase in operating costs is limited to Euro 4.5 million, and is mainly connected with the expansion of the perimeter, the increase in works for investments and, on the opposite sign, with the decrease in services on customers behalf and with contingent liabilities of the Marche Multiservizi Group for approximately Euro 3 million.

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

Dati quantitativi	30-giu-07	30-giu-08	Var. Ass.	Var. %
Volumi venduti (milioni di mcubi)				
Acquedotto	119,7	122,0	+2,3	+2,0%
Fognatura	101,7	103,5	+1,9	+1,8%
Depurazione	105,2	107,0	+1,9	+1,8%

Analysis of the Waste Management Area

The Waste Management Area confirms the positive results of the previous financial years with an increased profit compared with the first six months of 2007, as shown in the table below:

(mln/€)	30-Jun-07	30-Jun-08	Abs. Chg	% Chg
EBITDA for the area	77.2	85.4	+8.2	+10.6%
EBITDA for the group	210.6	257.6	+47.0	+22.3%
Percentage	36.6%	33.1%	-3.5 p.p.	

The Hera Group continues to be the most important integrated operator in the sector at European level, due to the fact that it has over 70 treatment and disposal plants for municipal and special waste.

The Group operates through 7 Ato's in the Provinces of Ravenna, Forlì-Cesena, Rimini, Bologna, Ferrara Modena and Pesaro-Urbino in the area of Urban Hygiene Services including, sweeping, collection, and disposal of municipal waste, just as for the Water Cycle services. Conventions compliant with the current regulatory provisions are in place with all the agencies.

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

Income statement (mln/€)	30-Jun-07	Inc.%	30-Jun-08	Inc%	Abs. Chg	% Chg
Revenues	274.3		309.9		+35.6	+13.0%
Operating costs	(137.2)	-50.0%	(159.1)	-51.3%	+21.9	+16.0%
Personnel costs	(64.7)	-23.6%	(73.6)	-23.8%	+8.9	+13.8%
Capitalised costs	4.8	1.7%	8.2	2.6%	+3.4	+71.7%
EBITDA	77.2	28.1%	85.4	27.5%	+8.2	+10.6%

Revenues at the end of the first half of 2008 increased by 13.0%, rising from Euro 274.3 million in 2007 to Euro 309.9 million in the same period this year. This increase is connected, for approximately one third, to the aforementioned corporate/territorial integrations; the remainder of such increase reflects the opening of new plants, the increases in the tariffs of the urban hygiene services, higher volumes treated and better services provided, especially as regards the separate waste collection.

With reference to the above, separate waste collection, net of volumes arising from sweeping activities (as envisaged by the DPCM project on Separate Collection dated 5 June 1997), in terms of percentage impact on total volumes collected, increased by almost seven percentage points, up from 35.9% at the end of 2007 to 43.3% in the first six months of 2008. Such a result represents one of the best performance at a national level.

As can be seen in the following table, the quantity of waste disposed of increased by 9.6%.

Quantitative data (thousands of tonnes)	30-Jun-07	Inc.%	30-Jun-08	Inc%	Abs. Chg	% Chg
Municipal waste	822.0	37.3%	859.4	35.6%	+37.4	+4.5%
Waste from the market	710.0	32.2%	656.0	27.1%	-54.0	-7.6%
Special waste from by-products of plants	471.3	21.4%	600.1	24.8%	+128.8	+27.3%
Direct clients of subsidiaries	202.8	9.2%	301.6	12.5%	+98.8	+48.7%
Waste treated by type	2,206.1	100.0%	2,417.1	100.0%	+210.9	+9.6%
Landfills	775.6	35.2%	772.1	31.9%	-3.6	-0.5%
Waste-to-energy plants	285.4	12.9%	282.9	11.7%	-2.5	-0.9%
Selection plants	129.3	5.9%	173.1	7.2%	+43.7	+33.8%
Composting plants	176.1	8.0%	159.5	6.6%	-16.6	-9.4%
Stabilisation and chemical-Phys. Plants	443.2	20.1%	525.3	21.7%	+82.1	+18.5%
Other	396.4	18.0%	504.1	20.9%	+107.7	+27.2%
Treated waste per plant	2,206.1	100.0%	2,417.0	100.0%	+210.9	+9.6%

The analyses of the quantitative data shows a constant lower use of the landfills and composting plants and a greater use of the selection and stabilisation plants. The slight decrease in waste treated in the waste-to-energy plants should not be deemed as physiological but it rather reflects the restructuring of the flows due to the opening of new plants.

The EBITDA of the Waste Management Area rose from Euro 77.2 million in the first six months of 2007 to Euro 85.4 million in the corresponding period of 2008, with an increase of 10.6%. Compared with the positive performance of the first quarter 2008, there is a higher contribution of the new plants which are gradually being implemented.

Analysis of the other services segment

The Other Services Area, which includes, specifically, the Public lighting, district heating, Heat Management and Microgeneration services, registers an increase compared with the first half of 2007, despite the divestment of certain no-core services, more than off-set by an increase in the other activities.

(mln/€)	30-Jun-07	30-Jun-08	Abs. Chg	% Chg
EBITDA for the area	15.0	17.4	+2.3	+15.6%
EBITDA for the group	210.6	257.6	+47.0	+22.3%
Percentage	7.1%	6.7%	-0.4 p.p.	

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

Income statement (mln/€)	30-Jun-07	Inc.%	30-Jun-08	Inc%	Abs. Chg	% Chg
Revenue	81.1		88.9		+7.8	+9.6%
Operating costs	(64.0)	-79.0%	(70.9)	-79.7%	+6.8	+10.7%
Personnel costs	(11.5)	-14.1%	(10.9)	-12.2%	-0.6	-5.2%
Capitalised costs	9.4	11.6%	10.2	11.5%	+0.8	+8.5%
EBITDA	15.0	18.5%	17.4	19.5%	+2.3	+15.6%

Revenues are up compared with the previous year mainly due to the higher turnover of heat management, district heating and public lighting, which off-set the decrease in the revenues related to the minor services disposed of in 2007.

At an EBITDA level, the negative effect of the disposals is off-set by higher profits from other services, specifically from the district heating, public lighting and microgeneration services.

The table below shows the main indicators in the other services area:

Quantitative data	30-Jun-07	30-Jun-08	Abs. Chg	% Chg
District heating				
Volumes distributed heat (Gwht)	210.9	255.0	+44.1	+20.9%
Public lighting				
Light points (thousands)	306.8	326.5	+19.7	+6.4%
Municipalities served	58	62	+4	+6.9%

1.08 Commercial Policy and Customer Care

As regards accessibility to contact channels, despite some minor decreases, the high performances already registered in the previous period were confirmed, in particular

- mass market call centre: 91.4% of calls answered with an average queue time of 70 seconds (measured on 90% of calls answered);
- business call centre: 95% of calls answered with an average queue time of 35.9 seconds (measured on 90% of calls answered);
- helpdesks: average wait time of 20 minutes

The client base on liberalised markets registers, in the first half of the current year, a positive result in terms of number of supply points:

Punti di fornitura/S	as at 30.06.2008	as at 30.06.2007	Delta points of supply (n°)	Delta points of supply (%)
Gas	979,455	966,847	12,608	1.30%
Electricity	283,314	267,877	15,437	5.80%

The effects of the commercial activities in the first half of 2008 on the volumes supplied may be summarised as follows:

- electricity: rise from 2,054 GW/hour in the first half of 2007 to 2,438 GW/hour in the first half of 2008, with an increase of 19%;
- gas: rise from 1,051 million cubic meters in the first half of 2007 to 1,210 million cubic meters in the first half of 2008, with an increase of 15%, mainly attributable to lower consumptions due to the particularly mild winter 2007, and marginally affected by the commercial activities.

1.09 Trading and Procurement Policy

As far as gas is concerned, the first six months of 2008 were dedicated, on the one hand, to the handling of procurement contracts becoming effective from October 2007 as well as long-term ones; and, on the other hand, to finalising the new contracts for the 2008/2009 thermal year.

As regards the shipping activities conducted by Hera Trading, they experienced a normal impact of the winter climate conditions, essentially in line, therefore, with the forecasts made at the beginning of the thermal year, upon construction of the trading portfolio. The necessary periodical adjustments were made through purchase or sale regulations at the Virtual Point of Exchange, at conditions in line with, or more favourable than, the provisions of the budget.

In March, earlier than in previous years, seizing the opportunities generated by a market situation which, for the first time since the liberalisation, registers an "over capacity" situation starting from the next thermal year, the purchase of approximately 80% of the gas intended for REMI has been finalised at competitive conditions. The supply has been divided between two major national operators. At the same time, it was also finalised a base load supply at the Virtual Point of Exchange for 200 million cubic meters per year, intended to replace similar volumes of Gas release 1, expiring on 30 September 2008.

At the end of June, despite the negative situation on the market due to the sharp increase in oil prices, it has been possible to finance also the remaining 20% of supplies to REMI at the same conditions obtained in March.

As regards the import contracts through Transitgas, for a total of 160 million cubic meters per year, expiring with VNG in September 2008, the technical-economic terms for its renewal were negotiated in May. The required capacity was then acquired in July on the secondary market.

In June, Hera Trading organised the participation of Hera Group to the Allocation Procedure of the second tranche of Capacity on the Trans Austria Gasleitung (TAG). Following this procedure, Hera Group was assigned a lot of 15,000 cubic meters per hour, for a total of approximately 120 million cubic meters per year, starting from October 2009, with a twenty year term.

As regards electric energy, the first six months of 2008 were characterised by the management/optimisation of Hera Comm's purchase portfolio through transactions carried out on the Stock Exchange and on bilateral and settlement platforms, by the optimisation activities on the Day Ahead market of the Teverola and Spiranise plants, and on the Dispatching Service Market of the Teverola plant, achieving results significantly better than the provisions of the budget.

Very satisfactory were also the origination and trading activities of energy and environmental certificates, used not only for the brokerage activities in the short term, but also to reduce the exposure of Hera Comm.

As a result of the participation to the tenders which took place at the end of 2007 and in 2008, Hera Trading remains one of the suppliers of Sole Purchaser for the non-eligible market.

As regards the management of the commodity and exchange risk, in the first half of 2008 the operations, now consolidated both in the gas sector as well as in the electricity sector through a concentrated risk portfolio which is based on macro hedging rather than specific hedging formulas, enables the netting of

positions and the hedging of volumes, were particularly intense and efficient in connection with the exceptional volatility recorded on the energy commodity markets. This instrument, prepared and initiated by Hera Trading since the beginning of 2007 for the purpose of managing hedging activities, even though, as of today, does not allow the application of hedge accounting due to the fact that the requirements established by IAS 39 are not officially fulfilled yet, nowadays plays an essential role to achieve appropriate and dynamic operations on the bulk markets.

1.10 Financial Policy and Rating

In the first half of 2008 no new long term financial transactions were carried out for significant amounts, both due to the considerable increase in basic interest rates and credit spreads, as well as in light of the low needs for new financing.

The financial policy objectives set by the Company in the previous financial years were achieved and maintained. Specifically:

1. **Interest-rate Risk:** to date, over 90% of the long term indebtedness is subject to a fixed interest rate in the region of 4.20%. Any swaps (from floating rate to fixed rate) is made exclusively for hedging purposes and has plain vanilla features (no covenants or options of any kind).
2. **Debt Quality:** the portion of the long term debt has been maintained at over 90% of the short term portion.
3. **Credit Facilities:** The Company has several "until revoked" and committed credit facilities, more than sufficient to cover its financial needs. 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 lower than 30% of the total available.
4. **Financial Charges:** Despite the recent increases in interest rates, as mentioned above, the average weighted global cost of funding for Hera remained in the region of 4.3%, thanks to the financial transactions entered into in the previous financial years.

Readers are reminded that Hera S.p.A. has outstanding (i) a **Bond** for Euro 500 million, featuring a fixed rate coupon of 4.125%, maturing in February 2016, (ii) two "**Put Bonds**" for an aggregate of Euro 300 million and (iii) two "**Put Loans**" with the following features:

- **First Put Bond:** issued on 17 May 2007 for Euro 100 million with a coupon based, as regards the first three year, on the 3-month Euribor minus 29 basis points, having an "A" rating assigned by Standard & Poor's. If the put option is not exercised by the bond holder at the end of the third year, the bond shall be regulated for an additional 10 years at a fixed rate of 4.593% in addition to the Hera credit spread. In this case Hera shall be entitled to exercise a call option on the entire amount in the remaining period. If instead the put option is exercised at the end of third year, the bond shall be repaid at the same amount.
- **Second Put Bond:** issued 2 August 2007 for Euro 200 million defined as "Extendable put-bond", with a Standard & Poor's rating of "A", entirely subscribed by Bnp Paribas. For the first 5 years, the Bond cannot be called, and it has a variable rate quarterly coupon indexed to the 3-month Euribor less a 45-cent spread. For the following 15 years, the couple will have a fixed rate of approximately 4.85%, increased by the two-year Hera credit spread. Holders of the bond will be able to request reimbursement every two years at par value or continue for the following two years at the above-mentioned conditions. Hera will always have the right to provide early redemption at market price.
- **First Put Loan:** On 13 November 2007 a 13 years "Put loan extendable Step-up" agreement was entered into with Royal Bank of Scotland Plc for an aggregate of Euro 50 million, which might subsequently be increased, at the discretion of the Bank, to Euro 70 million after the third year, through an additional payment of Euro 20 million. The transaction will be regulated for the first three years with a quarterly coupon deferred at variable rate calculated based on the 3-month Euribor less a 0.45% spread. If the bank does not exercise the put option requesting

repayment on equal footing, the coupon will be regulated at a fixed rate of 4.41% increased by the two-year Hera credit spread for the next ten years (with a 0.45% cap). The bank can ask for repayment of the loan on equal footing at the end of the third year and every two years that follow. Should the put option not be exercised, the rate will still be the one stated above. After the first three years Hera Spa can repay the loan, coinciding with every date of payment of the interest at the market price.

- **Second Put Loan:** on 28 November 2007 a loan entirely similar to the previous one was entered into with Barclays Bank Plc, the only difference being that the spread less than the Euribor for the first three years is 0.46%, while the fixed rate for another 10 years, if needed, is 4.44% (again increased by the two-year Hera credit spread with a 0.45% Cap).

All of the transactions described above were designed in-house so as to perfectly fit the Group's needs and in the meantime get extremely competitive costs without exposing the Company to risks, interest rate risk or added cost. The variable rates of the initial time periods of the two Put Bonds have, on the other hand, been swapped at a fixed rate and financial covenants are not contemplated, except for a rating reduction below the investment grade level. The short-term rate is much lower than the market rate, whereas the long-term rate is the same as an alternative simple loan.

Lastly, it is not believed that the potential implicit refinancing risk in case the put option is not exercised by the lenders can be considered as such in so far as (i) the loans in question may be considered similar to 3- or 5-year loans with bullet repayment, (ii) in any case, their expiration dates are not concurrent, but vary over time, (iii) the Business Plan approved by the Board of Directors 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 (iv) Hera Spa has at its disposal some back-up, committed and available lines of credit totalling Euro 250 million in order to be able to in any case deal with potential due dates. These line are however currently being increased to a total of Euro 300 million and with repayment in advance for another 3 years.

Thanks to the cash flow produced and the sound equity and financial structure, overall it is believed that the Group is thus able to meet the important investment plan envisaged by the Industrial Plan.

Hera S.p.A. maintained an "A1" long-term rating from Moody's and an "A" rating from Standard & Poor's and it is the Group's intention to endeavour so as to maintain these highly outstanding rating levels in the future.

1.11 Research and Development

The Hera Group's research activities in the first half of 2008 chiefly concerned the development of environmental monitoring and control technologies, energy efficiency, optimisation of the network management, and the technological development of renewable sources.

Leading research projects were:

CO2 Project. This project was started up in 2005, with the objective of reducing sludge from wastewater treatment and greenhouse gas emissions. It involves experimentation of an innovative technology for capturing carbon dioxide (CO₂) issuing from exhaust gas produced by combustion processes and its use in the process of anaerobic digestion of sewage sludge. In 2006 and 2007 a series of experimental activities were carried out on a pilot plant specifically created: the tests performed evidenced a good capacity in capturing the CO₂ and a considerable increase of the specific production of biogas. In the first part of 2008 the experimental activities focused on enhancing the anaerobic process continued, and the assessments for a first industrial application of the process to a real scale plant were conducted.

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. That of the 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 in the last decade. The problem is perceived 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. These are the reasons why 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), at developing analytical methods for determining their quantities, at performing surveys on the presence of these substances in the water systems involved, and at 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. At the beginning of 2008, a cooperation was initiated also with the Centro Ferrara Ricerche and with the Mario Negri Institute. The end of the first half of 2008 saw the start of the analysis of the micro-pollutants of pharmaceutical origins in wastewaters.

Environmental Catalysis Project. The project, started in 2007 with the collaboration of the University of Bologna and with the participation of the Italian Institute of Health, envisages checking the use of traditional catalytic converters used to abate NO_x emissions and dioxins. Characterisation of several commercial catalytic converters was carried out in 2007 with outstanding results, above all for those used on the Group's plants. In 2008, the construction of the prototype to be tested on the gas line of the new waste-to-energy plant in Forlì was initiated.

Ferrara Acque Project. This project involves a series of actions designed to support the management of the Ferrara water system via application of state-of-the-art technological solutions (mathematical simulation models and forecasting models for refurbishment of water pipes). During 2006, the mathematical model of the network was developed and the first measures for implementing a "division into districts" carried out. Effective leakage detection campaigns have also been carried out, availing of acoustic instrumentation. 2007, on the other hand, saw the development of an optimisation model to plan actions for the refurbishment of the waterway network, and it will be employed by Hera Ferrara starting in 2008.

Automatic Leakage Detection Project. The project has come about as a natural development of remote reading of drinking water meters. It 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 in different environmental conditions were carried out. The first experimental results were very positive, and led to the grant of an European patent.

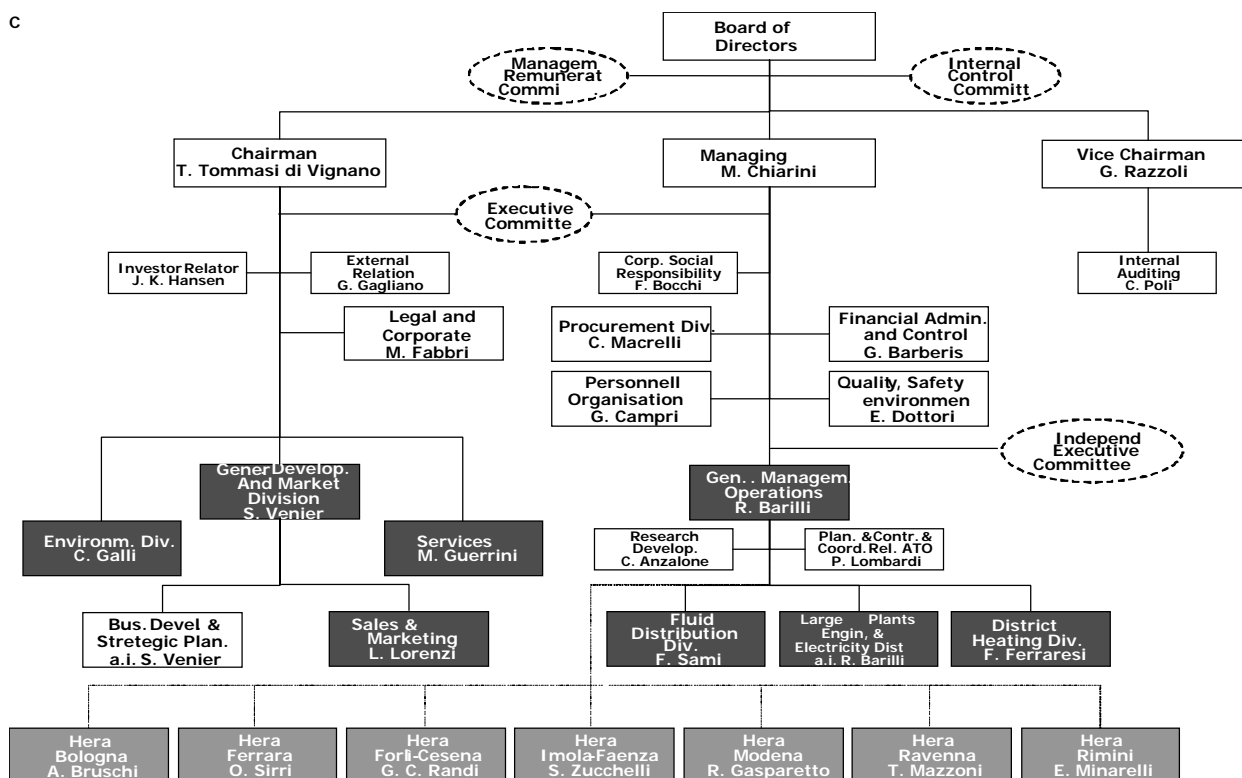
Energy Efficiency Benchmarking Project: The aim of the project is to supply tools to improve the energy efficiency of integrated water service systems. Through benchmarking and an appropriate schematisation of the plant processes, it will be possible to measure and monitor the energy efficiency of each plant. The activity initially regards the purification plants. The project is coordinated by the Water Research Center of Swindon (UK) and various European multiutilities take part in it. The activity, started in 2007, continued in 2008 with the characterisation of energy consumptions at the purification plant of Cervia (RA) and with the definition of the metering points to verify the effective streamlining.

Fuel-Cell Project. The project sets out to evaluate the efficiency of plants for distributed production of electricity and heat through combustion cells fuelled by methane or hydrogen. During 2006, a polymeric-membrane cell prototype fuelled by methane was created,. The cell was transferred to the ENEA laboratories in Bologna in 2007 for testing, which will also continue during 2008.

Project for the Automatic Operation of the Plants. 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 (treatment plants) or of the incoming raw water (potability treatment plants). The objective is to guarantee the quality of the final product and reduce energy consumption. In the first few months of 2008, works at the treatment plant of Calderara di Reno (BO) started.

1.12 Human Resources and Organisation

The Organisational Macrostructure



Human Resources

At 30 June 2008 the Hera Group had 6,454 employees (consolidated companies), with the following breakdown by role: managers (119), middle managers (297), employees (2,940), and workers (3,098). This workforce is the result of the following changes: new resources (+152), resigned resources (-118), changes in the perimeter of companies(1) (+396), divestment of non core services(2) (-90). It should further be noted that the new employments were mainly determined by the changed employee mix, with the increase in qualified staff; lastly, there was an overall increase in the number of employees with university degrees: with an increase from 11% of the total open-ended contract employees compared with 2007 (equal to 655 units), to 12% in the first half of 2008 (equal to 778 units).

(1) SAT: +209, MEGAS: +187

(2) Funerary services and Urban Quality at Hera Rimini: -90

Organisation

The first half of 2008 saw significant changes in the organisational structure of the Group.

In compliance with resolution 11/07 issued by the Authority for Electricity and Gas, which, for multiutilities companies, establishes the requirement of functional separation of the sale activities from distribution activities for the electricity and gas services, the Fluid Distribution Division was implemented under the responsibility of the Head Office for Operations; the Fluid Distribution Division absorbed the Gas Distribution, Water Cycle, Laboratories and Fluids Remote Control functions. ,

Just as for the fluid networks, within the new Large Plants Engineering and Electricity Distribution Division, the new Electricity Distribution function was created.

Furthermore, in order to focus the attention of the entire Group on one of the most important areas of Hera assets, i.e. its client base, combining the area responsible for new initiatives with the area responsible for the supervision of the liberalised electricity market, the Head Office for Development and Market was created and it absorbed the Head Office for Business Development and Strategic Planning and the Sales and marketing Division.

Effective as from June 2008, in order to further supervise the management of the activities related to the quality, to the security and environment, for the purpose of monitoring, pursuing and guaranteeing the related corporate objectives, the Central Office for Quality, Security and Environment was created, under the direct responsibility of the Managing Director.

Effective 1 January 2008, the integration of Sat in Hera was initiated. The integration allowed Hera to expand its presence in the 6 municipalities previously under Sat management, as regards gas, water and municipal hygiene, exploiting the synergies coming out of the merger.

Approximately 200 resources were added with this operation. They are divided between the Hera Modena territorial company, particularly for the technical-operational management of the services in the area, and the holding company as far as IT services and fleet management is concerned.

The integration of the systems shall be completed by March 2008.

The finalisation of the important activity rationalization projects continues and, due to their technical, technological and management complexity, requires a long-term implementation phase. Specifically:

rationalisation of laboratory analysis: in the context of the implementation of the project, the activities and resources concentration plans for the facilities of Bologna, Ravenna and Forlì were concluded.

remote-control centralisation: following the realisation of the single remote control centre for the fluid networks (water cycle, gas and district heating) of Hera Group at Forlì offices, officially opened in May, the plan for the transfer of the resources, in accordance with the provisions of the project, is now under way.

Consistently with the new on-call service model for the fluid networks, the actual implementation of the model in the territories is currently being completed.

In April 2008, on the Group's website, the new e-Procurement system was introduced, based on internet technology which allows to manage via web the relations with the suppliers, from their application to the qualification and negotiations, up to the assignment of an order and to the subsequent assessment of the qualitative performances. The platform adopted is SRM 6.0, which is the latest release of the German software house Sap.

Industrial Relations

Trade union activity continued along the directions provided in the Supplementary Collective Labour Agreement dated 22 March 2006. It is basically focussed on achieving organisational alignment.

To be pointed out amongst its main activities are:

In the context of the rationalisation project for the Group's analysis laboratories for water and environmental services, the on-call supervision systems of the emergency analytic activities and, also in a uniform manner, of the working hours of the dedicated staff were defined with reference to Ravenna, Bologna and Forlì laboratories.

The application stage of the existing national collective labour agreements (CCNL) was concluded. Thus, the CCNL is currently assigned to the employees on the basis of the industry sector they belong to.

Trade union negotiations were initiated, and some are currently in the final stage, for the application of the consolidated organisational model of on call services on the management of the emergency service on fluid networks and plants, aimed at guaranteeing a better and uniform protection of workers' safety, of the plants and of the community. The Territorial Operating Companies involved are those in Modena, Forlì, Cesena and Rimini.

Training

In January, the top-down circulation of the contents of the Code of Ethics was launched. Such activity, realised through an innovative training procedure, involved over 93% of the employees of Hera Spa and the Territorial Operating Companies and, from April, it has been extended to all Subsidiaries. By the end of the second half of the year, the entire workforce is expected to get involved.

The consolidation activity of the School of Trades model continued with the completion of the work sites opened in 2007 in the Bologna, Ferrara, Modena and Rimini areas, which were focused on the following trades:

- operation and maintenance of medium and low voltage electricity substations;
- operation of water collection and purification plants;
- operation of wastewater purification plants;
- emergency services for network maintenance;
- operation and remote control of plants and networks;
- management of customers front office.

Upon completion of the work sites, six additional *Quaderni di Mestiere* (Trade Notebooks) were prepared (educational support instruments for the tutoring and teaching in a real working situation) and the training of internal trainers was realised, which involved workers from the different geographical areas of the Group.

In the commercial area, the training of the staff responsible for the management of customer relations focused on developing the sale orientation and specific techniques; in the first half of the year, the entire call center staff has been trained and by December it is expected that all the staff engaged in customer related activities will have been trained.

As part of the institutional initiatives and in order to support development path of managers, further high level training (Executive MBA, General Management Program) and one-to-one coaching programmes were launched, and the institutional training programme for the resources included in the 2007 Graduates Project was initiated. Furthermore, 85% of the managerial and processes training has been completed (which involved 100% of the intermediate managers/coordinators and 100% of the employees of the subsidiary Famula On Line) established under the extraordinary plan for the Information Systems Professionals. In the second half of the year, besides the completion of the afore mentioned activities, technical expertise update and development activities will be carried out.

There were significant training activities in support of the implementation and consolidation of the corporate information systems (particularly as regards the new e-procurement system) and on specific topics related to quality, security and environmental issues. Following the entry into force of the Consolidated Act on health protection and safety in workplaces (Legislative decree 81/2008) an articulated training and information program was initiated, which shall continue in the second half of the year. Furthermore, the training activities in compliance with the legal requirements (fire-fighting, first aid, ...) continued.

A total of 121,500 man hours (see the table below) were put in by approximately 5,934 people (~93% of staff), for a total of over 20,600 participations in professional training events/refresher courses. Investment for the period, net of costs for non- production, stands at more than Euro 431,000.

Asse Formativo	Ore Uomo
Addestramento professionale e formazione specialistica	92.000
Qualità Sicurezza e Ambiente	13.300
Formazione manageriale	6.800
Informatica	9.400
Totale	121.500

1.13 Information systems

In the first half of 2008, the information systems, in line with the previous years, worked towards optimising the integration between customer front-end applications and the applications connected to invoicing, for the purpose of an increasingly better relation with the client as added value.

In the reference period, the crm and billing sap is-u systems allowed to manage over two million clients, more than one million contacts – mainly through call centre and physical help-desks – against over 7 million bills issued.

In order to pursue the goals of consolidation of the physical and logical safety of the systems and data, in a scenario of growing volumes and increased complexity of the information managed, the commitment of the information systems continued in line with a rationalisation policy of the technological infrastructures supporting and guaranteeing a growing integration of the Group's processes.

Specifically, the planning of the activities in progress was focused on satisfying the needs arisen as a consequence of new and growing developments of the reference market, and of the sector regulations.

In the first half of 2008, as regards market requirements and in support of the business activities, the following activities, amongst the most significant events, are worth noting:

- completion of the siebel-sap integration;
- realisation of a client portal;
- realisation of portals for gas and electricity distributors;
- implementation in the system of new commercial offers;
- measures in support of the billing process, such as the introduction of over 80 new tariff schemes, the printing process review and the review of the layout of the new business bill;
- management of regulations adjustments related to VAT and excises and to the commercial quality;
- design and implementation of the reports to the gas and electricity authority;
- implementation of the mro system for the management of the mass replacement of electronic meters.

On the other hand, the following are worth noting as the most significant activities in support of Hera's internal operations:

- start of the e-procurement system for the automation and efficiency of the purchase process;
- start of the management system of the real estate assets of the services division and of the maintenance of the plants managed by the environment division;
- management of the new bank details (iban);
- realisation of the automated procedure for managing the extrabilling flows.

1.14 Quality, Safety and Environment

In January 2007, the Hera Group's Quality, Safety and Environmental management has been integrated into the Head Office Personnel and Organisation Division.

In this context, Hera continued, in 2008, to develop the new vision of its role, through updates to the procedures within an integrated management system for quality, safety and management, which took shape with the issue of new procedures, coordinated between the different elements of the Group, on the main issues provided by the regulations.

At the beginning of 2008, once the experimental stage developed on a reference model was terminated, the development of the project related to the construction of an integrated document management system was initiated, identifying the application scopes and, within such scopes, the processes, procedures and operating instructions, if any, so that the structure and procedures for document management would be uniform and compliant with the methodological features defined to guarantee a correct issue, management and consistency verification of all the documents underlying the operation of the company.

As of today, the project proceeds in accordance with schedule. The objective is to include, by the end of the year, 90 processes amongst the most important for the functioning of the company management system, sharing them with the process owners.

In the first half of the year, following the changes in the regulations governing health and safety in workplaces, i.e. the Legislative Decree re-named "consolidated act", the activities initiated prior to the issue of the Legislative Decree experienced a further impulse, integrating the analysis and preliminary actions for the start of OHSAS 18001 certification, expected by in the last few months of the year. Numerous training sessions on the topic were also held and completed in order to raise awareness amongst Hera management about the environmental quality integrated issues connected with health and safety in workplaces.

In the same period, the activities for the preparation of a control and monitoring system of the suppliers of the Group through a procedure which involves standard or customised check lists to carry out periodical and systematic checks, planned as from the second half of the year, were contemplated.

Also towards the end of the first half of the year, Hera's Board of Directors resolved to restructure a central office for quality, environment and safety, under the direct responsibility of the managing director. This resolution highlights the need to consolidate, in terms of corporate image, role and consistency with the principles and values contained in the code of ethics and in the corporate mission, with the initiatives of the of the company connected to the management system, in order to better ensure such principles in the daily activities by all Hera's employees, but also by its stake holders.

The training program of the Group (years 2007-2008) was conducted in accordance with the contents planned, also for the purpose of enhancing the motivations and sense of belonging of the employees involved, conducting also those courses which, due to objective problems, could not be held at the dates originally planned; furthermore, the training on specific issues related to the Iso 9001 and Iso 14001 certification activities in progress have been guaranteed in parallel with the activities related to OHSAS 18001.

In May and July the audit phases for the maintenance of the Iso 14001 and Iso 9001 certifications were completed, while the final procedure shall terminate in September. The initial results of the verifications are, altogether, positive and satisfactory: An important element in the certification process was the extension to Modena, due to the inclusion of the former Sat in Sassuolo. In addition, the audit for EMAS certification in Ferrara was carried out. It is currently being completed and has been submitted to the Ecoaudit Interministerial Committee for the purpose of obtaining the EMAS registration of all the activities of the company. The EMAS procedure for the waste management is expected in the second half of the year; also in this case the extension to four additional plants is expected.

1.15 Relevant Events After the End of the Period

On 10 July 2008, Hera Comm Srl formalised the purchase from Liguria Gas Service of the business unit related to the sale of gas in the municipalities of Fanano, Riolunato, Pievepelago, Fiumalbo and Abetone, in the province of Modena. As at the date of the transfer, the business unit counted 3,689 clients. The price paid is equal to Euro 664,354.

On 28 July, Hera Comm Srl, executed the preliminary agreements signed in 2007 with Marche Multiservizi Spa and Megas Net Spa, related to the purchase of 100% of the capital of Megas Trade Srl. The price paid to Marche Multiservizi Spa, owner of 70% of the capital of Megas Trade Srl, was equal to Euro 3,266,900, while the price paid to Megas net Spa, owner of the remaining 30% of Megas Trade srl, was equal to Euro 1,400,100. Mega Trade Srl counts 36,650 clients, and the company, following the completion of the purchase of the shares, was renamed HeraComm Marche and will be the vehicle for the development of the marketing activities in the region of Marche.

2 - Abbreviated half-year financial statements as at 30 June 2008

2.01 Consolidated income statement

(in thousands of €)	note	1st half 2008	1st half 2007
Revenues	4	1,752,381	1,344,871
Change in stock of finished goods and work in progress	4	2,202	-73
Other operating income	5	29,593	20,029
Use of raw materials and consumables (net of change in stock of raw materials and stocks)	6	-1,096,444	-739,981
Costs for services	7	-355,776	-338,389
Personnel costs	8	-172,895	-150,613
Amortisation, depreciation and allocations	9	-114,904	-96,942
Other operating costs	10	-19,519	-27,146
Capitalised costs	11	118,033	101,998
Operating profit		142,671	113,754
Portion of profit (loss) pertaining to associated companies	12	697	1,455
Financial income	13	11,309	9,660
Financial charges	13	-63,572	-47,273
Total financial operations		-51,566	-36,158
Other non-operating costs	14	-5,611	0
Pre-tax profit		85,494	77,596
Taxes for the period	15	-35,909	-33,600
Net profit for the year		49,585	43,996
Attributable to:			
Shareholders of Parent Company		41,202	37,375
Minority shareholders		8,383	6,621
Earnings per share	15.1		
base		0.040	0.037
diluted		0.040	0.037

Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the income statement are indicated in paragraph 2.03 of these abbreviated half-year financial statements.

2.02 Consolidated Balance Sheet

(in thousands of €)	note	30 June 2008	30 December 2007
ASSETS			
Non-current assets			
Tangible fixed assets	16	2,738,508	2,546,028
Intangible fixed assets	17	213,718	219,305
Goodwill and consolidation differences	18	362,172	316,621
Equity investments and securities	19	93,233	121,729
Financial assets	20	8,176	6,802
Deferred tax assets	21	46,115	45,080
Financial instruments - derivatives	22	11,668	9,685
		3,473,590	3,265,250
Current assets			
Inventories	23	56,860	49,992
Trade receivables	24	977,054	1,005,692
Long-term contracts	25	21,353	18,407
Financial assets	26	13,521	15,214
Financial instruments - derivatives	22	86,395	8,309
Other current assets	27	132,188	200,362
Cash and cash equivalents	28	136,567	211,014
		1,423,938	1,508,990
TOTAL ASSETS		4,897,528	4,774,240

cont.

Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the balance sheet are indicated in paragraph 2.03 of these abbreviated half-year financial statements.

(in thousands of €)	note	30 June 2008	31 dicembre 2007
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	29		
Share capital		1,032,738	1,016,752
- Reserve for treasury shares at par value		-300	-617
Reserves		418,835	376,365
- Reserve for treasury shares value exceeding par value		-476	-1,211
Reserves for derivative instruments valued at fair value		5,693	4,365
Retained earnings (losses)		4,383	0
Profit (loss) for the period		41,202	96,246
Group shareholders' equity		1,502,075	1,491,900
Minority interest share		47,331	46,692
Total shareholders' equity		1,549,406	1,538,592
Non-current liabilities			
Loans - maturing beyond the next year	30	1,387,761	1,396,693
Employee leaving indemnity and other benefits	31	105,857	102,876
Provisions for risks and charges	32	197,885	182,048
Deferred tax liabilities	33	126,893	121,050
Payables for financial leases - maturing beyond the next year	34	14,155	13,904
Financial instruments - derivatives	22	1,955	1,836
		1,834,506	1,818,407
Current liabilities			
Banks and other borrowings - maturing within the next year	30	252,264	248,481
Payables for financial leases - maturing within the next year	34	5,226	5,637
Trade payables	35	784,878	889,416
Income taxes payable	36	191,171	66,687
Other current liabilities	37	205,392	198,512
Financial instruments - derivatives	22	74,685	8,508
		1,513,616	1,417,241
Total liabilities		3,348,122	3,235,648
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,897,528	4,774,240

Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the balance sheet are indicated in paragraph 2.03 of these abbreviated half-year financial statements.

2.03 Consolidated Cash Flow Statement

Consolidated Cash Flow Statement (*)	30-Jun-2008	30-Jun-2007
Operating activities		
Cash flow		
Net profit pertaining to Group and minority shareholders	49,585	43,996
Depreciation and writedowns of tangible fixed assets	73,799	62,840
Amortisation and writedowns of intangible assets	21,063	17,991
Total cash flow	144,447	124,827
Changes in prepaid and deferred taxation	5,283	11,468
Employee leaving indemnities and other benefits:		
Provisions/ (uses)	(1,259)	(7,565)
Provisions for risks and charges:		
Provisions/ (uses)	8,384	9,235
Total cash flow before changes in net working capital	156,855	137,965
Working capital		
Change in trade receivables	74,197	29,671
Change in inventories	(8,592)	(5)
Change in other current assets	71,524	(10,617)
Change in trade payables	(143,413)	(95,590)
Change in tax liabilities	123,424	31,263
Change in other current liabilities	(5,299)	26,616
Change in working capital	111,841	(18,662)
Liquidity generated by operations	268,696	119,303 a)
Investment activities		
Disposal/(investment) in tangible assets, net of net investments/disinvestments	(183,099)	(165,134)
Disposal/(investment) in intangible assets, net of net investments/disinvestments	(8,643)	(16,047)
Goodwill	(707)	1,367
Investments in equity investments net of disposals	(730)	(6,635)
(Increase)/decrease in other investments	319	(747)
Liquidity generated/(absorbed) by investment activities	(192,860)	(187,196) b)
Financing activities		
Medium/long-term loans	(26,668)	239,274
Change in shareholders' equity accounts	8,906	6,613
Change in short-term bank indebtedness	(22,281)	(124,552)
Dividends paid out	(92,922)	(89,530)
Change in financial leasing payables	(3,390)	(18,366)
Change in financial instruments - derivatives	(13,928)	(19,166)
Liquidity generated/(absorbed) by financing activities	(150,283)	(5,727) c)
	(74,447)	(73,620)
	(a+b+c)	(a+b+c)
Change in net financial position		
Cash and cash equivalents at the beginning of the year	211,014	213,629
Cash and cash equivalents at the end of the year	136,567	140,009
	(74,447)	(73,620)

(*) In compliance with Consob Resolution no. 15519 of 27 July 2006, the effects on the income statement of any relations with related parties are accounted for in the appropriate income statement format outlined below, and are further detailed in paragraph 3.05 of this abridged format half year report.

2.04 Statement of changes in the shareholders' equity

	Share capital	Reserves	Reserves for derivative instruments measured at fair value	Profit for the period	Shareholders' equity	Minority interest share	Total
Balance as at 31 December 2007	1,016,135	375,154	4,365	96,246	1,491,900	46,692	1,538,592
treasury shares in portfolio	317	999			1,316		1,316
		3,393	1,328		4,721	94	4,815
change in the fair value of derivatives for the period	14,540	30,288			44,828		44,828
share capital increase for Sat merger – shareholders' meeting 16 October 2007							
share capital increase for conferral in kind – shareholders' meeting 16 October 2007	1,446	3,015			4,461		4,461
change in scope of consolidation		-3,816			-3,816	2,513	-1,303
other movements		-19			-19	53	34
<u>Appropriation of profits for 2007:</u>							
dividends paid out				-82,518	-82,518	-10,404	-92,922
allocation of undivided profits to reserves		4,666		-4,666	0		0
allocation to other reserves		9,062		-9,062	0		0
Profit for the period				41,202	41,202	8,383	49,585
Balance as at 30 June 2008	1,032,438	422,742	5,693	41,202	1,502,075	47,331	1,549,406

2.05 Explanatory notes

Accounting principles and valuation criteria

The same accounting principles were applied to these half-year financial statements, drawn up according to IAS 34 – *Interim Financial Reporting*, as to the income statement at 31 December 2007. Please refer to this for full details.

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 valuation, should differ from the actual circumstances, they will be amended accordingly to represent the actual situation.

Please also note 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 definitively at the time the annual report is 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 half-year financial statements are comparable with those of previous periods. Specifically, a comparison of single items in the balance sheet and the income statement must take into consideration the changes in consolidation basis indicated below and the merger of Sat Sassuolo and its subsidiaries into Hera SpA with effect from 1 January 2008.

Consolidated Financial Statements

A decremental format has been used for the income statement, with individual items analysed by type. We believe that this type of disclosure, which is also used by our major competitors, to be in line with international practice and the best representation of company results. The balance sheet table makes the distinction between assets and liabilities, current and non-current. The statement of changes in the shareholders' equity was prepared according to IAS 1. The cash flow statement was drawn up using the indirect method in accordance with IAS 7.

Scope of consolidation

These abbreviated half-year financial statements include the financial statement 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 activity.

Small-scale subsidiaries and those in which the exercise of voting rights is subject to substantial and long-term restrictions are excluded from the full consolidation and valued at cost. Interests comprising fixed assets in large-scale associated companies are valued at equity.

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

No companies have been included in the consolidation using the proportional method.

Changes to the scope of consolidation in the first half 2008 compared with the consolidated financial statements at 31 December 2007 are shown below.

Subsidiaries

Companies included in the scope of consolidation as at 30.06.2008	Companies excluded from the scope of consolidation as at 30.06.2008	Note
	Ares Spa Consortile	On 26 June 2008, Ares Spa Consortile approved its final winding-up financial statements and ceased operations. The company has ceased operations.
Megastrade Srl		With effect from 1 January 2008, Marche Multiservizi acquired 70% of Megastrade Srl , which was included in the Hera Group scope of consolidation through the merger by incorporation of Megas Spa into Marche Multiservizi Spa.

- On 28 March 2008, the company **Hera Gas Tre SpA** changed its company name to **Hera Energie Rinnovabili SpA**
- With effect from 1 January 2008, Megas SpA was merged into **Aspes Multiservizi SpA**, which changed its name to **Marche Multiservizi SpA**

Associated companies

Companies included in the scope of consolidation as at 30.06.2008	Companies excluded from the scope of consolidation as at 30.06.2008	Note
Feronia		As a result of the Sat Spa merger, from 1 January 2008 Feronia Srl is included in the Hera Group scope of consolidation (Equity 40%).
Prigeas Srl		As a result of the Sat Spa merger, from 1 January 2008 Prigeas Srl is included in the Hera Group scope of consolidation (Equity 49%).
Satcom Spa		As a result of the Sat Spa merger, from 1 January 2008 Satcom Srl (100% owned) is included in the Hera Group scope of consolidation.
So.Sel		As a result of the Sat Spa merger, from 1 January 2008 So.Sel Spa (26% owned) is included in the Hera Group scope of consolidation.
	Sat Spa	With effect from 1 January 2008, Sat Spa , 100% consolidated up to and including the 2007 financial year, was merged by incorporation into Hera Spa.

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

New accounting principles

From 2007, the following international accounting principles and interpretations already published in the Official Gazette of the European Community were applied, affecting only disclosure content.

IFRS 7 *Financial Instruments: Disclosures*, which requires a broad disclosure, with reference to the nature of, and management methods used for, credit, liquidity and market risks. This disclosure has been provided in these notes;

IFRIC 8 – Scope of IFRS 2, which defines the accounting principle IFRS 2 – *Share-Based Payments*, not applicable to the company;

IFRIC 9 – *Reassessment of Embedded Derivatives*, which governs some aspects of the booking of embedded derivatives under IAS 39 – *Financial Instruments: Recognition and Measurement*, not applicable to the company;

IFRIC 10 *Interim Financial Reporting and Impairment*, which states that impairment losses in respect of goodwill and certain financial assets shown in the financial statements must not be reversed in subsequent interim or annual reports. This principle was not applied in the absence of write-downs in the interim periods.

Please also note that the following accounting principles and interpretations have been published, for application in subsequent full-year accounts. The company is currently assessing methods and terms of application.

IFRS 8 – *Operating Segments*, applicable from 1 January 2009, will replace IAS 14 – *Segment Reporting*.

IFRIC 11 – *Group and Treasury Share Transactions*, applicable from 1 January 2008.

Other information

Information on the company's activities and important events taking place after the close of the financial year is given in a section of this report.

This half-year financial report to 30 June 2008 was approved by the Board of Directors on 29 August 2008.

Content and principal changes

4 Revenues

	1st half 2008	1st half 2007	Changes
Revenues from sales and services	1,752,381	1,344,871	407,510
Change in inventories of work in progress, semi-finished and finished products	-218	-190	-28
Change in contract work in progress	2,420	117	2,303
Other income and revenues	29,593	20,029	9,564
Total	1,784,176	1,364,827	419,349

Please see the report on operations for the analysis of sales trends by business sector.

Here it should be noted that revenues for the first six months of 2007 include Euro 7,608 thousand for excise duties and additional payments to regional tax authorities. This was recorded by a Group company as a contra entry to an item of miscellaneous taxes classified among other operating expenses. This entry was restated in the income statement for the first six months of 2008.

5 Other operating income

	1st half 2008	1st half 2007	Changes
Insurance reimbursements	2,423	1,166	1,257
Sale of materials and stock to third parties	409	426	-17
Portion of capital grants	1,335	1,325	10
Portion of operating grants and from separated waste collection	4,888	4,294	594
Rents	1,031	805	226
Use and re-assessment of provisions	2,300	1,327	973
Ordinary capital gains from disposals	2,257	256	2,001
Costs reimbursed	648	894	-246
Other	14,302	9,536	4,766
Total	29,593	20,029	9,564

The most substantial changes with respect to the same period in 2007 are described below.

“Insurance reimbursements” shows an increase of Euro 1,257 thousand, which can mainly be broken down as follows:

- an insurance reimbursement of Euro 716 thousand on 5 March 2008 for damage to the incineration plant owned by the subsidiary Fea Srl;
- an insurance reimbursement of Euro 100 thousand for damage to public illumination plants owned by the subsidiary Hera Luce Srl;
- Reimbursement of Euro 125 thousand in costs sustained for extraordinary repairs to the drainage system in Bologna owned by the subsidiary Hera Bologna Srl, following TAV works;
- Euro 217 thousand, mainly in compensation payments by insurance companies for damage to goods owned by the Parent Company.

The item “Use and reassessment of funds” for Euro 2,300 thousand mainly comprises:

- Use of post mortem waste provisions: Euro 1,182 thousand;
- Use of INPS litigation provision for CIG and mobility: Euro 754 thousand
- Use of a provision for disposal of waste stored by the subsidiary Ecologia Ambiente Srl: Euro 101 thousand.

The rise in “ordinary capital gains on sales of goods” of Euro 2,001 thousand was mainly due to asset disposals by the Parent Company via the sale of property at Faenza (Euro 1,087 thousand) and Modena (Euro 962 thousand).

The “Other” item for Euro 14,302 mainly comprises:

- Euro 4,568 thousand in energy efficiency securities (white certificates);
- Euro 2,087 thousand in brokerage relating to waste processing for plants of partner third parties;
- Euro 1,151 thousand in recovered leasing expenses relating to the “biological towers” plant;
- Euro 578 thousand in miscellaneous revenues relating to environmental services;
- Euro 301 thousand in energy efficiency securities (grey certificates);
- Euro 255 thousand in revenues from tax credits on heating services;
- Euro 193 thousand in recharges on personnel costs;
- Euro 180 thousand in income from electricity service continuity;
- Euro 163 thousand in reimbursements for costs sustained due to the waste emergency in Campania;
- Euro 158 thousand in reimbursements from providential and welfare agencies;

“Other minor income” of Euro 494 thousand.

6 Use of raw materials and consumables (net of changes to raw materials inventories and stocks)

	1st half 2008	1st half 2007	Changes
Methane ready for sale and LPG net of inventory changes	423,573	363,887	59,686
Income and charges from derivatives	-6,921	-4,095	-2,826
Fuel for heat generation	1,628	1,161	467
Electricity ready for sale	605,227	317,835	287,392
Water	12,578	10,241	2,337
Maintenance materials: handling and spare parts net of change in stock	31,525	27,569	3,956
Electricity	7,679	7,678	1
Fuels and lubricants	7,428	5,294	2,134
Methane for industrial use	4,685	2,230	2,455
Chemical products	6,212	5,337	875
Consumables and sundry materials	2,830	2,844	-14
Total	1,096,444	739,981	356,463

Please see the report on operations for the analysis of trends in the costs of raw materials and consumables. Please note the substantial increase by comparison with the previous year in costs relating to “electricity ready for sale”, in correlation with the increase in sales revenues.

7 Costs for services

	1st half 2008	1st half 2007	Changes
Industrial utilities (water, methane, heat and energy services)	2,049	949	1,100
Charges for work and maintenance	120,966	109,734	11,232
Energy transport and storage	43,162	58,367	-15,205
Insurance	6,491	5,763	728
Cleaning and security costs	2,609	2,512	97
Waste transportation, disposal and collection services	69,806	58,264	11,542
Announcements, advertising and disputes	4,197	3,976	221
Transport	1,233	892	341
Technical, organization, legal and tax consultancy	13,377	12,844	533
Remuneration of Directors and Statutory Auditors	2,603	2,624	-21
Meter reading	1,957	1,545	412
Postal and telephone costs	2,063	1,796	267
Recruitment, training and other staff costs	5,468	4,765	703
IT and CED services	4,599	5,339	-740
Laboratory analyses	1,760	1,269	491
Bank charges and commissions	3,220	2,769	451
Fees paid to local authorities	37,820	33,094	4,726
Rents and leases payable	6,382	7,350	-968
Fees payable	1,656	3,023	-1,367
Other	24,358	21,514	2,844
Total	355,776	338,389	17,387

Comments on changes in the main operating costs compared with the previous financial year are contained in the report on operations. Some of the items reported in the first half 2007 have been reclassified. The most substantial reclassification was the creation of a new item, "IT CED (Data Elaboration Centre) services", which was separated from "Technical, organisation, legal and tax assistance consultancy" in order to make the classification more analytical.

8 Personnel costs

	1st half 2008	1st half 2007	Changes
Wages and salaries	120,079	109,836	10,243
Social security contributions	38,735	35,796	2,939
Employee leaving indemnity	3,164	-4,700	7,864
Other costs	10,917	9,681	1,236
Total	172,895	150,613	22,282

A total comparison was made between the personnel costs of the two half-years, taking into account extraordinary and non-recurring effects from the application of new regulations to the staff severance fund. For the latter item, the positive impact on the income statement for the previous financial year, as indicated in note 29, derived from the curtailment value (Euro 16,816 thousand), net of actuarial gains/losses (- Euro 11,538 thousand), for a net effect of Euro 5,278 thousand.

The increase in the “other costs” item resulted from the application of the same regulations, which required the booking of higher complementary pension scheme and INPS (Italian social security agency) fund costs. The following is a breakdown by category of the average number of employees for the period under review:

	1st half 2008	1st half 2007	Changes
Executives	120	110	10
Managers	299	275	24
Administration	2,931	2,687	244
Manual	3,173	3,183	-10
Average number	6,523	6,255	268

The total, average, per capita cost of labour in the first six months of the financial year 2008 was Euro 26 thousand higher than in the same period in the previous year, an increase of 1.1%.

As at 30 June 2008, the effective number of employees was 6,454 units. This represents an increase of 230 units compared with the same period of the previous year, mainly due to the respective mergers of Sat SpA into Hera SpA and of Megaz SpA into Marche Multiservizi SpA, both with effect from 1 January 2008.

9 Amortisation, depreciation and provisions

	1st half 2008	1st half 2007	Changes
Depreciation of tangible assets	73,799	62,840	10,959
Amortisation of intangible assets	21,063	17,990	3,073
Provision for bad debts on current assets	9,287	6,340	2,947
Provisions for risks and other provisions	10,755	9,772	983
Total	114,904	96,942	17,962

For further information on the items, please see comments under “tangible fixed assets”, “intangible assets”, “trade receivables” and “provision for risks and future liabilities”. The increase in amortisation of tangible fixed assets takes account of allocation to these fixed assets of the consolidation difference due to the acquisition of Hera Rete Modena Srl.

10 Other operating costs

	1st half 2008	1st half 2007	Changes
State rentals	1,998	1,846	152
Taxation other than income taxes	1,999	9,520	-7,521
Membership fees and other contributions	1,502	1,013	489
Special landfill levy	7,448	7,474	-26
Losses on the sale of assets	18	78	-60
Credit losses	2		2
Other minor charges	6,552	7,215	-663
Total	19,519	27,146	-7,627

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

Land leasing includes charges for public illumination and telecommunications and payments to various bodies for concessions and water abstraction.

The item “non-income-related tax” shows a reduction on the same period of the previous year, due to a change in the reporting of tax on consumables by one subsidiary compared with 2007.

Ample information on the different criterion and the change in classification compared with the 2008 accounts has already been provided in note 4 on revenues.

The item “special landfill levy” shows a decrease of Euro 26 thousand compared with the previous year due to a reduction in waste taken to landfill, a corresponding rise in energy recovery through waste incineration and an increase in separated waste collection.

11 Capitalised costs

	1st half 2008	1st half 2007	Changes
Increases for internally-constructed fixed assets	118,033	101,998	16,035
Total	118,033	101,998	16,035

This item corresponds to investments carried out directly by regional operating companies and mainly comprises costs sustained by these companies. It also includes personnel costs and financial charges sustained by the Parent Company, for Euro 2,270 thousand (Euro 1,926 thousand at June 2007) and Euro 5,427 thousand (Euro 2,440 thousand at June 2007) respectively. Please see the notes on the balance sheet assets (tangible and intangible assets) and the report on operations for the related analysis.

12 Portion of profits (losses) pertaining to associated companies

	1st half 2008	1st half 2007	Changes
Portion of profits	925	1,462	-537
Portion of losses	-228	-7	-222
Total	697	1,455	-759

The share of profits/losses generated by associated companies includes effects due to valuation at equity. By comparison with the previous period, there was a decrease in this item in total, partly due to a decline in the results of some companies, and to a reduction of Euro 472 thousand due to the deconsolidation of the company Sat SpA, valued at equity at 30 June 2007, which was merged into Hera SpA with effect from 1 January 2008.

There was also a reclassification of this item in the profit and loss table at 30 June 2007, in line with the change made at 31 December 2007. Specifically, “other portions of profits/losses” and “dividends from other companies” were reclassified in note 13 relating to financial income/charges, as shown in the table below.

	30 June 2008	30 June 2007	
		<i>reclassified</i>	
Other portions of profits/losses	-162		162
Financial charges – write-downs on investments		-118	-118
Financial charges – capital losses from trading of investments		-64	-64
Financial income – capital gains from trading of investments		20	20
Dividends from other companies	45		-45
Financial income – dividends from investments in other companies		45	45
Total	-117	-117	0

13 Financial income and charges

Income	1st half 2008	1st half 2007	Changes
Bank interest income	2,147	2,020	127
Interest income on other short-term receivables	114	63	51
Interest charged to customers	456	217	239
Financial income generated by derivatives on rates	6,258	6,300	-42
Financial income – capital gains from trading of investments	823	20	803
Dividends from investments in other companies	58	45	13
Other financial income	1,453	995	458
Total financial income	11,309	9,660	1,649
Financial charges	1st half 2008	1st half 2007	Changes
Interest expense on bank current account overdrafts	10,699	6,097	4,602
Interest expense charged by banks for medium/long-term loans	14,535	15,748	2,646
Financial charges generated by derivatives on commodities		1,670	-1,670
Financial charges generated by derivatives on rates	3,111	4,453	-1,342
Financial charges as a result of IAS 19	2,479	2,221	258
Financial charges generated by the application of "other international accounting standards"	5,108	5,093	15
Write-down of investments	90	118	-28
Capital losses from trading of investments	243	64	180
Other	27,307	11,809	11,638
Total financial charges	63,572	47,273	16,299

The report on operations contains comments on the total balance of financial income and charges.

For income and charges on derivatives, commodities were reported at zero: please see note 20 to the balance sheet.

Income and charges on tax was positive for Euro 3,147 thousand, mainly due to the renegotiation operations completed during the half-year: again, please see note 20.

The item “Other financial charges” comprises:

- Euro 19,729 thousand for bond loans, Euro 8,917 thousand higher than in the previous period;
- Euro 1,376 thousand for the difference in charges after application of amortised cost. The recalculation increased the value by Euro 1,263 thousand compared with the same period a year earlier, because nearly all financing was accessed in the second half of 2007 (see comment in note 30). With regard to the method used, please note that in the recalculation, the maximum duration for the financing was assumed, and also that the put options are not exercised for the duration of the same financing, within the contractually determined deadlines.
- Euro 5,607 thousand in financial charges paid alongside past taxes, as part of the recovery for the fiscal moratorium, as well as charges due to the recalculation of amortisation rates for mortgages from the *Cassa Depositi e Prestiti*. See note 13 on taxes and duties for more detailed information.
- Euro 176 thousand in interest payable on guarantees and deposits;
- Euro 413 thousand in factoring charges.

The item “financial charges determined by the application of other international principles” for Euro 5,108 thousand comprises:

- IAS 17 – *Financial Leasing* for Euro 483 thousand;
- IAS 37 – *Discounting Landfill Post-Closure Provision* for Euro 1,673 thousand;
- IAS 37 – *Discounting of Provisions for Restoration of Third-Party Assets* for Euro 2,952 thousand.

After the reclassification in relation to the first half 2007, the value is in line with the previous financial year.

	30 June 2008	30 June 2007 <i>reclassified</i>	
Financial charges generated by interest rate derivatives	3,548	4,453	-905
Financial charges generated by the application of “other international accounting standards”	5,998	5,093	905
Total	9,546	9,546	0

14 Other non-operating costs

	1st half 2008	1st half 2007	Changes
Other non-operating costs	5,611	0	5,611
Total	5,611	0	5,611

This item shows charges for tax and duties relating to the moratorium described in note 15 below.

15 Income taxes

	1st half 2008	1st half 2007	Changes
Current, deferred and prepaid taxes	35,909	33,600	2,309
Total	35,909	33,600	2,309

Total taxation on profit before tax in the period was 42%, compared with 43.3% in the same period in 2007. The improvement was due to a reduction in the Ires and Irap tax rates (from 37.25% to 31.4%), partly offset by the effects of applying Legislative Decree 112/2008, coordinated with Conversion Law 133 of 6 August 2008 - the so-called "Robin Tax" - to some of the group's companies operating in gas and electricity production and sale. The Robin Tax had a total estimated impact on the half-year accounts of about Euro 1.6 million.

On implementation of Draft Law 10 of 15 February 2007, converted into Law 46 on 6 April 2007, which governs restitution of state aid declared illegal under decision 2003/193 of 5 July 2002 by the European Commission, Hera SpA was issued on 6 April 2007 with notices and injunctions by the competent regional Revenue Service, requesting a total payment of Euro 22,312,964 for the four periods of tax recovery. On 31 May 2007, Hera SpA filed an appeal against the aforementioned notices and injunctions with the 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.

Partial relief having been obtained on 2 May 2008 for the 2007 tax period, after recognition of the aforementioned retentions and credits, for Euro 3,738,074, a total payment of Euro 17,399,770 was made. Appeals against the aforementioned first-instance judgements are currently in preparation.

Please also note that, under the terms of agreements made between shareholders at the time of the incorporation giving rise to the creation of Hera SpA and reported in the IPO prospectus, local authorities undertook “to compensate Hera SpA for any cost, loss or damage sustained by the same in relation to mandatory regulatory measures revoking tax benefits that the company and the companies taking part in the incorporation have enjoyed”. Consequently no cost has been booked in this regard. With regard to the above, please note that on 31 December 2007 some of the shareholder municipalities gave appropriate guarantees to the company by making advance payments on the amounts owed by Hera SpA; following the negative outcome of the first instance hearing and the consequent payment, the respective credit/debit positions vis-à-vis each municipality were defined. At June 30, outstanding payables for collection amounted to Euro 3,936,388.

Regarding the former Meta Modena, the Modena revenue agency issued to Hera SpA on 11 May 2007, pursuant to and in accordance with the Legislative Decree of 15 February 2007, notices and injunctions for the recovery of state aid relating to the tax periods 1998 and 1999. On 6 June 2007, Hera SpA filed autoprotection instances requesting the amendment of the notices and injunctions.

On 11 June 2007, the Modena revenue agency issued partial autoprotection measures relating to the notices and injunctions, requesting that the company pay an insubstantial sum in settlement of the entire matter, while withholding tax paid was disregarded.

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 9,501,615 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 10,193,798 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 7,334,452 and Euro 3,215,859 were made, amounting to Euro 10,550,311 in total. Appeals against the first-instance rulings are currently being prepared for presentation to the Bologna regional tax commission. Given that on 1 January 2008 Euro 3,191,651 was allocated to the provisions for risk, the difference was reported in the income statement for the first six months of 2008, amounting to Euro 7,358,660, of which Euro 5,610,981 was allocated to the item “other non-operating costs” and Euro 1,747,679 to financial charges.

Furthermore, in the period between June 2007 and February 2008, the collection agency made demands for payment to Hera SpA in order to recover alleged state aid in relation to mortgages granted by the Cassa Depositi e Prestiti to some companies/consortia then merged in Hera SpA. The demands for payment amounted to Euro 2,975,494 in total. Hera contested the demands with the Bologna provincial tax commission, which referred the matter to the ordinary judicial authority (*Autorità Giudiziaria Ordinaria*) where the legal procedures in question will be resumed. Hera also contested, with the Lazio regional court (*Tribunale amministrativo regionale*), a previous injunction issued by the Treasury, by means of which the ministry justified its request for restitution of funds in accordance with the European Community decision of 5 June 2002. This decision declared loans at favourable rates of interest granted by the Cassa Depositi e Prestiti to limited liability companies created pursuant to Law 142/90 to be incompatible with the common market. The above amount, which was paid in instalments in the period January-April 2008, was booked under financial charges.

Regarding the position of the former Sat Sassuolo, the Ministry of Economy and Finance also issued demands for payment to recover alleged state aid in this case, with reference to mortgage loans granted by the Cassa Depositi et Prestiti, for Euro 1,990,999. The former Sat contested these demands with the Modena civil court (*Tribunale civile*), which revoked the suspension of the demands for payment and adjourned until the next hearing, on 2 October 2008. The above amount was paid in separate instalments in the period April to July 2008. Since the municipal shareholders of the former Sat were therefore obliged to compensate Hera SpA in proportion to their respective holdings in the share capital of the defunct company, and recovery actions were consequently taken for a total of Euro 1,017,034. At June 30, outstanding receivables for collection came to Euro 962,264. The remaining Euro 883,965 was booked under financial charges at 30 June 2008.

15.1 Earnings per share

Group profits (losses) for the period (A)	41,202	37,375
Average weighted number of outstanding shares in circulation for the purpose of calculating earnings (losses) per share:		
- base (B)	1,032,251,610	1,016,393,216
- base (C)	1,032,251,610	1,016,393,216
Earnings (losses) per share (€)		
- base (A/B)	0.040	0.037
- base (A/C)	0.040	0.037

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 weighted average number of shares in circulation in the first half 2008, by comparison with the previous period, changed as a result of two extraordinary transactions with effect from 1 January 2008, namely:

- the merger by incorporation of Sat SpA, via a capital increase in which 14,540,334 shares were issued;
- a capital increase for non-cash consideration of technology networks by the municipal authorities of Castiglione de Pepoli, Grizzana Morandi, Monzuno, San Benedetto Val di Sambro and Sasso Marconi, in which 1,445,339 shares were issued.

16 Tangible fixed assets

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

in thousands of Euro		Land and buildings	Machinery and equipment	Other moveable assets	Work in progress	Total tangible fixed assets
PURCHASE COST						
Balance as at	31/12/2007	328,338	2,183,575	283,112	524,558	3,319,584
Increases		2,956	13,846	8,249	161,349	186,400
Disinvestments		- 3,854	(890)	(6,476)	(880,807)	(12,101)
Change in scope of consolidation		-	-	-	-	-
Other changes		19,660	154,140	17,828	(77,393)	114,235
Balance as at	30/06/2008	347,101	2,350,672	302,713	607,633	3,608,118
ACCUMULATED DEPRECIATION		-	-	-	-	-
Balance as at	31/12/2007	53,945	546,250	173,359	-	773,554
Depreciation for the year		3,576	58,239	11,985	-	73,799
Disinvestments		- 666,955	(1,665)	(5,683)	-	(8,015)
Change in scope of consolidation		-	-	-	-	-
Other changes		2,966	16,046	11,262	-	30,273
Balance as at	30/06/2008	59,820	618,869	190,922	-	869,611
Net value		-	-	-	-	-
Balance as at	31/12/2007	274,393	1,637,325	109,753	524,558	2,546,029
Balance as at	30/06/2008	287,280	1,731,803	111,791	607,633	2,738,507

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

17 Intangible fixed assets

Intangible fixed assets comprise:

		Patents	Franchise, licenses, trademarks and similar rights	Other	Work in progress and prepayments	Total intangible assets
PURCHASE COST						
Balance as at	31/12/2007	124,336	233,961	41,797	26,261	426,355
Increases		1,830	655	1,396	6,581	10,462
Disinvestments		-1,747	0	-25	-244	-2,016
Changes in the scope of consolidation						
Other changes		5,178	10,862	6,079	-7,447	14,672
Balance as at	30/06/2008	129,597	245,478	49,247	25,151	449,473
ACCUMULATED AMORTISATION						
Balance as at	31/12/2007	67,560	115,199	24,290	0	207,049
Amortisation for the year		11,065	8,108	1,890	0	21,063
Disinvestments		-1,488	-	-10	0	-1,498
Changes in the scope of consolidation						
Other changes		2,039	6,084	1,018		9,141
Balance as at	30/06/2008	79,176	129,391	27,188	-	235,755
Net value						
Balance as at	31/12/2007	56,774	118,761	17,507	26,261	219,305
Balance as at	30/06/2008	50,421	116,087	22,059	25,151	213,718

“Patents and know-how” for Euro 50,421 thousand at 30 June 2008 mainly relate to the acquisition and implementation costs of the SAP R3 and SAP/Isu IT systems. These costs are amortised over five years.

“Concessions, licences, trademarks and similar rights” for Euro 116,087 thousand at 30 June 2008 comprise:

- Euro 110,671 thousand for concessions held by the Parent Company, Hera SpA, for gas, water and purification plants. The decrease in this item is mainly due to the transferral from concession to ownership of the purification assets of the municipalities of Bentivoglio and Galliera and the gas assets of the municipalities of Minerbio and Budrio. Provision for this on expiry of the concessions was made in the related contracts;
- Euro 3,846 thousand from licences, trademarks and similar rights held by the Parent Company;
- Euro 1,327 thousand resulting from the agreement with the GRTN for the purchase of the 20MW CIP 6/92 by the subsidiary Fea Srl. This amount was amortised according to the incentive period established in the agreement.

“Other intangible fixed assets” for Euro 22,059 thousand at 30 June 2008, relate to:

- Ongoing costs for maintenance of third-party assets sustained by the subsidiaries Hera Luce Srl and Recupera Srl;
- Expenses for cartography and the territorial information system (SIT);
- Various charges that can be capitalised by the Parent Company, Hera SpA; -{ }-
- Rights of passage for gas pipelines in Austrian territory sustained by the subsidiary Hera Trading Srl.

“Work in progress” for Euro 25,151 thousand at 30 June 2008 mainly comprises costs sustained for uncompleted IT projects. The decrease on the previous year is due to the fact that orders for implementation of the SAP R3 and SAP/Isu systems were completed and amortisation began during the year.

18 Goodwill and consolidation difference

	30 June 2008	31 December 2007	Changes
Goodwill	309,947	262,488	47,459
Consolidation difference	52,225	54,133	-1,908
Total	362,172	316,621	45,551

The items “Goodwill” and “Consolidation difference” at 30 June 2008 came in at Euro 362,172 thousand.

The main values are as follows:

- residual goodwill from the integration operation that created Hera SpA in 2002, for Euro 86,516 thousand;
- goodwill relating to the integration of Agea SpA in 2004, for Euro 41,658 thousand. This goodwill represents the excess acquisition cost over and above the fair value of assets and liabilities recognised for the group. The fair value of the Hera SpA shares issued for the capital increase for the incorporation of Agea was calculated, in accordance with IFRS 3, starting from the date at which effective control was taken of Agea SpA;
- goodwill and consolidation difference relating to the Meta Group incorporation, for Euro 118,064 thousand. This goodwill, recorded as an asset and initially valued at cost, represents the excess acquisition cost over and above the fair value of the assets and liabilities recognised for the group. The fair value of the Hera SpA shares issued for the capital increase for the incorporation of Meta SpA was calculated at the closing date of the financial year 2005, which was established as the date when effective control was taken of Meta SpA;
- goodwill relating to the incorporation of Geat Distribuzione Gas SpA into Hera SpA. This operation took effect at 1 January 2006, established as the date when Hera SpA took effective control. This goodwill of Euro 11,670 thousand represents the excess acquisition cost over and above the fair value of the assets and liabilities recognised for the group.

- goodwill relating to the incorporation of Sat SpA into Hera SpA, with effect from 1 January 2008. The goodwill of Euro 46,621 thousand, represents the excess acquisition cost over and above the fair value of the assets and liabilities recognised for the group. The fair value of the Hera SpA shares issued for the capital increase for the incorporation of Sat SpA was calculated with the reference date of 1 January 2008, the date at which the operation was deemed to be effective.

The main "consolidation differences" arise from the following companies consolidated on a line by line basis:

- Marche Multiservizi Spa: Euro 20,791 thousand;
- Asa Spa: Euro 2,789 thousand;
- Hera Luce Srl: Euro 2,328 thousand;
- Medea Spa: Euro 3,069 thousand;
- Nuova Geovis Spa: Euro 1,775 thousand;
- Gastecnica Galliera Srl: Euro 2,140 thousand;
- MegasTrade Srl: Euro 2,269 thousand.

The decrease compared with the previous year of Euro 1,908 thousand, is due to:

- deconsolidation of the company Ares after liquidation of the company on 26 June 2008, for Euro 209 thousand;
- decrease in consolidation difference for Marche Multiservizi after a decrease in the percentage shareholding from 49.86% to 41.87% for Euro 3,968 thousand;
- increase in the consolidation difference after the acquisition by the shareholding in Megas Trade Srl by Marche Multiservizi SpA, after the incorporation of Megas SpA into Marche Multiservizi SpA, for Euro 2,269 thousand.

The remaining items under goodwill and consolidation differences refer to minor operations.

19 Equity investments

	30 June 2008	31 December 2007	Change
Subsidiaries not consolidated			
Attivabologna Srl (in liquidation)	1,410	1,411	-1
Calor Più Italia Srl	7	6	1
Calor Più Modena Srl		7	-7
Consorzio Energia Servizi	5	5	0
Consorzio Frullo	4	4	0
Anthea Srl	50		50
Seas Srl (in liquidation)		3	-3
Total	1,476	1,436	40
Associates			
Acantho Spa	6,658	5,928	730
Agea reti Srl	7,834	7,797	37
Feronia Srl	951		951
Dyna Green Srl	130	271	-141
FlamEnergy Trading GmbH	1,745	1,626	119
Modena Network Spa	758	736	22
Refri Srl	2,518	2,516	2
Sat SpA		35,310	-35,310
Set Spa	31,055	30,269	786
Sgr Servizi Spa	9,044	8,986	58
Satcom Spa	1,641		1,641
Sei Spa	400		400
So.Sel Spa	262		262
Other minority interests	486	418	68
Total	63,482	93,857	-30,375
Other companies			
Ambiente Mare Spa	300	300	0
Calenia Energia Spa	9,073	9,073	0
Energia Italiana Spa	13,233	13,233	0
Galsi Spa	4,901	2,889	2,012
Other minority interests	768	941	-173
Total	28,275	26,436	1,839
Total equity investments	93,233	121,729	-28,496

Equity investments in non-consolidated subsidiaries

Changes by comparison with 31 December 2007 are as follows.

On 27 March 2008, Hera SpA created the company Anthea Srl for the management of public green spaces, road maintenance and pest control activities and other minor activities in the municipalities of Rimini, Bellaria and Santarcangelo di Romagna. The company was valued at cost since it was not fully operation at 30 June 2008.

Seas Lavori e Servizi Scarl, in liquidation since 4 July 2006, approved the final financial statement of liquidation at 26 June 2008 and definitively ceased trading.

On 26 June 2008, Calorpiù Modena Scarl approved the final financial statement of liquidation and definitively ceased trading.

Equity investments in associated companies

The main changes by comparison with 31 December 2007 are as follows.

On 24 January 2008, Acantho SpA resolved to carry out a capital increase for Euro 15,875,781 - Euro 17,375,781, fully subscribed and paid up in cash by shareholders in proportion to their holdings. The shareholding percentage is therefore unchanged.

With effect from 1 January 2008, the company Sat SpA, consolidated at equity at the end of the financial year 2007, was incorporated into Hera SpA. After this operation, the following associated companies were included in the scope of consolidation of the Hera Group:

- So.Sel. SpA: 26% shareholding;
- Feronia Srl: 40% shareholding;
- Satcom SpA: initial 100% shareholding. On 18 March 2008, Hera SpA sold 47.5% of the share capital to Infracom Italia SpA (a shareholder in Acantho) and 5% to Con.Ami, thus reducing its stake to 47.5%.
- Modena Network SpA: following the incorporation of Sat SpA, the shareholding percentage increased from 30% to 62%. On 19 February 2008, Hera SpA sold 30% of this shareholding to Acantho SpA. The current shareholding percentage is 32%.

On 9 May 2008, the Parent Company acquired 20% of the company Sei Spa from Ratio Energie AG. This company plans, develops authorisation processes for, finances, builds, manages and maintains electrical power generation plans operating with any type of fuel.

Equity investments in other companies

Galsi SpA resolved to carry out a share capital increase for Euro 20,000,000, which could also be subscribed and paid in tranches. In February 2008, the shareholder Wintershall A.G. sold its shareholding to all the other shareholders proportionate to their holdings, withdrawing from the shareholding structure. In May 2008, the first tranche of Euro 10,000,000 was paid (including premium).

20 Financial assets

Financial assets comprised the following:

	30 June 2008	31 December 2007	Changes
Receivables for loans to associates and other companies	8,040	6,620	1,420
Receivables for mortgages to be collected	115	162	-47
Fixed-income securities	21	20	1
Total	8,176	6,802	1,374

The item “Loan receivables from associated companies” comprises:

- an interest-bearing loan of Euro 4,815 thousand to Set SpA;
- a non-interest-bearing loan of Euro 1,804 thousand to Oikothen Scarl;
- an interest-bearing loan of Euro 1,420 thousand to Sei SpA.

The increase of Euro 1,420 thousand compared with 31 December 2007 is due to the loan granted on 29 May 2008 to the affiliate Sei SpA.

The mortgage receivables for collection of Euro 115 thousand relate to the Parent Company.

21 Deferred tax assets

	30 June 2008	31 December 2007	Changes
Prepaid tax credits	39,115	41,236	-2,121
IAS/IFRS prepaid tax credits	7,000	3,844	3,156
Total	46,115	45,080	1,035

At 30 June 2008 deferred tax assets stood at Euro 46,115 thousand (Euro 45,080 thousand at 31 December 2007). The receivables for prepaid tax assets are generated from the temporary differences between balance sheet profit and taxable income, mainly on the taxed provision for bad debts, write-down of investments, amortisation of goodwill and taxed provisions for risks and charges. Receivables for prepaid tax assets due to IAS/IFRS effects are reported separately.

22 Financial instruments - derivatives

Non-current Assets/Liabilities	Underlying hedge	No. of active contracts	Notional	Asset fair value	Liability fair value
Interest rate hedges					
- Interest rate Swaps	Loans	18	399,5 mln	11,668	
- Interest rate Swaps	Loans	9	105,2 mln		1,955
Total				11,668	1,955

Current Assets/Liabilities	Underlying hedge	No. of active contracts	Notional	Asset fair value	Liability fair value
Commodity hedges					
- Swaps	Gas Formula	1	15,000,000 Smc	303	
- Swaps	Energy Price	169	5,458,023 MWh	72,105	
- Swaps	Foreign Gas Hubs	7	707,496 MWh	6,537	
- Swaps	Crude Oil	3	59,000 Bbl	660	
- Swaps	Commodities	11	110,750 Ton	6,790	
- Swaps	Energy Price	484	7,917,581 MWh		63,032
- Swaps	Crude Oil	21	228,500 Bbl		6,154
- Swaps	Commodities	13	60,500 Ton		4,973
- Swaps	EUR-USD Exchange Rate	3	27,800,000 Usd		526
Total				86,395	74,685

Derivative financial instruments classified under non-current assets total Euro 11,688 thousand (Euro 9,685 thousand at 31 December 2007), and are all interest rate derivative instruments. Derivative financial instruments classified under non-current liabilities total Euro 1,955 thousand (Euro 1,836 thousand at 31 December 2007) and are also interest rate derivatives.

Derivative financial instruments classified under current assets amount to Euro 8,395 thousand (Euro 8,309 thousand at 31 December 2007) and relate entirely to the positive fair values of commodity derivatives contracts in existence at the closing date of the period. Derivative financial instruments classified under current liabilities amount to Euro 74,685 thousand (Euro 8,508 thousand at 31 December 2007) and relate entirely to the negative fair values of commodity derivatives contracts in existence at the date under review.

The substantial increase in commodity derivatives under assets and liabilities compared with 31 December 2007 is explained by the following.

- Increased electricity trading activity in the context of steady growth in reference markets. In the first half 2008, 9.4 billion KWh were brokered, compared with 9.8 billion KWh for 2007 as a whole.
- Growth in the efficiency of the concentrated risk portfolio. This portfolio was created to manage the hedging of commodity and exchange rate risks via deconstructing formulas, position netting and macrohedging.
- An increase in energy commodity prices in the first half of 2008. This increase boosted the absolute value of the operations markedly, both in terms of assets and liabilities, but did not generate greater risk of losses since efficiency was always maintained within the limits set by company policy.
- Planning of electricity trading activity, which generated more contracts with a yearly duration, expiring by the end of the financial year. As a result these operations were open at 31 June 2008 and were valued accordingly.

The fair value used as the basis for the interest rate swap valuations was obtained from market prices. In the absence of these, the discounted cash flow method was used, taking the interest rate curve as a reference. The fair value of the commodity derivatives is calculated on the basis of market prices. All the group's derivative contracts are with institutional counterparties with no credit risk.

The interest rate derivatives in existence at 30 June 2008 can be subdivided as follows:

Interest rate hedges	Underlying	Notional	Asset fair value	Liability fair value	Income	Charges
- Hedge Accounting	Loans	292.6 mln	9,494	0	3,501	989
- Non-hedge accounting	Loans	212.1 mln	2,174	1,955	2,757	2,122
Total			11,668	1,955	6,258	3,111

The interest rate derivatives in the form of interest rate swaps recorded in the hedge accounting have a residual notional amount of Euro 514.8 million against variable rate mortgage loans for the same amount. Income and charges associated with interest rate derivatives in the hedge accounting mainly relate to realised cash flows and renegotiation operations. Specifically, during 2008, as indicated in the notes to the financial statements at 31 December 2007, after the early repayment of a hedge loan, the associated hedging derivative was renegotiated in order to guarantee the hedging relationship fully.

The inefficiency proportion for this class of interest rate derivatives was not significant. All the hedging relationships between the aforementioned derivatives contracts and the related liabilities sustained are qualified as “Cash Flow Hedges”. A dedicated provision of Euro 5.7 million has been posted in the shareholders’ equity. The remaining interest rate derivatives not in the hedge accounting have a notional residual value of Euro 212.1 million; most of these contracts are the result of mirroring operations carried out in 2006 as part of a restructuring of the derivatives portfolio.

Please see note 30 to the income statement for information on embedded derivatives.

The commodity derivatives in existence at 30 June 2008 can be subdivided into the following classes.

Commodity hedges	Asset fair value	Liability fair value	Income	Charges
- Hedge Accounting	4,555	0	4,199	-11
- Non-hedge accounting	81,840	74,685	85,006	82,295
Total	86,395	74,685	89,205	82,284

The commodities derivatives shown as hedge accounting are represented by two swap contracts on the price of natural gas and the price of electricity with notional residual amounts of 45,000,000 Smc and 614,880 MWh respectively. The commodities derivatives shown as non-hedge accounting also include substantial hedge contracts. These contracts, which under strict international criteria set down in the international principles cannot be dealt with under hedge accounting, nevertheless generate profits and losses relating to the higher/lower costs of purchasing raw materials and as such are classified as operating costs.

In total, these derivatives generated Euro 89,205 thousand in income and Euro 82,284 thousand in charges in the first six months of 2008, with a positive net effect on the income statement of Euro 6,921 thousand.

23 Inventories

	30 June 2008	31 December 2007	Changes
Raw materials and stock	56,405	48,761	7,644
Components	291	808	-517
Finished products	144	403	-259
Advance payments	20	20	0
Total	56,860	49,992	6,868

Inventories at 30 June 2008 are shown net of an obsolescence provision of Euro 1,092 thousand (Euro 938 thousand at 31 December 2007). Inventories of raw materials, ancillary materials and consumables mainly comprise exchange parts for equipment used to maintain and operate the plants, as well as methane gas stocks of the subsidiary Hera Trading Srl, for Euro 33,374 thousand, up Euro 5,275 thousand compared with 31 December 2007.

24 Trade receivables

	30 June 2008	31 December 2007	Changes
Trade receivables	455,274	405,689	49,585
Trade receivables on overdue invoices	485,467	564,957	-79,490
Receivables from associated companies	36,313	35,046	1,267
Total	977,054	1,005,692	-28,638

As at 30 June 2008, trade receivables stood at Euro 977,054 thousand (Euro 1,005,692 thousand at 31 December 2007) and include estimated consumption for the portion pertaining to the period, relating to bills and invoices that will be issued after 30 June 2008. The balances are shown net of provisions for doubtful receivables of Euro 53,093 thousand (Euro 44,142 thousand at 31 December 2007), which is considered to be appropriate and prudent in relation to the presumed realisable value of the receivables.

The following shows changes to provisions for doubtful receivables during the year.

31-Dec-07	Allocations	Uses	Changes in scope of consolidation	30-Jun-2008
44,142	9,287	-2,107	1,771	53,093

The provisions are posted according to analytical valuations of specific receivables, supplemented by assessments based on the historical analysis of receivables regarding the general body of customers (in relation to the age of the receivable, the type of recovery action taken and the status of the debtor). This allocation takes account of the increased age of receivables in some segments that are now being evaluated.

The change of Euro 1,771 thousand in the scope of consolidation relates to the widening of the scope of consolidation due to the following extraordinary operations:

- merger of Sat SpA into Hera SpA: Euro 1,077 thousand;
- merger of Megas SpA into Marche Multiservizi SpA: Euro 595 thousand;
- inclusion in the scope of consolidation of Megas Trade Srl, due to the merger of Megas SpA: Euro 99 thousand.

The item “Receivables from associated companies” was Euro 1,267 thousand higher compared with 31 December 2007.

Specifically, receivables increased due to an increase in commercial relations with the following associated companies:

- Acantho Spa: Euro 3,805 thousand;
- Estense Global Service Scarl: Euro 530 thousand.

Furthermore, the merger of Sat SpA into Hera SpA resulted in:

- an increase in receivables from the associated company Satcom SpA, not present at 31 December 2007, of Euro 853 thousand;
- a decrease in receivables from Sat SpA of Euro 4,005 thousand.

25 Long-term contracts

	30 June 2008	31 December 2007	Changes
Long-term contracts	21,353	18,407	2,946
Total	21,353	18,407	2,946

Long-term contracts at 30 June 2008 shows a balance of Euro 21,353 thousand and relates to work on plant as well as the development of commissions lasting several years for third parties.

The rise by comparison with 31 December 2007 is mainly due to an increase in environmentally beneficial work carried out by the subsidiary Akron SpA.

26 Financial assets

Financial assets comprise:

	30 June 2008	31 December 2007	Changes
Receivables for mortgages to be collected	4,551	4,528	23
Portfolio securities and financial policies	7,126	8,828	-1,702
Receivables from associated companies	558		558
Receivables on loans granted to others	1,286	1,858	-572
Total	13,521	15,214	-1,693

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

The decrease in shares in the portfolio resulted from the liquidation of a financial policy.

The increase of Euro 558 thousand in loans to associated companies was mainly due to:

- financing by the Parent Company of the associated company Sei SpA: Euro 300 thousand;
- accrued assets on financing to Set Srl: Euro 250 thousand.

Loan receivables from other parties decreased by Euro 572 thousand compared with the previous year due to the combined effects of:

- repayment of debt by the municipality of Coriano: Euro 1,159 thousand;
- allocation of accrued assets relating to early interest payments for successive periods on certain loans: Euro 479 thousand.

27 Other current assets

	30 June 2008	31 December 2007	Changes
Guarantee deposits	20,301	16,688	3,613
VAT, excise and additional taxes	7,109	106,470	-99,361
Electricity Equalisation Fund	6,246	11,336	-5,090
Prepayments for direct taxation	7,200	6,728	472
Withholdings on interest	601	129	472
Sundry amounts due from the tax authorities	4,046	1,230	2,816
Grants	5,712	6,202	-490
Advances paid to suppliers/employees	2,315	3,734	-1,419
Amounts due from social security and welfare institutions	482	745	-263
Insurance reimbursements	392	787	-395
Other receivables	77,784	46,312	31,472
Total	132,188	200,362	-68,174

Guarantee deposits include:

- the deposit made to Acosea Impianti Srl for Euro 12,000 thousand;
- other lesser amounts to public bodies and companies for Euro 2,252 thousand;
- deposits to the Ufficio Tecnico Erariale for Euro 2,072 thousand;
- deposits to the GSE for Euro 3,623 thousand.

Receivables for VAT, excise duties and additional payments at 30 June were markedly lower than at 31 December 2007. Gas and electricity excise duties showed the biggest declines given the particular terms governing financial relationships with the technical finance offices. Advance payments were calculated according to quantities of gas and electricity billed in the previous year. Thus, if there is no correspondence between the quantities billed in the two years (the current year and the previous year), credit and debit positions are generated between one year and the other that may be substantial. Given, therefore, that in the first six months of 2008 (partly due to the weather conditions) higher quantities of gas and electricity were billed, the marked credit position at 31 December 2007 changed to a tax authority debit position. For VAT the dynamic was the same, although the changes were less pronounced.

Direct tax receivables (IRES/IRAP) for Euro 7,200 thousand mainly comprises excess payments made on the total payable. The figure is the same as that posted at 31 December 2007.

“Miscellaneous tax receivables” for Euro 4,046 thousand, mainly comprises tax credits related to heating and investments made in disadvantaged areas pursuant to Law 388/200. The substantial increase by comparison with 31 December 2007 was mainly due to the tax credit for heating, which, under article 1, paragraph 53 of Law 244 of 24 December 2007, may be used up to an annual limit of 250,000 with effect from 1 January 2008. The excess can be compensated from the third year after the year in which the surplus was generated.

“Contributions”, for Euro 5,712 thousand, mainly comprises payments to a sinking fund by various bodies.

“Advances to suppliers” was down Euro 1,419 thousand by comparison with 31 December 2007, mainly due to credit notes from the supplier Eni after erroneous billing, related to the subsidiary Hera Trading Srl.

“Other receivables” for Euro 77,784 thousand includes the following amounts:

- asset companies: Euro 4,329 thousand,
- costs advanced mainly for substitute taxes: Euro 8,126 thousand,
- advance insurance expenses: Euro 3,422 thousand,
- costs advanced for acquisitions of energy efficiency securities: Euro 997 thousand;
- costs advanced for leasing and hiring: Euro 1,366 thousand;
- costs advanced for charges, bank commissions, and guarantee expenses: Euro 1,686 thousand,
- Ami Consortium: Euro 2,318 thousand,
- Acosea Impianti: Euro 2,628 thousand,
- Electrical services Compensation Fund: Euro 13,319 thousand (including Euro 4,436 thousand for equal distribution of electricity, Euro 600 thousand for continuity income, Euro 968 thousand in costs advanced for the QFNC quota and Euro 7,315 for white certificates)
- 14th salary: Euro 7,916 thousand,
- costs advanced for Cosap-Tosap: Euro 573 thousand,
- costs advanced for waste disposal: Euro 896 thousand,
- costs advanced for rent liabilities and rent for network services under concession: Euro 4,237 thousand,
- receivables from municipal authorities for fiscal moratorium: Euro 4,899 thousand,
- receivables from third parties for sale of equity interests: Euro 1,069 thousand,
- costs advanced for gas storage: Euro 1,119 thousand.

The increase by comparison with 31 December 2007 is mainly due to a credit position inherent to 14th month accrual, matured receivables from some municipal shareholders for repayment of amounts relating to the

fiscal moratorium, receivables from the electrical services Compensation Fund for white certificates and costs advanced for gas storage.

28 Cash and cash equivalents

Available cash at 30 June 2008 was Euro 136,567 thousand (Euro 211,014 thousand at 31 December 2007), and included cash, cash equivalents, outstanding bank cheques and drafts from the main branch and other branches, for Euro 173 thousand in total. It also included deposits with banks and credit institutions in general available for current transactions, as well as post office current accounts worth Euro 136,394 thousand in total. The reduction by comparison with the previous year is due to a rationalisation of financial management.

29 Share capital and provisions

Share capital

The share capital at 30 June 2008 was 1,032,737,702 Euro units, fully paid-up, and represented by 1,032,737,702 ordinary shares with a nominal value of Euro 1 each.

Provision for treasury shares

The item reserves for treasury shares includes the "reserve for treasury shares at par value" with a negative value equal to Euro 300 thousand. The "reserve for gains on sale of treasury shares" is recorded among the shareholders' equity reserves for a value equal to 866 thousand. These reserves, established in compliance with the accounting standards of reference, reflect the treasury shares owned as at 30 June 2008. The change during the period generated gains amounting to Euro 264 thousand, attributed directly to shareholders' equity reserves.

Provisions

The provisions item, for Euro 418,359 thousand, includes the following provisions:

- “legal”, Euro 18,702 thousand,
- “extraordinary”: Euro 13,593 thousand,
- “revaluation”: Euro 2,885 thousand,
- “share premium”: Euro 15,269 thousand,
- “capital account payments”: Euro 5,400 thousand,
- “retained earnings”: Euro 51,799 thousand,
- “share swap surplus”: Euro 42,408 thousand,
- “IFRS 3 provision”: Euro 180,076 thousand, deriving from valuation under IFRS 3 of the operations to integrate Agea SpA, Meta SpA, Geat Distribuzione Gas SpA and Sat SpA;
- “provision for treasury shares exceeding par value”: -Euro 475 thousand
- “provision for gains on sales of treasury shares”: Euro 865 thousand
- “IAS/IFRS provisions”: Euro 87,708 thousand, generated after adoption of international accounting principles
- “reserve for dividends received on treasury shares”: Euro 129 thousand

Cash Flow Hedge Provision

At 30 June 2008, this stood at Euro 5,693 thousand due to changes to the calculation of the fair value of hedging derivatives.

The statement of **changes in shareholders’ equity** is described in paragraph 2.04 of these abbreviated half-year financial statements.

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

At 30 June 2008, medium/long-term financing stood at Euro 1,387,761 thousand (Euro 1,396,693 thousand at 31 December 2007), mainly represented by mortgage loans and financing for Euro 588,625 thousand and bond loans for Euro 799,136 thousand.

Medium/long-term payables to banks also include financing underwritten by the subsidiary Fea Srl for Euro 79,040 thousand. This financing, which was renegotiated during the year, is guaranteed by mortgages and special privileges for the banking pool underwriting the financing project without recourse. The repayment, which will fall due at 31 December 2017, is contractually established at half-yearly intervals at a rate pegged to the 6-month Euribor.

The following is a list of the main mortgage loans in existence at 31 June 2008 in euro units:

Lender	Residual balance 30-Jun-2008	Portion due in this financial year	Portion due within 5 years	Portion due beyond 5 years
UNICREDIT BANCA	46.000.000,00	4.950.000,00	16.600.000,00	24.450.000,00
BANCA INTESA	18.400.000,00	1.980.000,00	6.640.000,00	9.780.000,00
BANCA OPI	9.200.000,00	990.000,00	3.320.000,00	4.890.000,00
BANCA POPOLARE DI MI	18.400.000,00	1.980.000,00	6.640.000,00	9.780.000,00
ACTELIOS	4.116.000,00	4.116.000,00		
BANCA OPI	7.125.000,00	593.750,00	3.562.500,00	2.968.750,00
EFIBANCA	13.230.396,99	1.332.914,00	6.231.654,99	5.665.828,00
BANCA DI ROMAGNA	970.680,00	440.228,00	530.452,00	-
BANCA DI IMOLA	2.000.000,00	360.070,00	1.639.930,00	
CASSA DI RISPARMIO DI	816.892,12	76.914,72	331.090,28	408.887,12
BANCO DI SARDEGNA	10.749.783,60	1.341.667,54	5.084.723,55	4.323.392,51
CARIFE	45.448,18	45.448,18		-
CASSA DEPOSITI E PRES	247.377,06	74.597,01	79.846,46	92.933,59
BANCA OPI	3.733.967,58	228.910,00	1.240.000,76	2.265.056,82
UNICREDIT BANCA	698.068,89	698.068,89	-	-
CARIM S.P.A.	4.238.063,22	368.176,72	2.101.619,24	1.768.267,26
BANCA DELLE MARCHE	17.525.735,95	870.130,25	4.087.163,21	12.568.442,49
ISTITUTO SAN PAOLO	908.615,43	153.281,19	377.823,10	377.511,14
CARIFANO SPA	1.088.635,23	161.533,82	775.069,27	152.032,14
BANCA DELLE MARCHE	11.188,16	11.188,16	-	-
B.CR. COOPERATIVO	487.059,64	77.540,17	409.519,47	-
BANCA NAZIONALE DEL	13.500.000,00	1.500.000,00	6.000.000,00	6.000.000,00
B.CR. COOPERATIVO	4.552.026,00	599.868,00	3.952.158,00	
BANCA DELLE MARCHE	602.488,96	190.439,79	412.049,17	-
BANCA INTESA	61.569.104,72	19.164.552,79	38.541.358,75	3.863.193,18
BANCA OPI	45.712.518,16	13.740.243,51	20.683.401,86	11.288.872,79
BANCA POP RAVENNA	130.893,00	86.150,63	44.742,37	-
BANCA POP. EMILIA ROM	442.857,16	442.857,16	-	
BANCA POP. VERONA E	1.997.916,69	799.166,66	1.198.750,03	
BEI	180.000.000,00	-	-	180.000.000,00
CARISBO	5.045.502,14	843.622,46	2.333.862,72	1.868.016,96
CASSA DEPOSITI E PRES	25.645.283,33	3.853.514,32	8.932.582,23	12.859.186,78
CASSA DI RISP. DI CENT	431.060,77	431.060,77	-	-
CASSA DI RISP. DI CESE	2.354.128,43	238.011,25	658.546,57	1.457.570,61
CASSA DO RISP. DI RAVE	1.844.953,43	94.311,12	256.811,82	1.493.830,49
DEXIA CREDIOP	42.857.142,86	7.142.857,14	17.857.142,85	17.857.142,87
FON SPA	4.305.376,61	579.244,15	1.574.017,25	2.152.115,21
ISTITUTO SAN PAOLO	1.776.806,55	264.550,56	684.874,71	827.381,28
MONTE PASCHI SIENA	7.902.075,58	2.171.877,76	5.730.197,82	-
UNICREDIT BANCA	5.269.410,34	1.882.747,32	3.237.028,06	149.634,96
	565.932.456,78	74.875.494,04	171.748.916,54	319.308.046,20

On 16 February 2006, the Parent Company Hera SpA issued a eurobond for Euro 500 million maturing in 10 years, fully repayable at maturity. The loan carries an annual fixed-rate coupon of 4.125%.

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

- 17 May 2007: a put bond for Euro 100 million, entirely underwritten by Deutsche Bank AG London;
- 2 August 2007: an extendable put bond for Euro 200 million, entirely underwritten 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: an extendable step-up put loan for Euro 50 million with Barclays Bank Plc.

For a full description of these operations, please see the section “Financing policy and rating” in the interim report on operations.

Apart from the financing described above, bond loans also include put options with the requisite features not to be valued autonomously, in accordance with IAS 39, paragraph 39, AG30 g. Given this, valuation according to the amortised cost of these operations led to the posting of interest liabilities of Euro 952 thousand.

At 30 June 2008, the group held no debt positions requiring the application of financial covenants. Instead, the contract governing the bond loan issue for a nominal value of Euro 500 million contains a negative pledge clause in line with international market practice.

At 30 June 2008, short-term financing stood at Euro 252,264 thousand (Euro 248,481 thousand at 31 December 2007), and included payables to banks and other financing entities.

31 Provision for employee leaving indemnities and other similar benefits

This includes allocations to employees for severance payments and other contractual benefits, net of advances paid.

The calculation is made using actuarial methods and updating future liabilities at the date of the balance sheet. These liabilities comprise the matured receivables of the employee at the presumed date of leaving the company.

The item “gas discount” represents an annual indemnity recognised for Federgasacqua employees recruited before January 1980, payable to their heirs. Premungas is a supplementary pension fund for Federgasacqua employees recruited before January 1980. This fund was closed with effect from January 1997 and changes quarterly to regulate payments made to eligible retirees. In both cases, recalculations have been made using the same actuarial methods implemented for the employee leaving indemnities.

	31/12/2007	Allocations provisions for the period	financial charges	Use and other movements	Change in scope of consolidation	30/06/2008
Employee leaving indemnity	97,700	209	2,336 -	1,773	-	98,472
Gas discount	3,801 -	75	63 -	15		3,774
Premiumgas Fund	1,375	2,519	80 -	363		3,611
Total	102,876	2,653	2,479 -	2,151	-	105,857

The main assumptions made in the actuarial estimate of employee benefits are as follows:

Discounting back rate, average	5.20%
Cost of labour increase rate, average	3.50%

32 Provisions for risks and charges

	31/12/2007	Allocations provisions for the period	financial charges	Use and other movements	Change in scope of consolidation	30/06/2008
Landfill closure and post-closure costs	68,281	2,348	1,673	4,790	-	77,092
Provision for restoration of third party assets	65,999	6,559	2,952	358	-	75,868
Staff disputes and legal costs	13,984	101	- -	447	554	14,192
Provision for tariff reductions	3,398	-	101	43	-	3,542
Other risks and charges	30,386	1,747	-	5,733	791	27,191
Total	182,048	10,755	4,726 -	989	1,345	197,885

The provisions for staff disputes and legal costs for Euro 14,192 thousand reflects the value of legal cases at their outcome and of litigation brought by employees.

The provision also includes Euro 5,622 thousand relating to ongoing litigation with the INPS over the payment of contributions on social security benefits (CIG, CIGS, mobility) and on the reduction of contribution rates for family allowances (CUAF) and for the maternity contribution with regard to employees governed by the electricity sector collective labour agreement in the Modena area.

Regarding **involuntary redundancy**, the Employment Ministry issued a decree on 7 March 2008 granting an exemption from payment of this contribution by Hera SpA and all its subsidiaries, with effect from the date of Hera's creation (1st November 2002). The risk of payment to the INPS was therefore eliminated. As a result, a reduction of Euro 515 thousand in the provision as at 31 December 2007 is planned.

With effect from 1 January 2009, Legislative Decree 112/2008 waived all exemptions potentially conceded and the Hera Group will therefore have to pay the contribution.

Regarding **blue-collar worker sick leave**, the aforementioned Legislative Decree 112/2008 gives an authentic interpretation of Law 138/1943, article 6, according to which all lawsuits to date are considered null and void. This means that all claims filed by the INPS are no longer valid, given that the Hera Group began paying sickness contributions at 1 January 2005. As a result, a reduction of Euro 327.5 thousand in the provision as at 31 December 2007 is planned.

In relation to the contributions on CIG, CIGS and Mobility, exemption is supported not only by specific legal norms but also by the fundamental consideration that the social security benefits are effectively unusable since the Hera Group runs essential services which must be constantly insured. By contrast, the INPS believes that the transformation into a joint-stock company and the transfer to private parties of even a portion of the share capital, supports the belief that the contributory obligation is enforceable. The Group claim 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 and Hera Spa and declared that the contributions for involuntary unemployment, CIG, CIGS and mobility were not owed, contrary to the claims of the INPS.

Hera has an appeal to the Court of Cassation pending relating to a certification action submitted by Amir SpA in 2000.

The INPS ordered, via communication 18089 of 10 July 2007, that, according to the principles stated in circular no. 63/2005, the contribution obligation for CIG, CIGS and mobility would come into effect on May 2005, the date that the circular was issued. This is in compliance with a Council of State guideline (opinion no. 65 of 8 February 2006 referring to Enel Spa) on non-retroactivity of the contribution obligations referred to in the circular. In fact, although in its literal sense the communication seems also to apply to companies owned by public bodies (former municipal companies), the INPS, referring to circular 63/2005, maintains that it applies only to Enel SpA, and is also arguing this in court.

Subsequently, on 5 February 2008, the Employment Ministry intervened with a message addressed to the INPS General Management. It stated that the conclusions reached by the Council of State regarding non-retroactivity prior to May 2005 of the contribution obligation for CIG, CIGS and mobility, were by necessity general and unequivocal, in order to protect the unviolable principle of "par condicio" amongst market operators. It stated that the conclusions therefore also applied to industrial companies owned by public bodies (of which Hera is one). However, since the INPS has not altered its initial position, and no favourable rulings have been handed down by the courts since the communication by the Employment Ministry, the Hera Group has not changed its valuations and has retained the valuations entered in the balance sheet at 31 December 2007.

With regard to the **contribution for family** allowances (CUAF) and for the **maternity** contribution, the CUAF and maternity contribution differential that service companies have to pay for personnel registered with INPDAP is 4.29% more than the sum to be paid for INPS personnel. This higher rate penalises the "former municipal enterprises" severely by comparison with other market operators. On several occasions, Confservizi has brought this lack of contribution harmonisation, which is a consequence of Law 335/1995, to the attention of the Employment Ministry, which in turn consulted the Council of State. The Council deemed a special legislative initiative necessary (circular no. 88 of 31 May

2004), which rules out the possibility of an administrative solution. Confservizi's efforts to push through this legislative initiative have been unsuccessful to date.

With regard to only the INPDAP personnel regulated by the electricity sector collective labour agreement, litigation consequent to interpretation of article 41 of Law 488/1999 (Finance Law of 2000) is pending. The litigation concerns only the Modena territory, as it arises from Meta Spa.

Following a comparison made at the time with the Moden INPS Positions Management Office, the former Meta Spa applied reduced rates starting in 2001, at the same requesting reimbursement of the greater contributions it had paid in, but which were not due, for the financial year 2000 (reimbursement which was actually made between 2001 and 2002).

As from November 2003, however, INPS served notices requesting payment of the contributions at the full rate, completely amending the interpretative position previously adopted, deeming that the reduction of the CUAF and maternity rates owed by the electricity sector was not applicable for the workers enrolled with INPDAP. Meanwhile, this reduction was applied without objection in the case of the Enel Spa Group companies.

In view of the information reported above, and in particular the positive developments regarding the involuntary unemployment contribution and temporary lay-off scheme, prudential allocation was made to the aforementioned provision, which takes into account the files already paid and any liabilities deriving from the suspended files currently received, amounting to approximately Euro 18.6 million. 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 landfill closure and post-closure costs**, equal to Euro 77,092 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.

The **provision for the restoration of third party assets**, equal to Euro 75,868 thousand, includes the provisions made in relation to the legal and contractual restrictions encumbering the Group in its capacity as leaseholder of the gas, electricity and water networks owned by asset companies. These provisions were 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.

Pursuant to IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the

year, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

Other **provisions for risks and charges**, equal to Euro 27,192 thousand, include provisions for risks of various kinds. Specifically, these provisions comprise the following:

- Euro 2,109 thousand for the MIS quota, charges for electrical service continuity and equal distribution;
- Euro 5,070 thousand in spending on restoration of goods reverting freely, relating to water supply system in Rosola, held in concession, the Valle Savio provision and other risk funds of very modest amounts;
- Euro 6,889 thousand for “extraction plans”: provisions made in previous years to finance investments in sewerage and purification in the water services business.
- Euro 4,590 thousand relating to the ongoing legal dispute with Terna/GSE;
- Euro 3,788 thousand for “electricity tariff self-certification”. The provision is calculated in accordance with Resolution 204/99 et seq. of the Aeeg, which stipulates that any operator, for any type of use, must self-certify the “surplus” revenues pertaining to the year, using a calculation procedure that will be determined by 31 July of the next year and must then reimburse customers;
- Euro 1,250 thousand for future charges for the landfill owned by the subsidiary Gal.A SpA.

The **tariff reduction provision** of Euro 3,541 thousand was created to meet charges deriving from energy price discounts offered to retired staff.

Apart from the matters contained in these notes, the group is not involved in any other dispute that could generate possible and/or probable liabilities.

33 Deferred tax liabilities

	30 June 2008	31 December 2007	Change
Deferred tax payables	4,671	5,108	-437
Other IAS deferred taxes	122,222	115,942	6,280
Total	126,893	121,050	5,843

Deferred tax liabilities are generated by temporary differences between balance sheet profit and taxable income. Deferred tax payables generated by IAS/IFRS effects are reported separately. These liabilities relate to the application of the following principles:

- IAS 37 Discounting landfill post-closure provision and provision for the restoration of third-party assets: Euro 36,454 thousand;
- IAS 16 assets and application of the component approach to tangible fixed assets: Euro 70,333 thousand;
- IAS 17 financial leasing valuation: Euro 5,088 thousand;
- IAS 19 severance pay and employee benefits: Euro 5,491 thousand;
- IAS 39 derivatives: Euro 4,845 thousand.

34 Financial leasing payables

	30 June 2008	31 December 2007	Change
Financial leasing payables	19,381	19,541	-160
Total	19,381	19,541	-160

The item includes leasing payables after booking of leasing operations using the financial method. The change by comparison with the previous year takes account of the greater debt assumed due to the integration of Sat SpA, for Euro 3,230 thousand, and Euro 3,390 thousand in payments made during the first half 2008. The following table shows the balance at 30 June 2008, subdivided into short-term financing and long-term financing.

	Residual amount	Short-term portion	Long-term portion
Financial leasing payables	19,381	5,226	14,155
Total	19,381	5,226	14,155

35 Trade payables

	30 June 2008	31 December 2007	Change
Trade payables	368,432	454,525	-86,093
Trade payables on overdue invoices	373,779	409,607	-35,828
Payables on advances received	10,712	4,289	6,423
Payables to non-consolidated subsidiaries	3,195	3,097	98
Payables to associated companies	28,760	17,897	10,863
Total	784,878	889,416	-104,538

Payables to suppliers, entirely commercial in nature and inclusive of sums set aside for invoices due, came in at Euro 742,211 at 30 June 2008, compared with Euro 864,132 thousand at 31 December 2007. The decline was mainly due to fluctuations caused by seasonal factors in purchases of raw materials.

The main amounts payable to subsidiaries are as follows:

- Attivabologna Srl: Euro 1,761 thousand ,
- Calorpiù Italia Scarl: Euro 1,040 thousand,
- Anthea Srl: Euro 365 thousand.

The main payables (also all commercial in nature) to associated companies are as follows:

- Acanto Spa: Euro 13,795 thousand,
- Set Spa: Euro 10,932 thousand,
- Estense Global Service Scarl: Euro 790 thousand,
- Service Imola Srl: Euro 543 thousand,
- Agea reti Srl: Euro 585 thousand,
- SoSel Spa: Euro 1,990 thousand,

The increase by comparison with 31 December 2007 is mainly due to the increase in the debt positions in relation to Acantho SpA, Set SpA and Sospel SpA.

36 Income taxes payables

	30 June 2008	31 December 2007	Change
Income tax payables	30,376	2,484	27,892
Excise and additional taxes	85,693	25,787	59,906
Amounts withheld at source	8,066	7,749	317
Electricity Equalisation Fund	7,556		7,556
VAT	28,376	1,739	26,637
Substitute tax	24,624	24,550	74
Sewerage charges	632	617	15
Other tax liabilities	5,848	3,761	2,087
Total	191,171	66,687	124,485

The main changes by comparison with the previous year are as follows.

Income tax payables at 30 June 2008 were up compared with 31 December 2007, taking account of tax allocated to income generated during the half-year. Please also see note 15 to the income statement.

Regarding the marked increase in payables for excise duties and additional payments, as well as for VAT and the electricity services Compensation Fund, please see note 27 on balance sheet assets.

Payables for substitute tax of Euro 24,624 thousand, reflects the option described in article 1, paragraph 48 of Law 244/2007, which some of the companies in the group took up from 31 December 2007.

The item “Other tax payables” of Euro 5,848 thousand mainly comprises ecotax payables.

37 Other current liabilities

	30 June 2008	31 December 2007	Change
Due to social security authorities: Inps, Inpdap, Inail	13,514	10,178	3,336
Other institutes	7,971	6,168	1,803
Personnel	25,462	19,096	6,366
Directors and Statutory Auditors	320	248	72
Guarantee deposits	51,338	46,949	4,389
Customers	1,659	890	769
Other payables	105,128	114,982	-9,854
Total	205,392	198,512	6,879

Comments on the main changes by comparison with the previous year are given below.

Payables to providential institutions rose compared with 31 December 2007, mainly due to the application of new regulations on supplementary providence. The increase also takes account of larger debt assumed with the respective integrations of Sat SpA and Megas SpA.

Payables to employees take account of accrued leave not taken as at 30 June 2008, productivity bonuses and accrual of 14th-month salary payments. In this case the increase on the previous year also takes account of extraordinary operations involving Sat SpA and Megas SpA.

“Payables for guarantees” reflects the sums paid by customers for subadministration gas, water and electricity contracts. The increase by comparison with 31 December 2008 was generated almost exclusively by the assumption of the positions already held by Sat Spa relating to Megas Trade Srl.

The item “Other payables”, equal to Euro 105,828 thousand at 30 June 2008, mainly comprises positions held in relation to:

- municipalities, mainly for “environmental inconvenience” and guarantees,
- contributions to the plant account,
- shareholders, for dividends.

The decrease of Euro 9,854 thousand compared with 31 December 2007 is attributable to the payment of Euro 16,367 thousand in relation to the fiscal moratorium that took place in the first half 2008, and Euro 2,897 to reduce some of the debt owed to a related party company (Torricelli Srl). At the same time, dividend payables increased (subsidiary Fea Srl) by Euro 4,144 thousand, as did payables for contributions to the plant account, for Euro 7,657 thousand.

38 Informations by Business Area

Income statement as at 30 June 2008

	Gas	En El	Ciclo Idrico	Ambiente	Altri Servizi	Struttura	Totale	Bilancio Consolidato
Ricavi diretti	555,5	630,1	206,0	285,3	84,0	22,8	1.783,7	1.852,0
Ricavi Infra-cicli	17,1	29,4	4,0	13,7	4,0	0,2	68,3	
Totale ricavi diretti	572,6	659,6	209,9	299,0	88,0	23,0	1.852,0	1.852,0
INDIRETTI RICAVI	4,2	1,6	5,3	10,9	0,9	-23,0	0,0	
RICAVI TOTALI	576,8	661,1	215,2	309,9	88,9	0,0	1.852,0	1.852,0
MOL	69,2	24,0	61,6	85,4	17,4	0,0	257,6	257,6
	12,0%	3,6%	28,6%	27,6%	19,5%		13,9%	13,9%
Amm e Acc.ti Diretti	22,1	8,2	24,0	35,0	8,2	17,4	114,9	114,9
Amm e Acc.ti Indiretti	3,0	2,4	5,1	5,3	1,4	-17,4		
Amm e Acc.ti Totali	25,1	10,7	29,1	40,4	9,6	0,0	114,9	114,9
R.O.	44,1	13,4	32,5	45,0	7,7	0,0	142,7	142,7

Income statement as at 30 June 2007

	Gas	En El	Ciclo Idrico	Ambiente	Altri Servizi	Struttura	Totale	Bilancio Consolidato
Ricavi diretti	459,6	376,4	183,8	260,5	76,0	8,5	1.364,8	1.364,8
Ricavi Infra-cicli	14,8	28,6	4,6	9,0	3,6	4,1	64,7	
Totale ricavi diretti	474,4	405,0	188,4	269,5	79,6	12,6	1.429,5	1.364,8
INDIRETTI RICAVI	2,8	1,0	3,5	4,8	0,5	-12,6	0,0	
RICAVI TOTALI	477,2	406,0	191,9	274,3	80,1	0,0	1.429,5	1.364,8
MOL	47,3	18,3	52,9	77,2	15,0	0,0	210,7	210,7
Amm e Acc.ti Diretti	17,0	6,0	19,7	29,3	8,0	17,0	96,9	96,9
Amm e Acc.ti Indiretti	3,1	2,2	4,9	5,3	1,5	-17,0		
Amm e Acc.ti Totali	20,1	8,2	24,6	34,6	9,5	0,0	96,9	96,9
R.O.	27,3	10,1	28,3	42,6	5,5	0,0	113,8	113,8

Balance sheet as at 30 june 2008

	Gas	En. El.	Ciclo Idrico	Ambiente	Altri Servizi	struttura	Bilancio Consolidato
Capitale Circolante Netto	-84,4	-3,4	31,1	43,9	18,8		6,0
Immobilizzazioni Nette	549,9	437,1	929,3	965,8	259,5	312,2	3.453,7
Fondi	-104,1	-69,2	-81,1	-157,4	-15,5	-3,3	-430,6
Capitale Investito Netto He	361,4	364,4	879,3	852,3	262,8	308,9	3.029,1
Patrimonio Netto							1.549,4
Posizione Finanziaria Netta							1.479,7

Balance sheet as at 30 june 2007

	Gas	En. El.	Ciclo Idrico	Ambiente	Altri Servizi	Struttura	Bilancio Consolidato
Capitale Circolante Netto	39,0	62,4	-12,4	24,7	6,1		119,8
Immobilizzazioni Nette	511,1	425,2	863,1	931,8	247,8	269,7	3.248,8
Fondi	-97,9	-71,5	-76,1	-141,1	-17,4	-2,1	-406,0
Capitale Investito Netto Hera	452,3	416,2	774,6	815,4	236,6	267,6	2.962,6
Patrimonio Netto							1.538,6
Posizione Finanziaria Netta							1.424,0

39 Transactions with related parties

Service management

Hera Spa is the concession holder, across most of its area of operations and in nearly all the shareholder municipalities (the regions of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini), for local public services of economic interest (natural gas distribution via local gas pipelines, integrated water services and environmental services, including street cleaning, waste collection, transportation and initial recycling and disposal). The electricity distribution service is carried out in the district of Imola, in the municipality of Modena and in municipalities of the Modena region, inherited from the previous incumbent (Enel Distribuzione) with effect from 1 July 2006.

Other public utilities (including urban heating, heat management and public illumination) are carried out under the market system or through specific agreements with relevant local bodies. Under specific contractual relationships with local bodies, Hera is required to provide waste processing and disposal services, excluding regulatory activities carried out by the Aato, which was set up under Regional Law 25/1999, although these are under the control of the regional agency for the regulation of public services.

The Aato are responsible, under regional and national legislation governing the sector, for controlling and regulating tariffs for integrated water and urban cleaning services, which were formerly managed by the concession-granting municipal authorities. However, these authorities are represented at meetings of the Aato. The Hera Group, in accordance with the aforementioned regional legislation and applicable national regulations (notably article 113 of the single text for local bodies and sectorial regulations relating to the transferral of services to exclusive systems), drew up the appropriate agreements with the Aato, which determine the implementation of technical and tariff planning.

Energy Sector

The duration of natural gas distribution concessions via local gas pipelines, initially fixed at periods of between 10 and 30 years by original concession documents drawn up with the municipal authorities, were revised under Decree 164/2000 (Letta Decree, implementing Directive 98/30/EC) and under successive riorganisations of the energy market, which are mentioned in the "Regulations" section of the report on operations. Hera has longer residual terms than those set out for managing entities that have promoted partial privatisations and mergers. The residual term of the distribution concessions is no less than that forecast at the time of the flotation.

The purpose of agreements relating to distribution concessions is the distribution of methane gas or similar, for heating, domestic, craft and industrial uses and for other non-specific purposes. Gas distribution tariffs are fixed, pursuant to the regulations in force and periodical resolutions on the part of the electricity and gas authority (resolution 170/2004 and successive amendments was applicable at the time of approval of the financial statements to which this report is attached). The area in which Hera provides gas distribution services is subdivided into “tariff zones” in which uniform distribution tariffs are applied to various customer categories.

In the case of electricity, the purpose of the concessions (30 years in duration and renewable according to current regulations) is energy distribution activity, including, amongst other things, management of the distribution networks and operation of connected plants, ordinary and extraordinary maintenance and programming and identification of development initiatives. 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 established by the regulations in force and by the resolutions of the electricity and gas authority. The regulatory tariffs in force at the time of the approval of the annual financial statements to which this report is attached are contained in resolution 348/2007 (“Supplementary text of measures for the supply of transmission, distribution and measurement of electrical energy for the regulatory period 2008-2011 and of measures for economic conditions governing the supply of connection services”), which replaced the previous system of tariff options with a single national distribution tariff.

Water Sector

Hera manages integrated water services. Agreements with the Aato, which vary in length (most are for 20 years) govern water supply, sewerage and purification services or combined water supply, sewerage and purification services.

Management of water supply services includes all capture, purification, distribution and sale of drinking water for civil and industrial use. The sewerage and purification services include management of sewage networks and plants and purification plants.

The agreements also make provision for planning and building new networks and the construction of new plants for use in service management.

Hera has exclusive responsibility for service management in the regions administered by the municipal authorities engaged in the various agreements. The municipal authorities are obliged not to allow third parties to lay pipelines underneath its property or government property without the company’s prior consent.

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. Technical and economical rules are also attached to the agreements governing the features of the service, mandatory quality levels and pricing. The tariffs, fixed annually (on the basis of economic agreements covering periods of several years) in accordance with law and, more specifically, of regulations applied under the Galli law (the aforementioned standardised tariffing method) as well as applicable regional regulations, must be approved by the Aato.

The local authorities awarding the concession give the manager the right to use the network and plant for the provision of integrated water supplies (and this may be free of charge). In the majority of cases in areas managed by Hera, the local authorities transferred ownership of the networks and plants to the asset-holding companies, of which further mention will be made.

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

The purpose of the agreements drawn up between Hera and the Aato is the exclusive management of waste management services, street sweeping and washing, initial recycling and waste disposal.

The duration of the agreements is set at 10 years under regional legislation. The agreements govern the way in which services are provided and the payment expected by the operator for services provided (tariffs, where these apply, set out in Presidential Decree 158/1999), the obligations of the parties and concession and the concession fees charged for the use or occupation of streets by the operator and the relevance of this to fulfilment of service provision.

During the year, waste treatment plants owned by the Hera Group drew up specific agreements with the municipal authorities in the areas where the plants are located.

Management of networks, plant and equipment

The infrastructure required for the provision of services, including local gas pipelines and water supply and sewage systems, are partly owned by Hera and partly owned by third parties (municipalities, municipal consortia, companies owned by local bodies). Relations between the service manager and the entities owning the operating assets are governed by specific agreements between the parties, as well as regional regulations. Economic relationships are governed, in some cases, by leasing agreements that fix the amount owed by the manager to the owners for the use of plant and networks.

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 agreement with the company owning the assets, and in plans drawn up by the Aato where applicable.

When the contract expires, Hera makes provision for restoration of the business division, and at the same time a balance arises between the initial value of the goods at the time when the leasing contract was drawn up (equal to the value booked by the asset-owning company, minus accrued depreciation since the time the lease began) and the value of the goods when the contract expires. The final value is the initial value minus depreciation up to the contract expiry date, added to the value of investments, including extraordinary maintenance work on leased goods carried out by Hera, net of accrued depreciation.

Contracts for the use of infrastructure for use in service provision exist with the asset-owning companies to which the municipal authorities (usually shareholders in Hera) have transferred ownership of the assets. The asset-owning companies benefited, for the portion relating to capital goods, from the separations of business divisions carried out at the same time as the splitting off and merging of former local public service companies in favour of Seabo SpA. These operations gave rise to the creation of Hera SpA, to which, as a service concession holder, the management activity was transferred.

In the case of Conami, the splitting off of the management activity, with transferral of the assets to the consortium company (entirely state-owned), took place before the date of the splitting off and merging of the former local public service companies into Hera.

The values reported in the **table for the first half 2008** refer to the related parties listed below:

Related parties non-consolidated subsidiaries (column A):

Anthea Srl
Ares Spa Consortile
Attivabologna Srl Cons.in Liquid.
Consorzio Energia Servizi Bologna
Calorpiù Modena Scarl in Liquidazione
Calorpiù Italia Scarl
Ideametropoli in Liquidazione
Seas Lavori e Servizi Scarl
Consorzio Frullo

Related parties associated companies (column B):

Italcic Srl
Sei Spa
Acantho Spa
Adriatica Acque Srl
Agea Reti Srl
Agess Scarl
Dyna Green Srl
Estense Global Service Scarl
Feronia Srl
Flamenergy Trading Gmbh
Modena Network Spa
Oikothen Scarl
Pri.Ge.A.S. Srl
Refri Srl
Satcom Spa
Service Imola Srl
Set Spa
So.Sel Spa
Sgr Servizi Spa

Related parties with significant influence (column C):

Municipal authorities of Bologna

Municipal authorities of Modena

Other related parties (column D):

Con.Ami

Romagna Acque Spa

Unica Reti - Assets

Amf - Assets

Amir - Assets

Sis - Assets

Area - Assets

Team - Assets

Acosea Reti

Aspes Spa

Sat Patrimonio Srl

Sassuolo Gestioni Patrimoniali Srl

Formigine Patrimonio Srl

Serramazzoni Patrimonio Srl

Maranello Patrimonio Srl

Fiorano Patrimonio Srl

Calenia Energia Spa

Energia Italiana Spa

Galsi Spa

2.06 Net financial indebtedness

As required by the Consob communication of 28 July 2006, and in accordance with the recommendation of the Committee of European Securities Regulators (CESR) of 10 February 2005 (Recommendations for the consistent implementation of the European Commission's regulations on prospectuses), the Group's debt position is set out below.

(in millions of €)		30 June 2008	31 December 2007
a	Cash and cash equivalents	136.6	211.0
b	Other current loans	7.5	10.0
	Current bank indebtedness	-147.4	-149.6
	Current portion of bank indebtedness	-81.6	-86.1
	Other current loans	-17.3	-7.6
	Current financial assets/liabilities from derivative instruments	11.7	-0.2
	Payables for financial leases maturing within the next year	-5.2	-5.6
c	Current financial indebtedness	-239.8	-249.1
d=a+b+c	Net current financial indebtedness	-95.7	-28.1
e	Non-current loans	8.0	6.6
f	Non-current financial assets/liabilities from derivative instruments	9.7	7.8
	Non-current bank indebtedness	-466.1	-475.9
	Bonds issued	-799.1	-798.2
	Other non-current loans	-122.3	-122.4
	Payables for financial leases - maturing beyond the next year	-14.2	-13.9
g	Non-current financial indebtedness	-1,401.7	-1,410.4
h=e+f+g	Net non-current financial indebtedness	-1,384.0	-1,396.0
i=d+h	Net financial indebtedness	-1,479.7	-1,424.1

2.07 List of consolidated companies

Subsidiaries

Name	Registered office	Share capital	Percentage held		Total	Overall share
			Direct	Indirect		
Parent company:						
Hera Spa	Bologna	1,032,737,702				
Akron Spa	Imola (Bo)	1,152,940	57.50%		57.50%	57.50%
Ambiente 3000 Srl	Bologna	100,000	51.00%		51.00%	51.00%
Asa Spa	Castelmaggiore (Bo)	1,820,000	51.00%		51.00%	51.00%
Ecologia Ambiente Srl	Ravenna	20,000,000	100.00%		100.00%	100.00%
Ecosfera Spa	Ferrara	1,000,000	100.00%		100.00%	100.00%
Eris Srl	Ravenna	300,000		51.00%	51.00%	51.00%
Famula On-line Spa	Bologna	4,364,030	60.00%		60.00%	60.00%
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%
Gastecnica Galliera Srl	Bologna	312,000	100.00%		100.00%	100.00%
Hera Bologna Srl	Bologna	1,250,000	100.00%		100.00%	100.00%
Hera Comm Mediterranea S.r.l.	Naples	50,000		50.01%	50.01%	50.01%
Hera Comm Srl	Imola (Bo)	88,591,541	100.00%		100.00%	100.00%
Hera Energie Bologna Srl	Bologna	926,000		51.00%	51.00%	51.00%
Hera Energie Rinnovabili	Bologna	120,000	100.00%		100.00%	100.00%
Hera Ferrara Srl	Cassana (Fe)	810,000	100.00%		100.00%	100.00%
Hera Forlì-Cesena Srl	Cesena (FC)	650,000	100.00%		100.00%	100.00%
Hera Imola-Faenza Srl	Imola (Bo)	750,000	100.00%		100.00%	100.00%
Hera Luce Srl	San Mauro Pascoli (FC)	264,012	89.58%		89.58%	89.58%
Hera Modena Srl	Modena	1,000,000	100.00%		100.00%	100.00%
Hera Ravenna Srl	Ravenna	850,000	100.00%		100.00%	100.00%
Hera Rete Modena Srl	Bologna	22,221,850	100.00%		100.00%	100.00%
Hera Rimini Srl	Rimini	1,050,000	100.00%		100.00%	100.00%
Hera Servizi Funerari Srl	Bologna	10,000	100.00%		100.00%	100.00%
Hera Trading Srl	Imola (Bo)	2,600,000	100.00%		100.00%	100.00%
Herasocrem Spa	Bologna	2,218,368	51.00%		51.00%	51.00%
Ingenia Srl	Imola (Bo)	52,000	74.00%		74.00%	74.00%
Marche Multiservizi	Pesaro	10,963,628	49.86%		49.86%	49.86%
Medea Spa	Sassari	4,500,000	100.00%		100.00%	100.00%
Nuova Geovis Spa	Sant'Agata Bolognese (Bo)	2,205,000	51.00%		51.00%	51.00%
Recupera Srl	Voltana di Lugo (Ra)	1,673,290	100.00%		100.00%	100.00%
Romagna Compost Srl	Cesena (FC)	3,560,002	60.00%		60.00%	60.00%
Sinergia Srl	Forlì (FC)	579,600		59.00%	59.00%	59.00%
Sotris Spa	Ravenna	2,340,000	70.00 %		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%	97.00%

Associated companies

Name	Registered office	Share capital	Percentage held		Total	Overall share
			Direct	Indirect		
Acantho Spa	Imola (Bo)	15,875,781	47.46%		47.46%	47.46%
Adriatica Acque Srl	Rimini (Rn)	89,033		26.14%	26.14%	26.14%
Agea Reti Srl	Ferrara	19,000,000	39.72%		39.72%	39.72%
Agess Scrl	Forlì (FC)	79,750	21.44%		21.44%	21.44%
Dyna Green Srl	Milan	30,000		33.33%	33.33%	33.33%
Estense Global Service	Ferrara	10,000		23.00%	23.00%	23.00%
Feronia	Finale Emilia (Mo)	2,430,000	40.00%		40.00%	40.00%
FlamEnergy Trading GmbH	Vienna	3,000,000		50.00%	50.00%	50.00%
Modena Network Spa	Modena	3,000,000	44.88%		44.88%	44.88%
Oikoten Scrl	Siracusa	1,101,730	46.10%		46.10%	46.10%
Pri.G.Ea.S	Sassuolo (Mo)	15,600	49.00%		49.00%	49.00%
Refri Srl	Reggio Emilia	6,800,000	20.00%		20.00%	20.00%
Satcom	Sassuolo (Mo)	2,000,000	47.50%		47.50%	47.50%
Service Imola Srl	Borgo Tossignano (Bo)	10,000	40.00%		40.00%	40.00%
Set Spa	Milan	120,000	39.00%		39.00%	39.00%
Sgr Servizi SpA	Rimini	5,982,262		0.2961	29.61%	29.61%
So.S.El	Modena	240,240	26.00%		26.00%	26.00%

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

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 Giovanni Barberis, 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 administrative and accounting procedures used to prepare the abbreviated half-year financial statements to 30 June 2008

2 – We further declare that:

2.1 2.1 the abbreviated half-year financial statements to 30 June 2008:

- 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 and specifically IAS 34 – *International Financial Statements*
- 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 I the interim report on operations refers to 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. It also contains information on major operations with related parties.

Bologna, 29 August 2008

Managing Director
Maurizio Chiarini

Director responsible for preparing report
Giovanni Barberis

4 – Reports by the Independent Auditing Firm

**REPORT OF THE INDEPENDENT AUDITING FIRM ON THE
LIMITED AUDIT OF THE ABBREVIATED
CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS**

HERA SPA

**ABBREVIATED CONSOLIDATED
HALF-YEAR FINANCIAL STATEMENTS AS AT 30 JUNE 2008**

To the Shareholders of
Hera SpA

- 1 We have carried out the limited audit of the abbreviated consolidated half-year financial statements, consisting of the balance sheet, the income statement, the aggregate income statement, the statement of changes in shareholders' equity, the cash flow statement and the relevant specific explanatory notes as at 30 June 2008 of Hera SpA and its subsidiaries (Hera Group). Responsibility for drawing up the abbreviated consolidated half-year financial statements in conformity with the international accounting principles applicable for infra-annual reporting (IAS 34) adopted by the European Union lies with the directors of Hera SpA. Our responsibility is to drawing up this report based on the limited audit carried out.
- 2 Our work was carried out according to the criteria for limited auditing recommended by CONSOB with its Resolution no. 10867 of 31 July 1997. The limited audit mainly consisted of gathering information on abbreviated consolidated half-year financial statements items and on the homogeneity of the valuation criteria by way of meetings with the company's management and in performing analyses of the financial statements on data contained in the aforesaid consolidated financial statements. The limited audit di not include auditing procedures such as conformity surveys and checks or procedures of validating assets and liabilities, and entailed extending the work significantly less than that of a complete audit carried out according to the decreed auditing principles. Consequently, unlike what is done on the consolidated financial statements at year-end, they do not express a professional audit opinion on the abbreviated consolidated half-year financial statements.

As for the data regarding the consolidated financial statements of the previous year and the abbreviated consolidated half-year financial statements of the previous year presented for comparison purposes, reclassified to take into consideration modifications introduced to the balance sheet structures introduced by IAS 1 (2007), reference is made to our reports issued on 11 April 2008 and on 11 october 2007, respectively.

- 3 On the basis of the work done, elements that would lead us to believe that the abbreviated consolidated half-year financial statements as at 30 June 2008 of the Hera Group were not drawn up, in all significant aspects, in conformity with the international accounting principles applicable for infra-annual reporting (IAS 34) adopted by the European Union came to our attention.

Rome, 29 August 2008

PricewaterhouseCoopers SpA

Aurelio Fedele
(Auditor)



HERA S.p.A.
Holding Energia Risorse Ambiente
Headquarters: Viale Carlo Berti Pichat 2/4 – 40127 Bologna
Ph. 051.287.111; Telefax 051.287.525

www.gruppohera.it

Tax identification number BO 04245520376
Capital stock fully paid €1,032,737,702