Hera Group consolidated annual report

2008

CONTENTS

2 Hera Group Consolidated Financial Statements

3 Hera Spa Financial Statements

Letter to the Shareholders

Dear Shareholders,

The attached financial statements offer a complete view of the activities of your company during 2008.

This year was characterised by several particular events which influenced the complexity of the process to be carried out, without, however, damaging the expected development or the quality of results. In fact, the economic results were significant, with growth of over 16% in EBITDA. In this regard, it is specifically worth pointing out that this result derives from, above all, the commitment to growth by internal lines, which covered 80% of this overall result.

In the year in question, the impact of the first phase of the global financial and economic crisis was still limited as regards the economic result, while the crisis considerably reduced our capitalisation, even though the reduction in the value of our shares was fully in line with that of the Italian equity market overall.

The expansion of the Group's perimeter also contributed to growth in 2008, with the full integration of the two operations concluded during the previous year and realised at the start of 2008 (Urbino and Sassuolo).

As you are aware, during the year, we were unable to realise an additional, more important opportunity for expansion, as, despite the extensive commitment, all the conditions required for successful conclusion were not in place.

This does not mean that this method of growth, focused on initiatives targeted to individual plants or specific geographical expansion, will not continue to be championed in order to build the essential components for future development, as during the first 6 years of the Group's operations.

Our commitment to investment remained at very high levels (Euro 429 million), especially in the water and waste management sectors. The nearing completion of construction of all the plants planned when the Group was formed leads us to forecast the achievement of balance between the level of annual investments and full self-financing capacity, already in 2009.

Following the investments in 2007, the investments in the Imola plant and the Modena waste-to-energy plant were completed, and these investments should produce their contribution to the Group starting in 2009.

In commercial terms, the most significant results of growth were achieved in the waste management and electricity sectors, with the latter exceeding the target of 300,000 customers.

As last year, the Sustainability Report 2008 is presented along with the Financial Statements. The Sustainability Report once again highlights the company's commitment to its stakeholders and, specifically, the satisfactory, improving results of the evaluations expressed by customers regarding service quality and of the results regarding the environmental impact of the Group's operations, which were highly significant at national level.

Certainly, the scenario we will have to face during 2009 has particular characteristics and difficulties we are all aware of, which we will have to respond to through flexible use of operational leverage, proceeding with the required unity in pursuing the targets of our new Industrial Plan.

In closing, I would like to thank the Board of Directors and the Board of Statutory Auditors. I am confident that we will have your support also in the current year, and that you may appreciate the intense phase of work which awaits.

The Chairman
of the Board of Directors

(Mr Tomaso Tommasi di Vignano)

Hera's Mission

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

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

Administrative and control bodies

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	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
Internal Audit Committee	
Chairman	Giorgio Razzoli
Member	Luigi Castagna
Member	Stefano Zolea
Member	Lanfranco Maggioli
Remuneration Committee	
Chairman	Giorgio Razzoli
Member	Francesco Sutti
Member	Piero Collina
Member	Nicodemo Montanari
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giorgio Razzoli
Member	Maurizio Chiarini
Ethics Committee	
Chairman	Giorgio Razzoli
Member	Luciano Sita
Member	Filippo Bocchi
Independent Auditors	
	PricewaterhouseCoopers
Executive appointed as per art 154 bis of Italian Legislative Decree No. 58/98 – Italian Law 262/05	
	Giovanni Barberis

Notice of call of the Shareholders' Meeting

Hera Spa – Registered offices in Viale C. Berti Pichat 2/4, Bologna, Italy – Share Capital Euro 1,032,737,702 fully paid-in.

Bologna Companies' Register enrolment No., Tax Code and VAT No. 04245520376

Shareholders are called to the Ordinary Shareholders' Meeting to be held in the Sala Auditorium of the CENTRO CONGRESSI - CNR - Via Gobetti 101, Bologna on 27 April 2009 at 2.00 p.m. in first calling and, if necessary, on 28 April 2009, in the same location at 10.00 a.m. in second calling, to discuss and resolve on the following:

Agenda

Ordinary Session:

1. Financial statements as at 31 December 2008, Directors' Report, proposal to allocate the profit and report of the Board of Statutory Auditors: consequent resolutions;
2. Renewal of authorization to purchase own shares and methods for availing of the same: consequent measures.

Extraordinary session:

1. Approval of project for the merger via incorporation of Gastecnica Galliera Srl within Hera Spa;
2. Approval of project for the merger via incorporation of Hera Rete Modena Srl within Hera Spa;
3. Amendment of Articles 1 and 17 of the Articles of Association;
4. Amendment of Articles 4, 16, 18 and 26 of the Articles of Association.

The reports illustrating the business and the proposals on the Agenda, including the statutory and consolidated financial statements as at 31 December 2008 together with the Report on Operations, are filed at the registered offices and the head offices of Borsa Italiana S.p.A. within the legal deadlines, and are available to anyone who requests access to the same.

In pursuance of Article 11 of the Articles of Association, shareholders legitimated on the basis of current legislative provisions have the right to attend the general shareholders' meeting.

The shareholders or their representatives who take part in the general shareholders' meeting may send a copy of the documentation bearing witness to their right to attend the meeting, by post or via fax (to the number 051-287.244), to Hera Spa's secretariat, at least three days before the date of the General Shareholders' Meeting in first calling.

Parties other than the shareholders who intend to participate in the General Shareholders' Meeting must make a specific request in this sense, adopting the same formalities and within the deadlines indicated above.

It is believed that the formation quorum necessary for holding the General Shareholders' Meeting in first calling will not be achieved and, therefore, shareholders are informed that the Meeting will be held in second calling on 28 April 2009 at 10.00 p.m., at the Sala Auditorium of the Centro Congressi – Cnr - Via Gobetti 101, Bologna, Italy.

Bologna,

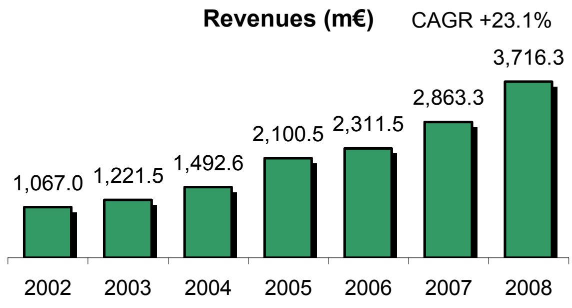
The Chairman of the Board of Directors

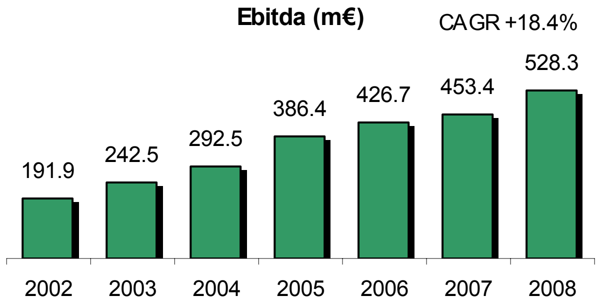
(Mr. Tomaso Tommasi di Vignano)

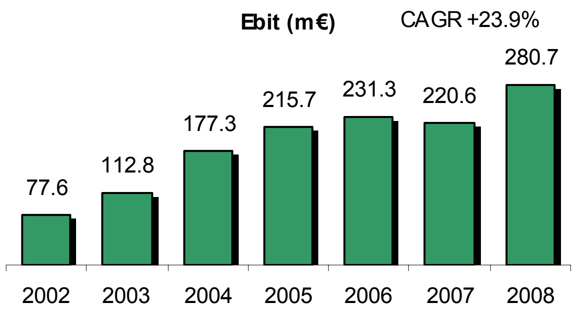
DIRECTORS' REPORT

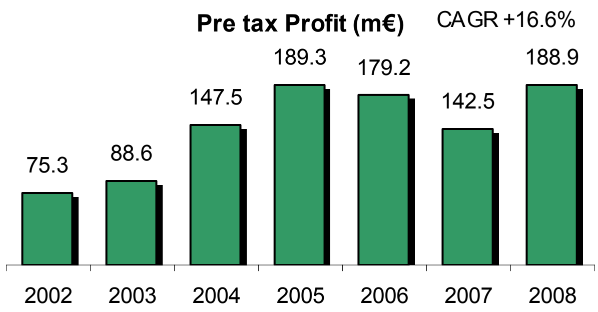
1

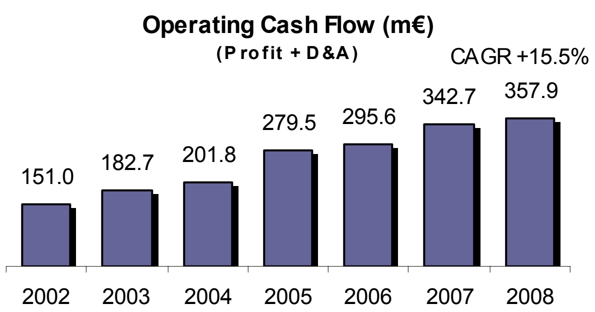
1.01 Summary data

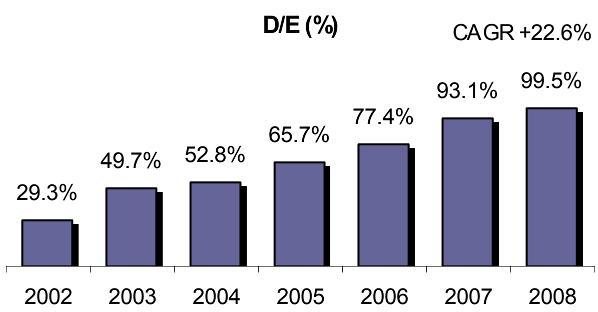


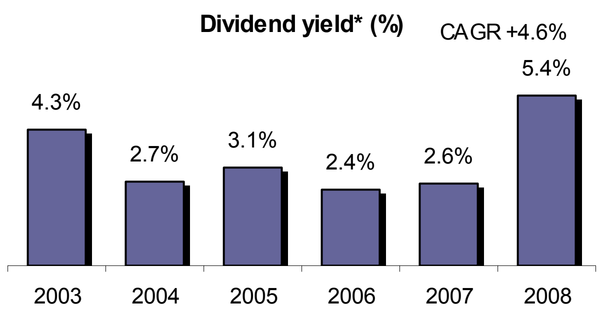












** Calculated on official share price at year end (12/31/2008 official share price: €1.49)*

1.02 Introduction

In 2008 Hera recorded a two-figure growth in economic and financial results, especially significant given the current global crisis. These results reflect the implementation of certain strategic projects aiming to establish and consolidate the key strengths of the Group.

During the year, further significant progress was recorded in market development regarding the sale and trading of electricity, maximising advantages offered by the over one million-strong customer base already provided with other services, for which a new cogeneration plant in Imola became operative in the latter part of the year, and the strategy of covering sales with competitive sources continued.

In the gas sector, also, where Hera is the third leading operator in Italy with a dominant position in its home territory, the Group defended its market shares in 2008 and acquired a gas transport capacity directly from foreign producers (for 250 million cubic metres per year) via the TAG gas pipeline, continuing its strategic diversification of procurement sources.

The plant development projects in the waste-to-energy sector were almost completed on operational start-up in the second half of 2008 of a plant in Forlì and another in Modena. Hera's leadership in terms of plants, now 70 in all, represents the main competitive leverage in a sector characterised by a serious lack of infrastructures, and once again in 2008 contributed considerably to the year's growth.

On reaching these objectives in 2008, Hera practically completed the projects envisaged in the five-year listing plan, consolidating conditions in defence of its competitive positions achieved on the free competition market, which contribute to 40% of Group EBITDA.

Hera also defined the tariff increases with local authorities in 2008 for the all of the new regulatory period (2009-2012) with regard to licensed water and waste management services and with a view to achieving the target return on investments at the level established by national law. The new regulatory period for electricity distribution (2008-2011) began in 2008, and the tariff system was defined for the regulatory period for gas distribution (2009-2011). These events contribute to a definition of overall stability and visibility of the entire regulated component of Hera's business portfolio, which represents over 60% of Group EBITDA.

These factors, together with the constant business efficiency improvement that has always been Hera's primary strategic focus, form the basis of the organic growth seen in 2008 results.

From the outset, Hera has unceasingly followed these internal line growth strategies alongside a development policy for external lines.

The expansion strategies adopted by consolidated companies in the sector have contributed to 2008 results through the full integration of SAT (a multi-utility operating in Sassuolo, Modena province) and Megas (a multi-utility in Urbino integrated into Marche Multiservizi). These operations helped to consolidate presence in the area covered by Hera and fuelled the exploitation of synergies.

Lastly, Hera completed the acquisition of an electricity and gas sales company (Megas Trade) operating in Urbino province to strengthen Hera’s presence in the Marche region, and invested in two joint ventures (Tamarete and SEI) for the construction of two more plants in support of the development of electricity sales in the coming years.

The action taken with regard to internal and external line expansion in 2008 led to one of the most significant EBITDA results in absolute terms since the Group was founded (mostly based on the same business area) and steadily reinforced Hera's competitive structure, allowing for more a more tranquil outlook for the future.

1.03 Strategic approach

Hera's strategic approach, focusing on the generation of value, targets a company size sufficient to counteract competition from the multi-utility sector leaders.

Hera has constantly pursued management strategies by leveraging an innovative organisational model based on the centralisation of certain general divisions, allowing the company to benefit from scale economies achieved on setup of the Group at the end of 2002 which merged and integrated 11 multi-utilities operating in adjacent areas.

Development of the free competition market has also been a significant focal point in the cross-selling strategy for the vast customer base already served with gas, water and waste management services. Electricity sales were therefore developed through a 'duel fuel' marketing and the offer of a complete and integrated special waste management service along with capacity increases for the generation and waste management plants needed to support such growth.

Hera also took up external line development opportunities through multi-business combinations with companies in nearby areas and with companies integrated upstream of the free market businesses (energy product sales and waste management).

The **multi-business** line of development has involved five companies in areas adjacent to the reference base (Geat in Riccione, Agea in Ferrara, Meta in Modena, SAT in Sassuolo and Aspes in Pesaro, which in 2008 was integrated into the Urbino-based Megas) and allowed continued input to the efficiency improvement process through stronger scale economies. The Group also assessed the option of a merger agreement with Iride and Enìa in the light of an industrial project to generate value that would have doubled the size of the Group, but the idea was shelved at the end of September as it proved impossible to reach an agreement by the set deadline.

In addition, projects were implemented with **single business** companies with the strategic aim of strengthening only the waste management and energy business sectors.
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, such as Megas Trade (acquired in 2008). In the electricity sector, in 2008 Hera acquired 32% of Tamarete Energia, a company based in Ortona, Chieti province, with a 5.5-megawatt capacity and which in the next two years is due to complete work on a 100-megawatt combined cycle power plant.

Hera has adopted a **multi-stakeholder** approach, inherited from the public companies that joined the Group in 2002. This "DNA" has shaped the way that Hera's activities are organised and managed, documented in an ethics code shared by all the main Group stakeholders.

Since its listing on the stock market, the strategic objectives of Hera have always formed part of its industrial plans, in consideration of both past Group expansion and to update objectives by developing macro reference scenarios. The industrial plans are always consistent with the policy of transparency and sharing of information adopted by the Group, offering visibility not only of its strategic objectives and financial results, but also of strategic lines for the future and economic and financial forecasts.

The 2008-2011 industrial plan aims to further increase the size of the Group, expanding its market shares in the deregulated business areas, also upstream of the business chain, reconfirming its focus on balancing costs and revenues, the development of new plants for the generation of electricity from renewable sources (to consolidate the presence of alternative technologies such as WTE, solar, biomass and vegetable oils) and generating value for its shareholders and main stakeholders.

These strategies target stronger results, even without the contribution from the potential expansion of external lines which has been a value generation method followed since the Group was founded. Future objectives rest mainly on factors already consolidated (new plants opened and future tariffs agreed for the regulated water and waste management sectors) and take into account the impact already seen from the persistent negative macro-economic scenario, still difficult to interpret in terms of what lies ahead. The plan is supported by a three-year investment programme of over Euro 1 billion, 100% financed by cash flows – positive as of this year and able to sustain a policy of increased dividends and maintain a solid financial structure through to 2011.

1.04 Business Sectors

In 2008 Hera has again achieved a balanced development in all of its businesses, 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 terms of contribution to the EBITDA.

The effectiveness of this multi-business approach, focused on maintaining positive operating income, was particularly evident in 2006 and 2007 when, following the unusually warm winter season, the negative trends in gas and district heating activities were more than offset by the positive results achieve in every other business area. In addition, the nature of Hera's primary services, characterised by an anti-cyclic demand, showed no significant negative impact in 2008 from the economic recession (also due to the wide diversification of the customer base, largely comprising domestic and SME customers and the structural growth achieved).

Waste Management

Hera is the leading domestic operator in the waste management sector in terms of the quantity of waste collected and managed. The collection and disposal of municipal waste is regulated under a licence due to expire in 2012, whereas special waste disposal is a deregulated business. The 2008-2012 tariffs have been agreed with the local authorities.

Hera has an impressive plant infrastructure, enhanced over the last six years and now including over 70 plants covering the entire range of possible waste treatment and waste-to-energy transformation.

Hera is also one of the leading waste to electricity generators in Italy, through an installed WTE capacity about 90 megawatts which can produce up to 500 GWh per annum, and has been expanded over the years due to its ability to treat around 800 thousand tonnes of waste per year.

Plant	Treatment capacity (tonnes)	Installed Capacity (MW)
Forlì WTE*	120,000	12
Ravenna WTE	46,000	6
Rimini WTE	38,000	10
Modena WTE	145,000	20
Ferrara WTE*	142,000	14
FEA WTE	210,000	22
Ecologia-Ambiente WTE	27,000	4
Total	**728,000**	**89**

** New plants started up and being in 2007/2008*

2008 saw the start-up of the remote-control project for all the Group's WTE plants, guaranteeing standardised management, improved access to information, common adoption of best practices and plant standardisation.

Integrated Water Cycle

The Hera Group is the second largest operator in Italy in 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 provide this service in seven provinces in Emilia Romagna and the north of the Marche region under long-term concession contracts (on average up to 2022). The 2008-2012 tariffs have been agreed with the local authorities.

The increased efficiency in the management of over 25 kilometres of water networks, the economies of scale in purchasing, and the agreed adjustment with local authorities of 2008-2012 tariffs to meet legal requirements were the key drivers behind growth of the business units along with the contribution from expansion of the external lines.

Additional management efficiency improvements were made possible by the start-up of the remote control centre, inaugurated in Forlì in 2008, covering all the Group’s networks (50,000 kilometres of water, gas and district heating networks in the areas in which Hera operates), allowing maintenance and monitoring of all Group plants and guaranteeing service continuity and safety.

Energy

Over the last five years Hera has consolidated its position in the gas market and now covers the reference area almost completely. Its leadership among local companies is reconfirmed and it holds third place at national level.

With over a million customers, Hera achieves sales in excess of 2.5 billion cubic metres of gas per year, confirming its dominant market position in terms of product mix, also on the deregulated market.

The upstream development of research into a stronger capacity gas transport from abroad has today led to 400 million cubic metres via the TAG gas pipeline, added to which will be a 1 billion cubic metre capacity per year from the Galsi pipeline, currently under construction between Italy and Algeria

With the complete deregulation of energy product sales in Italy, in 2008 Hera continued its consistent development in the electricity sector.

The increased sales volume was accompanied by a balanced increase in energy availability through the set-up of joint ventures dedicated to the acquisition of investments in combined cycle power plants and the in-house development of generation plants using renewable or similar resources and cogeneration plants such as that recently opened in Imola.

Other Businesses

Further to the wide-scale rationalisation of Hera Group activities, “other businesses” that complement the core business have been reorganised and provided with integrated management.

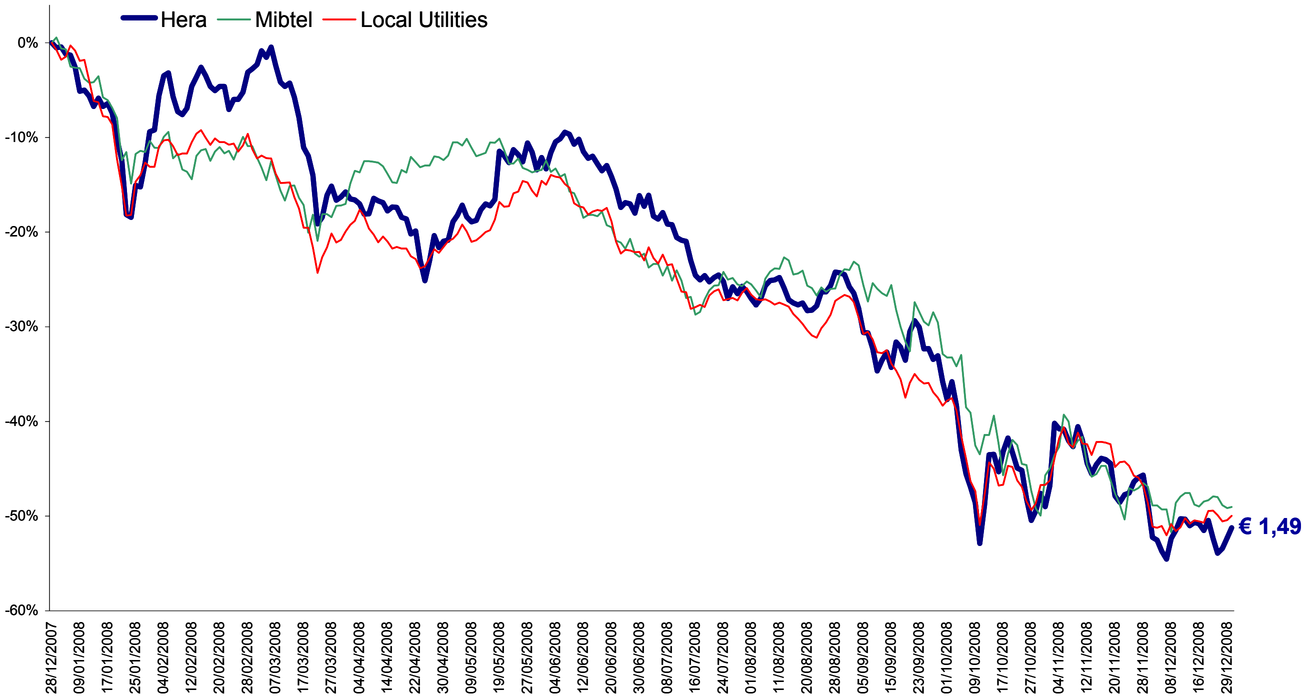
Hera is a leading Italian company in the district heating sector, and the country’s second largest public lighting operator.

The growth in this business was mainly supported by internal development policies: rationalisation of non-strategic activities, reduction of costs and efficiency improvement research.

1.05 Share Performance

In the current serious global economic and financial crisis, the New York stock exchange closed 2008 with a -33.5% performance (DJ Index), London -31.5% (FTSE100 Index) and Milan -49.0% (Mibtel index).

The Hera share recorded a trend penalised by the market performance, closing 2008 at the official price of Euro 1.49, down 51.2%.



The Hera share performance was nevertheless better than most competitors of a similar size in the sector throughout the year, with a particular positive note around October 11 in correspondence with the shelving of merger negotiations with Iride and Enìa.

The share prices reached levels close to the historic minimum despite the fact that Hera has (i) in recent years tripled its turnover and Group profits, exceeding five-year EBITDA targets in the industrial plan, presented to investors prior to listing (on 26 June 2003), by 20%, (ii) an industrial plan covering up to 2011 which forecasts an increase in the workforce, largely as a result of new plants most of which will start up in 2008, and tariff adjustments agreed with the local authorities, (iii) recorded shareholders' equity (Euro 1.6 billion as at 31 December 2008) higher than the market capitalisation figure as at year end (Euro 1.5 billion) and (iv) a solid financial structure, as confirmed by the rating agencies, with a positive free cash flow (after investment hedging) as from the current year.

Indices and baskets

The increase in liquidity and pricing levels in Hera shares since 2003 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.

During 2008 the Hera share was included on the ECPI Ethical Index Euro, which comprises the 150 listed European countries considered to be ethical investments in line with the ECPI SRI methodology.

Share coverage

Hera Group share coverage is among the most extensive for the sector in Italy, according to 15 official independent studies, half of which were international: Banca Akros, Banca Leonardo, Cazenove, Centrobanca, Cheuvreux, Citigroup, Dresdner, Equita, Exane, Intermonte, Intesa Sanpaolo, Kepler, Mediobanca, Merrill Lynch and Santander.

In January 2009 this was extended to UniCredit, which launched coverage of the Hera share and brought the number of financial analysts to 16.

Hera is positively rated by analysts with 14 Buy/Outperform, 1 Neutral and just 1 Reduce. The average price forecast at 12-18 months expressed by the analysts is Euro 2.6 per share (implying a potential increase in value of the Hera share in 12-18 months of +85% compared to the year-end market price).

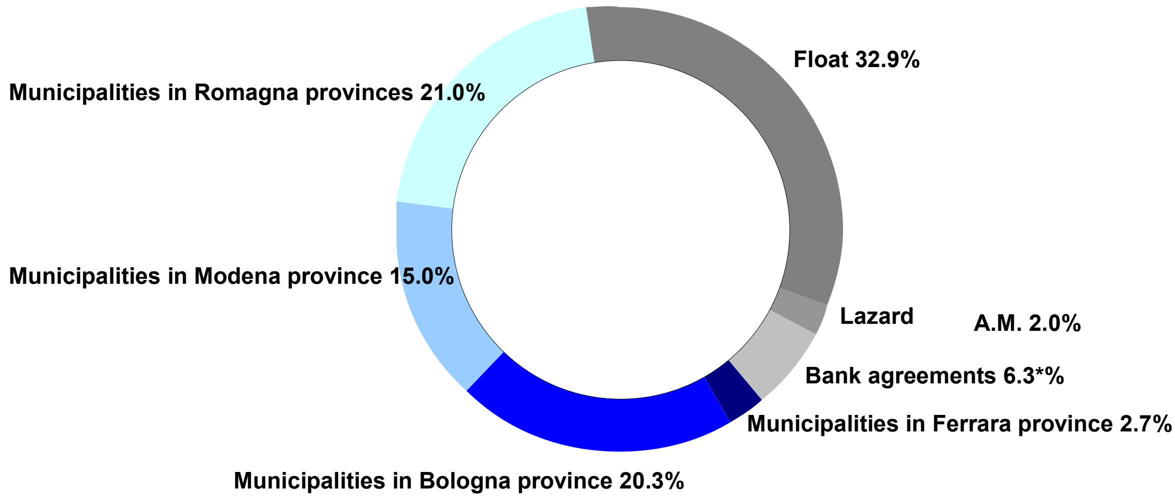
Rating

Financial indebtedness is almost entirely insured against interest rate risk, with medium-long term maturity (the portion due to mature in the next few years is 100% covered by available credit facilities of Euro 350 million) and no covenants are involved. The business portfolio, balanced between regulated and deregulated business, the excellent levels of service to customers, shareholding stability and financial liquidity, also in future terms, are among the main reasons for the achievement of positive ratings by Moody's (A1 with stable long-term debt outlook) and Standard & Poor's (A-1 for short-term debt and A for the negative long-term debt outlook).

Shareholding Structure

Following the series of mergers and, in 2008, the incorporation of SAT (Sassuolo), the shareholding structure has reached 1,032,737,702 ordinary shares with a par value of Euro 1 each.

The Hera shareholding is unique in the Italian sector, comprising 189 municipalities in the areas covered and a total holding of over 59% (of which 51% restricted by a shareholders' agreement), about 400 Italian and foreign institutional investors and around 21,000 private shareholders.



** Investment increased to 8.2% in January 2009.*

Since 2006 Hera as adopted a buy-back programme for treasury shares envisaging a maximum of 15 million shares for a total of Euro 60 million, to fund opportunities that may arise for the integration of small companies and to standardise any anomalous fluctuation in share prices compared to those of the main Italian competitors.

Hera held around 2,299,643 treasury shares in its portfolio as at 31 December 2008.

Relations with the financial market

The main communications tool is without doubt the Group's web site (www.gruppohera.it), to which all stakeholders have access and which allows information to be shared in real time. In 2008 in the Investor Relations section, action was taken to improve the Group's online financial reporting by:

- *a complete review of the graphics and reorganisation of significant information already published;*
- *constant updating in real time of important information;*
- *publication of the 2007 Financial Statements in HTML format, consultable and downloadable in Excel format in both Italian and English, as of the date of their approval by the Board of Directors;*
- *publication of the Group's quarterly and half-yearly financial statements for 2008, which along with the 2007 Financial Statements were made available in interactive format from the date of their approval by the Board of Directors, i.e. in a format allowing comparison with historic economic, equity and industry figures;*
- *the quarterly publication of a Newsletter for private investors (in easy-to-read summary format) to illustrate results achieved by the Group;*
- *a description of the Group strategies and management policies so as to understand Hera's future prospects.*

The Investor Relations section of the web site is organised in such a way that all information is available in specific areas to the various stakeholders, facilitating searches and the understanding of key information.

In 2008 Hera consolidated its sixth position (for the second year running) in the Webranking 2008 produced jointly by Hallvarsson & Halvarsson and the Corriere della Sera daily newspaper with regard to institutional web sites, in online financial reporting terms placing Hera among the top strongly-capitalised listed companies at both national level and in the European utilities sector.

Again in 2008, 365 contacts (telephone, video conferences and meetings) with Italian and foreign investors were made to present the Group results, yet observing the blackout period for the entire duration of merger negotiations with Iride and Enìa.

1.06 Corporate Events and Group Structure

2008 was characterised by the continued rationalisation of the Group's corporate structure, which led to the disposal/liquidation of 6 investee companies, striking off the Companies' Register of 6 companies in liquidation, and 1 merger (the merger by incorporation of Ambiente 3000 Srl into Frullo Energia Ambiente Srl).
Earlier, during 2007, 6 disposals/liquidations of investee companies had taken place, in addition to 5 Companies' Register cancellations and 2 mergers, including the merger by incorporation of SAT Spa into Hera Spa.
The main M&A transactions during 2008 are also described below.

Hera Spa

Taking effect on 1 January 2008, the shareholders' meeting of Hera Spa of 16 October 2007 passed a resolution to increase the share capital, freed in kind by the Shareholders' Municipality of Castiglione dei Pepoli, Municipality of Grizzana Morandi, Municipality of Sasso Marconi, Municipality of Monzuno and Municipality of San Benedetto Val di Sambro, by transfer of their assets consisting of gas distribution pipelines.

Hera Modena Srl

Taking effect on 1 January 2008, Hera Spa transferred to Hera Modena Srl, a territorial operative company 100% controlled by Hera Spa, the line of business regarding operations in the Waste Management, Gas Distribution and Integrated Water segments for the territory previously served by SAT Spa. As a result of this transaction, the share capital of Hera Modena Srl increased from Euro 1,000,000 to Euro 1,150,000.

Galsi Spa

On 13 February 2008 Hera Trading Srl, a company 100% owned by Hera Spa, increased its investment in Galsi Spa from 9% to 10.4%. The purpose of Galsi Spa is to build the Algeria-Sardinia gas pipeline following the pro-quota purchase of the investment held by the outgoing shareholder, Wintershall AG.

Ecologia Ambiente Srl

With effect from 1 April 2008, Ecologia Ambiente Srl – a company operating in the waste management sector – received from its sole shareholder Hera Spa the line of business regarding special waste treatment, reclamation of polluted sites and waste brokerage activities carried out in the area of Ravenna.

Sei Spa

On 9 May 2008, Hera Spa acquired a 20% shareholding from Raetia Energie Ag in SEI Spa share capital, a company operating in the planning and development of the authorisation, financing and construction process for electricity production plants.

Liguria Gas Service Srl

On 10 July 2008, with effect backdated to 1 June 2008, Hera Comm Srl complete the acquisition of the Liguria Gas Service line of business regarding gas sales in the municipalities of Fanano, Riolunato, Pievepelago, Fiumalbo and Abetone, in Modena province. As at the date of acquisition, this line of business had 3,689 customers.

Tamarete Energia Srl

On 16 December 2008, Hera Spa acquired 32% of the share capital of Tamarete Energia Srl, a company operating in the Italian planning, construction, installation, operation and management sectors for energy generation and cogeneration systems, plants and equipment for the procurement, production, transformation, disposal and sale of electricity.

Other transactions

Other transactions involving Hera Group companies were carried out during 2008:

Acantho Spa

On 24 January 2008 Acantho Spa, a company operating in the telecommunications sector and with 47.457% possessed by Hera Spa, passed a resolution to increase its share capital from Euro 15,875,781 to Euro 17,375,781 fully subscribed by shareholders in proportion to their respective holdings.

Wimaxer Spa

Following the "Procedure for assigning wi-max frequency user rights" launched by the Italian Ministry for Communications, on 6 May 2008 Infracom Italia Spa and Acantho Spa formed Wimaxer Spa, a company operating in the planning, design, development, installation, maintenance, management and supply sectors for public and private telecommunications networks and services, in which Acantho Spa holds 25% of the share capital.

Hera Comm Marche Srl

On 28 July 2008, Hera Comm Srl acquired the entire share capital of Megastrade Srl, a company 70% owned by Marche Multiservizi Spa and 30% by Megas Net Spa. The purpose of the company is sales to end customers of natural gas and by-products. As a result of this transaction, Megastrade Srl changed its name to Hera Comm Marche Srl.

Significant Events after Year-End

Hera Energie Rinnovabili Spa

With effect from 1 January 2009, two lines of business involving the production of electricity from renewable sources were transferred by Hera Spa to Hera Energie Rinnovabili Spa, a company operating in the development, construction and management sectors for plants generating electricity from renewable and/or similar sources.

As a result of this transaction, the company's share capital increased from Euro 120,000 to Euro 1,832,000.

Famula on-line Spa

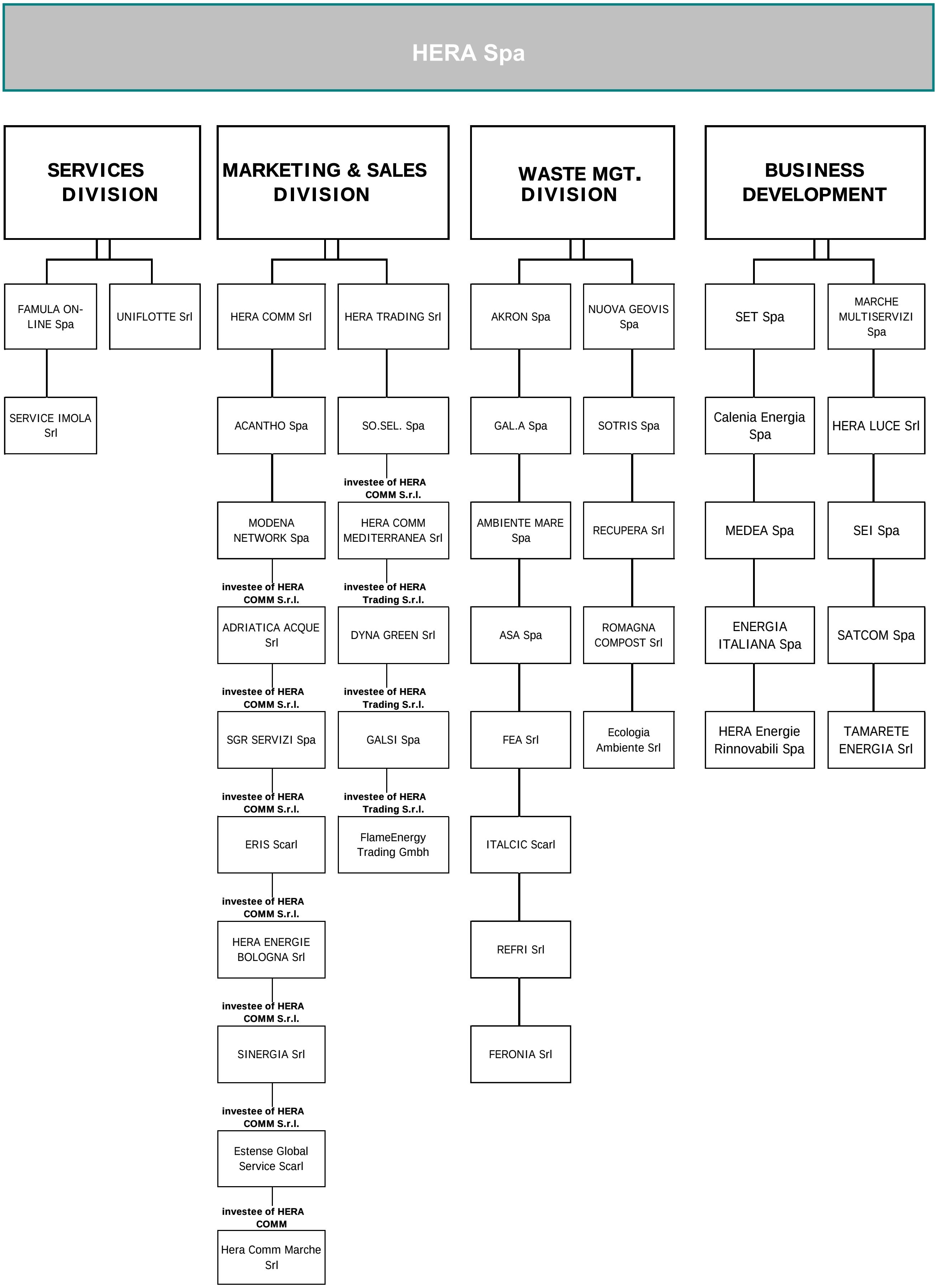
On 15 January 2009 Hera Spa acquired 40% of share capital in Famula on-line Spa, a company providing organisation, design, production, marketing and consulting services in the IT, telematics and data processing sectors, from Engineering Spa.

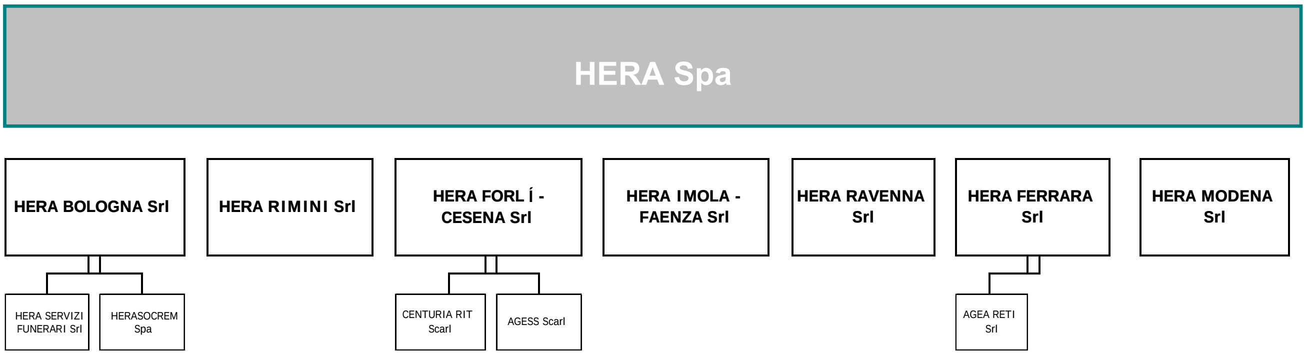
As a result of this transaction Hera Spa became the sole shareholder of Famula on-line Spa.

Fiscal Moratorium

Please note that art. 24 of Italian Legislative Decree 185 of 29 November, converted with changes into Law 2 of 28 January 2009, put the revenue agency in charge of recovering aid equivalent to unpaid taxes and their interest due to the fiscal moratorium within 31 March 2009, "in order to totally implement" the 5 June 2002 decision of the Commission mentioned above. Because of the amendment to this rule that the Italian government has presented, it would presently seem that the time the revenue agency has at its disposal for collecting any unpaid taxes with the procedure in force previously can be extended three months, therefore until the deadline of June 2009.

Currently, the Company is unable to calculate the liabilities that might derive from reopening the recovery procedure due to the many uncertainties surrounding interpretation of the regulations of the *de qua* procedure. In any case, management does not expect significant liabilities to arise from the definition of the above-mentioned procedure.


HERA Spa
SERVICES DIVISION
FAMULA ON-LINE Spa
UNIFLOTTE Srl
SERVICE IMOLA Srl
MARKETING & SALES DIVISION
HERA COMM Srl
HERA TRADING Srl
ACANTHO Spa
SO.SEL. Spa
investee of HERA COMM S.r.l.
MODENA NETWORK Spa
HERA COMM MEDITERRANEA Srl
investee of HERA COMM S.r.l.
investee of HERA Trading S.r.l.
ADRIATICA ACQUE Srl
DYNA GREEN Srl
investee of HERA COMM S.r.l.
investee of HERA Trading S.r.l.
SGR SERVIZI Spa
GALSI Spa
investee of HERA COMM S.r.l.
investee of HERA Trading S.r.l.
ERIS Scarl
FlameEnergy Trading Gmbh
investee of HERA COMM S.r.l.
HERA ENERGIE BOLOGNA Srl
investee of HERA COMM S.r.l.
SINERGIA Srl
investee of HERA COMM S.r.l.
Estense Global Service Scarl
investee of HERA COMM
Hera Comm Marche Srl
WASTE MGT. DIVISION
AKRON Spa
NUOVA GEOVIS Spa
GAL.A Spa
SOTRIS Spa
AMBIENTE MARE Spa
RECUPERA Srl
ASA Spa
ROMAGNA COMPOST Srl
FEA Srl
Ecologia Ambiente Srl
ITALCIC Scarl
REFRI Srl
FERONIA Srl
BUSINESS DEVELOPMENT
SET Spa
MARCHE MULTISERVIZI Spa
Calenia Energia Spa
HERA LUCE Srl
MEDEA Spa
SEI Spa
ENERGIA ITALIANA Spa
SATCOM Spa
HERA Energie Rinnovabili Spa
TAMARETE ENERGIA Srl



Disposal of the equity investments in Modena Formazione Srl, Democenter – SIPE Scarl and ACEF Srl is also envisaged.
Hera Rete Modena Srl, Gastecnica Galliera Srl and Prigeas Srl are due to be merged into Hera Spa.
It is planned to dispose of the investments in Ecosfera Spa and Akron Spa.

1.07 Performance of the Hera Group in 2008:

Consolidated summary results of the Hera Group

(millions of €)	31-Dec-2007	Inc. %	31-Dec-2008	Inc. %	Change %
Revenues	2.863,3		3.716,3		29,8%
EBITDA	453,4	15,8%	528,3	14,2%	16,5%
EBIT	220,6	7,7%	280,7	7,6%	27,3%
Net profit	109,9	3,8%	110,3	3,0%	0,3%

1.07.01 Financial and Economic Results

The 2008 results for the year take into account the effects of two extraordinary transactions, operative from 1 January, that led to extension of the business area of the company compared to 2007:

- the incorporation of SAT Sassuolo, a multi-service company operating in the territory of the municipalities of Sassuolo, Fiorano Modenese, Formigine, Serramazzoni and Maranello, in the distribution sectors of gas, water and waste management.

- the extension of business in the Marche region with the merger of Megas Spa in Aspes Multiservizi Pesaro, operating in the area of Urbino, from which the company Marche Multiservizi Spa was created. This transaction completes the aggregation process of local public services in the province of Pesaro-Urbino.

The effects of these transactions will be described later in this report.

It should also be considered that during the year four important plant initiatives were finalised, three of which in the waste disposal sector and one regarding electricity generation:

i. the Ferrara WTE plant with a waste disposal capacity of 142,000 tonnes, and an installed electricity generation capacity of 14 MW, started up in the first quarter and now being tested and inspected;

ii. the Forlì WTE plant with a waste disposal capacity of 120,000 tonnes, and an installed electricity generation capacity of 12 MW, started up in the second quarter and now being tested and inspected;

a third line for the Modena WTE plant with a waste disposal capacity of 145,000 tonnes and installed electricity generation capacity of 20 MW, work on which was completed at the end of 2008 and commissioning is now in progress;

iv. the new combined cycle plant in Imola, with an installed electricity generation capacity of 80 MW, performed its first parallel operations in December and is currently at marketing launch stage.

The first two plants mentioned produced an economic effect better described in the section on analysis of the Waste Management business: the latter two, which went into operation in 2009, have had a significant impact only in terms of the investments made during the year in question.

The following statements were prepared in full application of IAS/IFRS standards as established in regulations for listed companies.

The 2008 year-end results show all the growth indicators with respect to the same period of 2007, as provided in the following table in which the Group's main results are summarized:

Income statement (mln/€)	31-Dec-2007	Inc%	31-Dec-2008	Inc%	Abs. Change	Change %
Revenues	2,863.3		3,716.3		+853.0	+29.8%
Change in inventories of finished products a	(4.2)	-0.1%	2.6	0.1%	+6.8	-158.9%
Other operating revenues	46.0	1.6%	73.1	2.0%	+27.1	+59.0%
Raw and other materials	(1,613.9)	-56.4%	(2,421.4)	-65.2%	+807.5	+50.0%
Service costs	(724.7)	-25.3%	(716.0)	-19.3%	-8.7	-1.2%
Other operating expenses	(50.4)	-1.8%	(43.7)	-1.2%	-6.7	-13.3%
Personnel costs	(300.9)	-10.5%	(331.1)	-8.9%	+30.2	+10.0%
Capitalised costs	238.2	8.3%	248.5	6.7%	+10.3	+4.3%
EBITDA	**453.4**	**15.8%**	**528.3**	**14.2%**	**+74.9**	**+16.5%**
Amortisation, depreciation and provisions	(232.8)	-8.1%	(247.6)	-6.7%	+14.8	+6.3%
EBIT	**220.6**	**7.7%**	**280.7**	**7.6%**	**+60.2**	**+27.3%**
Financial charges	(78.0)	-2.7%	(91.9)	-2.5%	+13.8	+17.7%
Pre-tax profit	**142.5**	**5.0%**	**188.9**	**5.1%**	**+46.3**	**+32.5%**
Tax	(32.6)	-1.1%	(78.6)	-2.1%	+46.0	+140.8%
Net profit for the year	**109.9**	**3.8%**	**110.3**	**3.0%**	**+0.4**	**+0.3%**

Revenues for 2008 amounted to Euro 3,716.3 million compared with Euro 2,863.3 million in 2007, disclosing growth of 29.8%. EBITDA increased from Euro 453.4 million in 2007 to Euro 528.3 million in 2008, a 16.5% increase, and EBIT recorded a 27.3% increase from Euro 220.6 million to Euro 280.7 million. Net profit, which in 2007 benefited from an extraordinary tax effect of approximately Euro 32.9 million, increased by 0.3% from Euro 109.9 million in 2007 to Euro 110.3 million in 2008. Net of the above-mentioned tax effect the increase would have been by 43.2%.

The strong Euro 853.00 million increase in **Revenues**, +29.8%, should be viewed in relation to the 60% increase in revenues in the Electricity sector and over 20% in the Gas sector revenues. With regard to Electricity, the increase is linked to trading activities, which contributed by over Euro 400 million, with the remainder linked to revenues from commercial management on behalf of end users. For the Gas sector, the increase was instead linked to the higher volumes of gas sold and distributed as a result of the extended geographic business area and partly to the higher sales figure linked to favourable weather conditions.

The residual increase is from higher revenues from the integrated water cycle and municipal waste management services, to tariff adjustments obtained and the increase in services provided, and to expansion of the scope of consolidation to include the municipalities of Sassuolo and in Urbino province.

The increase in **costs of raw materials and consumable materials**, equal to Euro 807.5 million (+50.0%) is linked to the rise in costs associated with higher volumes of electricity traded and the increase in sold and distributed gas volumes.

Service costs reduced from Euro 724.7 million in 2007 to Euro 716.0 million in 2008: this Euro 8.7 million reduction (-1.2%) is due to lower transport costs on electricity sold linked to the tariff reductions, which offset the increased costs due to expansion of the scope of consolidation.

The Euro 6.7 million reduction in **Other operating costs** (-13.3%) is due to the different treatment of certain accounting items in 2008, details of which are provided in the notes to the accounts.

As indicated previously, **Personnel costs** rose from Euro 300.9 million in 2007 to Euro 331.1 million in 2008 (+10.0%). The increase in costs is mainly due to (i) the extension of the business areas (ii) increased expense related to the mid-2007 social security reform and (iii) increases related to renewal of the national collective agreements affecting all the major work categories of the Group.

The percentage incidence of **Personnel costs** on total revenues reduced from 10.5% in 2007 to 8.9% in 2008.

The increase in **Capitalised costs** from Euro 238.2 million to Euro 248.5 million is due to extension of the business area and to the increase in investments in the Gas and Electricity sectors.

Consolidated **EBITDA** for the Group as at 31 December increased by almost Euro 75 million (+16.5%), from Euro 453.4 million in 2007 to Euro 528.3 million in 2008: the new waste management plants becoming fully operative, extension of the business area and constant attention to operating costs are to thank for this excellent result.

The percentage-based incidence of EBITDA on Revenues decreased from 15.8% in 2007 to 14.2% in 2008, resulting from the increase in energy trade activity and greater volumes of sold and distributed gas. Net of the change in trading activity, the margin would be 16.4%.

Amortisation and Depreciation increased by 6.3%, passing from Euro 232.8 million in 2007 to Euro 247.6 million in 2008, as a result of investments made and the extended business area. The percentage incidence of this item on revenues decreased from 8.1% in 2007 to 6.7% in 2008.

In the light of the above, 2008 closed with an **Operating profit** up 27.3% on 2007, increasing from Euro 220.6 million to Euro 280.7 million.

Financial operations recorded a negative result of Euro 91.9 million compared to the Euro 78.0 million in the previous year, and includes approximately Euro 3 million extraordinary interest expense due to recalculation of the rates on certain former Cassa Depositi e Prestiti loans, further details of which are provided in the notes to the accounts. Despite tension on the financial markets, the financial policies adopted resulted in the Group cost of money in 2008 remaining essentially in line with that of previous years. The increase on 2007 is linked to the higher indebtedness made necessary by the increased business volume and Group investments.

Pre-tax profit therefore grew by Euro 46.3 million (+32.5%) from Euro 142.5 million in 2007 to Euro 188.9 million in 2008.

Income taxes, no longer benefiting from the Euro 32.9 million extraordinary effect of deferred taxes seen in 2007, increased from Euro 32.6 million the previous year to Euro 78.6 million for 2008, in any event reducing the tax rate to 42.6% compared to 46% in 2007 (prior to extraordinary effects).

As a result of the above, **net profit** increased from Euro 109.9 million in 2007 to Euro 110.3 million in 2008, an increase of 0.3%.

Analysis of the Group's balance sheet

We note the performance of the Group's net capital employed and the sources of financing as at 31 December 2008 with respect to the situation at the previous year-end.

Balance sheet (mln/€)	31-Dec-2007	Inc%	31-Dec-2008	Inc%	Abs. Change	Change %
Net fixed assets	3,256.6	109.6%	3,594.5	114.1%	337.9	10.4%
Net working capital	119.6	4.0%	(22.9)	-0.7%	(142.5)	-119.1%
(Provisions)	(406.0)	-13.7%	(421.0)	-13.4%	(15.0)	3.7%
Net capital employed	**2,970.3**	**100.0%**	**3,150.6**	**100.0%**	**180.3**	**6.1%**
Shareholders' equity	1,538.6	51.8%	1,579.1	50.1%	40.5	2.6%
Long-term debt	1,403.8	47.3%	1,563.2	49.6%	159.4	11.4%
Net short-term debt	27.9	0.9%	8.3	0.3%	(19.6)	-70.4%
Net financial position	1,431.7	48.2%	1,571.5	49.9%	139.8	9.8%
Total sources of financing	**2,970.3**	**100.0%**	**3,150.6**	**100.0%**	**180.3**	**6.1%**

The net capital employed in 2008 increased by 6.1% from Euro 2,970.3 million to Euro 3,150.6 million due to the integration of Sassuolo and Urbino into the business area and a previously mentioned substantial investment plan explained in more detail below.

Net fixed assets as at 31 December 2008 totalled Euro 3,594.5 million compared to the Euro 3,256.6 million of the previous year, an increase of 10.4%.

Provisions as at the end of 2008 amounted to Euro 421.0 million compared with Euro 406.0 million as at 31 December 2007. The increase, in addition to the above-mentioned extension of the business area, is essentially attributable to provisions for the post-closure management of landfills and for restoring networks and plants licensed to the Group and owned by the spun-off companies. These provisions are partially offset by the decrease in employee leaving indemnity resulting from the new regulations.

The results in terms of working capital required by the Group changes considerably, from the utilisation of provisions of Euro 119.6 million to a Euro 22.9 million source of funding, especially due to improved supplier payment terms and better management of trade receivables.

Shareholders' equity increased from Euro 1,538.6 million to Euro 1,579.1 million, and the debt-equity ratio from 93.0% in 2007 to 99.5% in 2008.

The statement of reconciliation between the financial statements of the Parent Company and the consolidated results as at 31 December 2008 is presented below:

	Net profit	Shareholders' equity
BALANCES AS PER PARENT COMPANY FINANCIAL STATEMENTS	84.523	1.465.629
Dividends for the year	(79.775)	
Valuation at equity of companies carried in financial statements at cost	2.222	512
Book value of consolidated equity investments		(373.544)
Shareholders' equity and net profit of consolidated companies	92.109	329.462
Allocation of differences to assets of consolidated companies and related amortisation/depreciation:		
- Goodwill from consolidation		55.313
- Specific plant	(2.489)	77.899
Other adjustments for elimination of effects of infraGroup transactions	(1.825)	(30.055)
TOTAL	94.765	1.525.233
Allocation of minority interests	15.499	53.892
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS	110.264	1.579.125

Financial situation of the Hera Group

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

	(mln/€)	31-Dec-2008	Inc%	31-Dec-2007	Inc%	Change	Change %
a	**Cash on hand**	**193.6**		**211.0**			
b	**Other current financial receivables**	**6.8**		**10.0**			
	Current bank indebtedness	-109.7		-149.6			
	Current portion of bank indebtedness	-79.3		-86.1			
	Other current financial indebtedness	-15.0		-7.6			
	Financial leasing payables falling due by next financial period	-4.7		-5.6			
c	**Current financial indebtedness**	**-208.7**		**-248.9**			
d=a+b+	**Net current financial indebtedness**	**-8.3**	**0.5%**	**-27.9**	**1.9%**	**19.6**	**-70.3%**
e	**Non current financial receivables**	**8.5**		**6.6**			
	Non current bank indebtedness	-439.4		-475.9			
	Bonds issued	-999.7		-798.2			
	Other non current financial indebtedness	-121.4		-122.4			
	Financial leasing payables falling due after the next financial period	-11.2		-13.9			
f	**Non current financial indebtedness**	**-1,571.7**		**-1,410.4**			
g=e+f	**Net non current financial indebtedness**	**-1,563.2**	**99.5%**	**-1,403.8**	**98.1%**	**(159.4)**	**+11.4%**
h=g+d	**Net financial indebtedness**	**-1,571.5**	**100.0%**	**-1,431.7**	**100.0%**	**(139.8)**	**+9.8%**

The table does not take into account the effects of hedging. For this purpose, the net financial position as at 31 December 2007 was also adjusted.

The net financial position rose with respect to 31 December 2007, passing from Euro 1,431.7 million to Euro 1,571.5 million as at 31 December 2008. The increase was mainly due to continuation on schedule of the significant investment plan.

An indebtedness mainly comprising medium/long-term debt, which as at 31 December 2008 covers over 99.5% of the total, is confirmed, duly offsetting the Group’s equity structure characterised by a high fixed assets value.

Hera SpA’s long term Moody’s rating is "A1" and the Standard & Poor rating is “A”.

For a more detailed analysis of the Group’s financial policies and strategies, reference should be made to the specific chapter.

Hera Group Investments

The Group's tangible and intangible investments totalled Euro 419.7 million, compared to Euro 464.0 million in the same period of the previous year.

In the same period, financial investments were also made amounting to Euro 9.9 million. These investments refer to the increased potentiality in the energy sectors through equity investments in new plants (e.g. Galsi and Tamarete Energia).

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

Total investments (mln €)	**31-Dec-2007**	**31-Dec-2008**	**Abs. Change**	**Change %**
Gas segment	31.7	37.7	+6.0	+18.8%
Electricity segment	49.2	46.5	-2.8	-5.6%
Integrated water cycle segment	131.4	114.1	-17.3	-13.2%
Waste management segment	166.2	125.2	-41.0	-24.6%
Other services segment	35.0	38.7	+3.7	+10.7%
Central structure	50.4	57.5	+7.1	+14.0%
Total operating investments	**464.0**	**419.7**	**-44.3**	**-9.5%**
Financial investments	7.8	9.9	+2.1	+27.5%
Total investments	**471.8**	**429.7**	**-42.1**	**-8.9%**

Investments relating to the gas service in the area in question regard expansion, enhancement and upgrading of networks and plant systems. The increase compared to the previous year is largely due to extraordinary maintenance and upgrading of the distribution system, particularly with regard to safety improvement works. “Other” includes investments in Hera Trading and other investee companies.

Gas (mln €)	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Hera network	27.3	35.0	+7.7	+28.4%
Marche Multiservizi	0.8	1.6	+0.8	+97.9%
Medea	1.0	0.9	-0.1	-14.0%
Other	2.6	0.2	-2.4	- 0.92
Total Gas	**31.7**	**37.7**	**+6.0**	**+18.8%**

Investments in the electricity sector refer to the extended service and to extraordinary maintenance of plants and distribution networks. Of the increases compared to the same period in the previous year, approximately 60% is due to mass replacement of electronic meters and the rest due to service enhancements and improvements. With regard to CCGT investments, the performance of the investments is linked to the progress status of construction works on the Imola plant, inaugurated at the end of 2008 and currently at start-up stage.

Electricity (mln €)	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Territory	15.7	21.6	+5.9	+37.6%
CCGT	33.5	24.9	-8.7	-25.8%
Total electricity	**49.2**	**46.5**	**-2.8**	**-5.6%**

Investments in the integrated water cycle have felt the effect of significant rationalisation of works which, compared to the same period in the previous year, led to an overall reduction, accompanied by higher capital account payments and similar.

Integrated water cycle (mln €)	31-Dec-07	31-Dec-08	Abs. Change	Change %
Acqueduct system	68.5	67.9	-0.7	-1.0%
Purification system	22.8	10.9	-11.9	-52.1%
Sewerage system	40.1	35.3	-4.8	-11.9%
Total water cycle	**131.4**	**114.1**	**-17.3**	**-13.2%**

In the waste management area, projects carried out on plants located throughout the area and on plants under construction decreased compared to last year. It should be noted that during 2008 works were completed on both the Ferrara and Forlì WTE plants. In the first few months of 2009 start-up also began for the Modena plant.

Waste management (mln €)	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Existing plants	26.9	34.2	+7.3	+27.0%
Investee companies	37.9	23.3	-14.6	-38.6%
New plants:				
WTE Canal Bianco (FE)	40.0	18.9	-21.1	-52.8%
WTE Modena	16.6	27.1	+10.5	+63.1%
WTE Forlì	35.2	11.1	-24.0	-68.3%
WTE Rimini	9.6	9.9	+0.3	+3.3%
Other		0.7	+0.7	-
Total waste management	**166.2**	**125.2**	**-41.0**	**-24.6%**

District heating service investments concerned extension work to the service mainly in the areas of Bologna (Euro 9.6 million), Imola (Euro 6.4 million), Ravenna (Euro 0.8 million), Forlì Cesena (Euro 3.9 million), Ferrara (Euro 2.2 million) and Modena (Euro 0.9 million). Other investments were mainly for the construction of new cogeneration plants in companies in the area and work on heating plants linked to the heat management service.

Other services (mln €)	**31-Dec-2007**	**31-Dec-2008**	**Abs. Change**	**Change %**
TLR	16,2	24,3	8,1	50,1%
Heat management and micro-cogeneration	11,7	8,1	-3,6	-31,1%
Other	7,1	6,3	-0,7	-10,5%
Total other services	**35,0**	**38,7**	**+ 3,7**	**10,7%**

Investments in the central structure recorded an overall 14% increase, despite the reduction in IT system investments.
The more significant investments relate to expansion of the operating fleet due to the considerable increase in separate waste collection services, as illustrated in detail in the section on waste management, maintenance of the Group real estate and investments in communications networks.

Central structure (mln €)	**31-Dec-2007**	**31-Dec-2008**	**Abs. Change**	**Change %**
Buildings	12.9	17.1	+4.2	+32.6%
Information systems	22.0	16.6	-5.4	-24.6%
Vehicle fleets	10.3	13.9	+3.6	+35.3%
Other investments	5.3	9.9	+4.7	+88.3%
Total structure	**50.4**	**57.5**	**+7.1**	**+14.0%**

1.07.02 Regulatory framework and regulated revenues

1. Regulatory framework

Pending approval of the complex energy sector reform (which amongst other things introduces openings for the construction and management of nuclear plants and targets an overall review of the regulatory framework), driven by the bill on development and internationalisation, Italian legislation is marked by intense regulatory activity in terms of the relationships between energy and waste.

With the conversion to law of the waste emergency decree, until finalised a transitional measure has been introduced regarding the conventional recognition of renewable source incentives on 51% of electricity produced by WTE incinerators.

As envisaged in the 2008 Finance Act, which reformed the general regulations on renewable source incentives, the ministerial decree governing the concession of green certificates under the new regime was also approved. Specifically, the decree permits the subsidised withdrawal of unsold green certificates, valued at the average price recorded over the last three years.

Still on matters of waste management regulations, worthy of mention is the conversion to law of Decree Law 208/2008, containing urgent measures on waste and water resources, which to a certain extent, in any event satisfactory for the future, alleviates the economic burden that water service managers would have had to face following a sentence of the Constitutional Court which, at the end of a long and difficult dispute, declared the payment of the treatment element of the water tariff by consumers not linked to treatment plants directly involving wastewater to be illegal and unwarranted. The new regulations now envisage that the treatment element is due as a ratio of the actual cost recorded for treatment activities. For reimbursement of sums illegally collected, regulations also establish that these may be reduced by the amount in any event payable by operators involved in the part-construction of plants as well as in their design.

The legislative event by far the most significant in sectors of interest to the Group is the approval of the local public services reform under the Italian Law Decree 133/2008 (public finance measures). Pending the enactment provisions, the drafting of which is assigned to the Ministry for Regional Affairs, the regulation definitively establishes the principle of market competition in the allocation of economically significant public services and the ban on competition for “in house” entities, on which more stringent criteria are to be applied. For listed companies, both the residual duration of existing licences and the right to compete without waiver of the direct assignments legally obtained prior to the entry into force of the law are safeguarded. The introduction of the principle of separation of proprietary and regulatory authorities is emphasised.

Law Decree 158/08 containing urgent measures to combat the economic crisis gives rise to a tendential reform of the electricity market in that it supersedes the current formation criterion for the single system price margin in favour of the formation of non-standard prices corresponding to possible pay as bid combinations. Implementation of the market reform is deferred to later regulatory acts.

Of particular importance in the regulations under consideration is the above-mentioned bill on corporate and energy development, which abandons previous government proposals. Amongst other elements of regulatory reform, the bill envisages introduction of the single buyer mechanism in the protected segment of the natural gas market.

Regulation: electricity and gas

The more important changes in the regulation of energy services issued by the Authority for Electrical Energy and Gas in 2008 concern:

- completion of the quality reform, with approval and subsequent integration of the consolidated law on gas (award/penalty scheme optional for 2008 and compulsory from 2009, deadline criteria for communications between vendors and distributors, response times to complaints in terms of specific standards) and the near complete convergence, especially in the sales sector, of gas and electricity;
- the complete reform of gas distribution tariffs (from the dynamic limit to the pure revenue cap model with pre-set limit); review of the tariff contribution for energy efficiency initiatives (transitional confirmation of the Euro 100/TOE level to 89 in 2009);
- the introduction of deadlines for the installation of electronic meters also in the gas sector; the issue of guidelines on the implementation of separation of operations rules.

The regulatory authority, with powers granted under primary legislation (specifically by Italian Law 133/08 and Law Decree 185/08 on urgent economic measures), intervened to implement the ban on translation of the “Robin Tax” and to reduce retail prices of natural gas for protected customers.

2008 was an important transitional year for the regulation of service quality in the distribution and sale of electricity and gas.
From 1 January a new integrated text entered into force on the quality of electrical services (resolution 333/2007), which extends measures on security and continuity of network services and, retaining the basic principles of previous regulations, renews rules on the quality of sales services. In characterising distribution quality, the number of blackouts suffered by customers becomes important, in addition to the traditional continuity benchmark. New criteria are envisaged for event reporting, with particular reference to the definition and statistical treatment of blackouts and the aggregation of short blackouts linked to the same event. Considerable adjustment of the detection systems and data storage was therefore necessary. Among the elements of greater impact is the identification (for provisional statistical purposes, given the future regulation of indemnities) of individual customers subject to low voltage blackouts, whereas in the past the aggregate reading was based on higher voltage levels. For this benchmark, HERA adopts the exemption envisaged for entities that have effected mergers and company integrations. From 1 January LV customers of the Group will in any event be uniquely identified with regard to service blackouts.
With regard to commercial quality, standardised for electricity and gas, customised appointments are reformed, for which it will now always be necessary to record the degree of accuracy, and the incentive implicit to the rapid payment of indemnities in cases of failure to observe specific standards (the longer it takes to refund, the higher the indemnity). Response times to complaints are progressively transformed from the general standard (for which only a report to the AEEG is required) to a specific standard, with subsequent indemnification of the end customer in the event of failure to respond rapidly.
The integrations made to quality regulation in 2008 introduced further standards and obligations for operators with regard to processing times of customer requests required for the flow of communications between vendors and distributors. The aims of the Authority in these obligations were to protect end customers from the growing complexity of the increasingly marked separation of sales and distribution activities.

In transposing the new rules on commercial quality already envisaged for electricity, the new integrated text on gas service quality (resolution 120/2008) has completely reformed the technical quality criteria by the compulsory adoption – no longer optional – of the award/penalty scheme for distribution service security and continuity parameters. Given the transitional nature of 2008, distributors can still decide whether or not to adopt the scheme, though this does not exempt them from applying stringent general service obligations. A special focus is placed on emergency service quality, with guaranteed voice recording of calls to the relevant dedicated call centre. Lastly, incentives implicit to an accelerated replacement of meters is also envisaged. Operators will see gradually reducing cover for the control and replacement of obsolete measurement units.

Gas distribution: tariff framework

2008 saw the conclusion of the second regulation period of gas distribution and measurement tariffs. The natural conclusion of this period, initially identified as 30.9.2008 by the AEEG reference regulation, resolution no. 170/04, was in fact extended to 31.12.2008 by resolution no. 122/08 of September 2008. This resolution identified the fourth quarter of 2008 as the transition period for transit from the second to the third regulation period, which from 2009 sees the concept of the thermal year for distribution activity superseded by the adoption of tariffs approved and applied by calendar year. In addition, from a tariff levels point of view, the above-mentioned resolution 122/08 introduced an extension of tariffs approved for the 2007-2008 thermal year to the fourth quarter.

With regard to gas distribution revenues, therefore, the Hera Spa 2008 financial statements reflect the regulatory framework valid for the second regulation period, the definition process of tariff calculation mechanisms established by resolution 170/04 having been completed in October 2006. Specifically, with the issue of resolution no. 218/06 the AEEG reviewed the values and mechanism for calculating the scheduled productivity recovery rate, which affects recorded operating costs and the technical amortisation of capital.

Thanks to the significant merger operations concluded by Hera over the last few years, the incentive mechanism included in resolution 218 resulted in Hera Spa being recognised company-specific productivity recovery rates of 2.5% for the thermal year 2007-08, compared to a baseline value of 4.4% imposed on companies not affected by merger processes.

Lastly, for Hera Spa, AEEG resolution no. 261/07 of October 2007 formally approved the distribution tariffs for the 2007-08 thermal year based on new elements introduced by resolution 218/06, and updating of invested capital proportionate to the investments made.

Against this backdrop, gas transport revenues for 2008 amounted to Euro 124.4 million with distribution volumes of approximately 2.2 billion cubic metres, with a corresponding average revenue per unit of 5.64 Eurocents per cubic metre.

In order to compare business areas with similar figures for 2007, the 2008 revenues recorded exclude the former SAT Sassuolo business area, for which Hera Spa assumed control as at 1.1.2008.

Gas distribution - transport revenues	2007	2008	Change %
Hera Spa			
Revenue (millions of euro)		124.4	
Volumes (millions of cubic metres)		2,216	
Average revenue per unit (Euro cent per cubic metre)		5.6	
Hera Spa without SAT			
Revenue (millions of euro)	119.5	118.8	-0.6%
Volumes (millions of cubic metres)	2,073	2,105	1.5%
Average revenue per unit (Euro cent per cubic metre)	5.8	5.6	-2.1%

2008 therefore, against a 1.5% increase in distributed volumes, recorded substantial stability in the level of revenues, down 0.6% on 2007. This effect is the result of tariff levels approved for the thermal year 2007-08, slightly down on the 2006-07 figure, and the current tariff structure for gas distribution, based on consumption brackets associated with variable amounts decreasing as distributed volumes increase.

The Hera Group scope of consolidation for 2008 also includes also Marche Multiservizi Spa. Reported below are the consolidated revenues from gas transport, distributed volumes and average tariff per unit for the Hera Group. Compared to the above comments on the legal framework, it should be noted that Marche Multiservizi did not benefit from incentives recognised by Aeeg to Hera Spa in relation to the scheduled productivity recovery rate. During 2008 Marche Multiservizi spa consolidated Megas, which handles the distribution service in the Municipality of Urbino and surrounding district. A standard comparison with Group figures for 2007 is therefore not possible.

Hera consolidated gas distribution - transport revenues	2007	2008	Change %
Revenue (millions of euro)	124.5	134.3	
Volumes (millions of cubic metres)	2,150	2,370	
Average revenue per unit (Euro cents per cubic metre)	5.8	5.7	

Electricity distribution: tariff framework

The tariff system that regulates electricity distribution and measurement in 2008 saw important changes compared to the previous year. With resolution no. 348/07, approved in December 2007, the AEEG introduced a set of tariff provisions for the new four-year regulatory period 2008-2011, in fact imposing a review of current rules for the second regulation period which concluded at the end of 2007. This review shows discontinuity with the previous period in terms of both tariff mechanism definition to guarantee the remuneration of distribution and measurement costs, and in the final levels of unit payments in compensation of said costs.

The differences compared to 2007 are considerable: in fact, in addition to a general downward review of tariff levels that restrict permitted revenues, resolution 348/07 introduced, for the first time since the start of AEEG regulatory activities, the transit from an optional system of tariffs freely determined by distribution companies – albeit subject to appropriate restrictions on revenues – to the definition of standard tariffs by user type, determined by the AEEG at national level. With the aim of preserving the remuneration of operating costs and capital of each operator, the AEEG also confirmed appropriate general equalisation mechanisms.

In this context, revenues from electricity distribution in 2008 were Euro 45.3 million, compared to a distributed volumes level of approximately 2,263 million kWh and average unit revenues of 2.0 eurocents per kWh.

Compared to 2007, and given the substantial stability of distributed volumes (up 0.7% from 2,248 million to 2,263 million kWh), 2008 saw a 10.3% reduction in revenues from Euro 50.5 million to Euro 45.3 million.

Hera consolidated Electricity distribution - revenue	2007	2008	Change %
Revenue (millions of euro)	50.5	45.3	-10.3%
Volumes (GWh)	2,248	2,263	0.7%
Average revenue per unit (Euro cents per KWh)	2.2	2.0	-10.9%

It should be mentioned that of the recorded reduction in revenues of Euro 5.2 million, due to the discounting effect of the distribution tariff as defined in the previous regulatory provisions, approximately Euro 1.0 million of the tariff component be attributed to the sales remuneration allocated from 2008 to the vendor companies.

The remainder of the reduction, Euro 4.2 million, is instead attributable to the actual review of tariff payment levels introduced by resolution 348/07 for 2008, generating an average drop in revenues per unit of 8.9%, partly offset by the slight increase in distributed volumes.

Integrated Water Service: tariff framework

For the Hera spa business area, 2007 saw the expiry of the first tariff agreements for the period 2005-2007 signed with the AATOs, except for the Modena ATO where the current agreement expires at the end of 2009. 2008 was therefore the first year of application of the second tariff period (2008-2012) agreed with the AATOs for the Hera Spa business area, in compliance with the new regional tariff method, which continues towards tariff convergence begun in 2005 with regard to full cover of the costs.
Given the significant change in the business area for the integrated water cycle, which consolidates SAT and Megas as from 2008, the total tariff revenues for the year in terms of integrated water service management assigned by the AATOs were Euro 389.0 million compared to sold water volumes of 257 million cubic metres, representing an overall increase of 6.6% but which incorporates a 1.9% drop in equal business area terms on the previous year.
In comparison with the previous year, the average revenue per unit was up 6.2% due to application of the tariffs resolved by the AATOs.

Integrated water service (consolidated Hera Group)	2007	2008	Increase %
Revenue (millions of euro)	343.7	389.0	13.2%
Volumes (millions of cubic metres)	241.1	257.0	6.6%
Average revenue per unit (Euro cents per cubic metre)	142.5	151.4	6.2%

Municipal waste management: tariff framework

As at December 2008 the Municipal Waste Management service (including the 17 municipalities covered by Marche Multiservizi spa) was provided in 158 municipalities. Of these, 51% (80 municipalities) adopted the tariff system in accordance with Italian Presidential Decree 158/99 covering 64% of the population in the areas served.

An accurate comparison with similar data for previous years is not possible due to the integration of former SAT activities in the Hera Spa business area and the integration of former Megas activities into that of Marche Multiservizi spa. Hera Group consolidated data can be compared, however, from which the following emerges.

Urban sanitation (consolidated Hera Group)	2007	2008	Change %
Revenue (millions of euro)	338.4	382.5	13.0%
Population served (000s)	2,462	2,648	7.5%
Average revenue per unit (Euro per inhabitant)	137.1	144.5	5.4%

The total increase in revenues for the Municipal Waste Management service under licence, which increased by 13.0% (SAT included), is mainly attributable to an approximate 7.5% extension of the area of the population served, the pro capita reduction of waste seen during 2008 down by approximately 1.7%, the increase in the number of services, transit from tariff rates in certain municipalities and revenues from improved monitoring initiatives concerning entities subject to the tariff of 3.4%. Lastly, as a result of an average tariff increase of approximately 3.8%, consistent with increased costs and levels of service provided, which reach important milestones with regard to separate waste collection.

1.07.03 Analysis by Business Segment

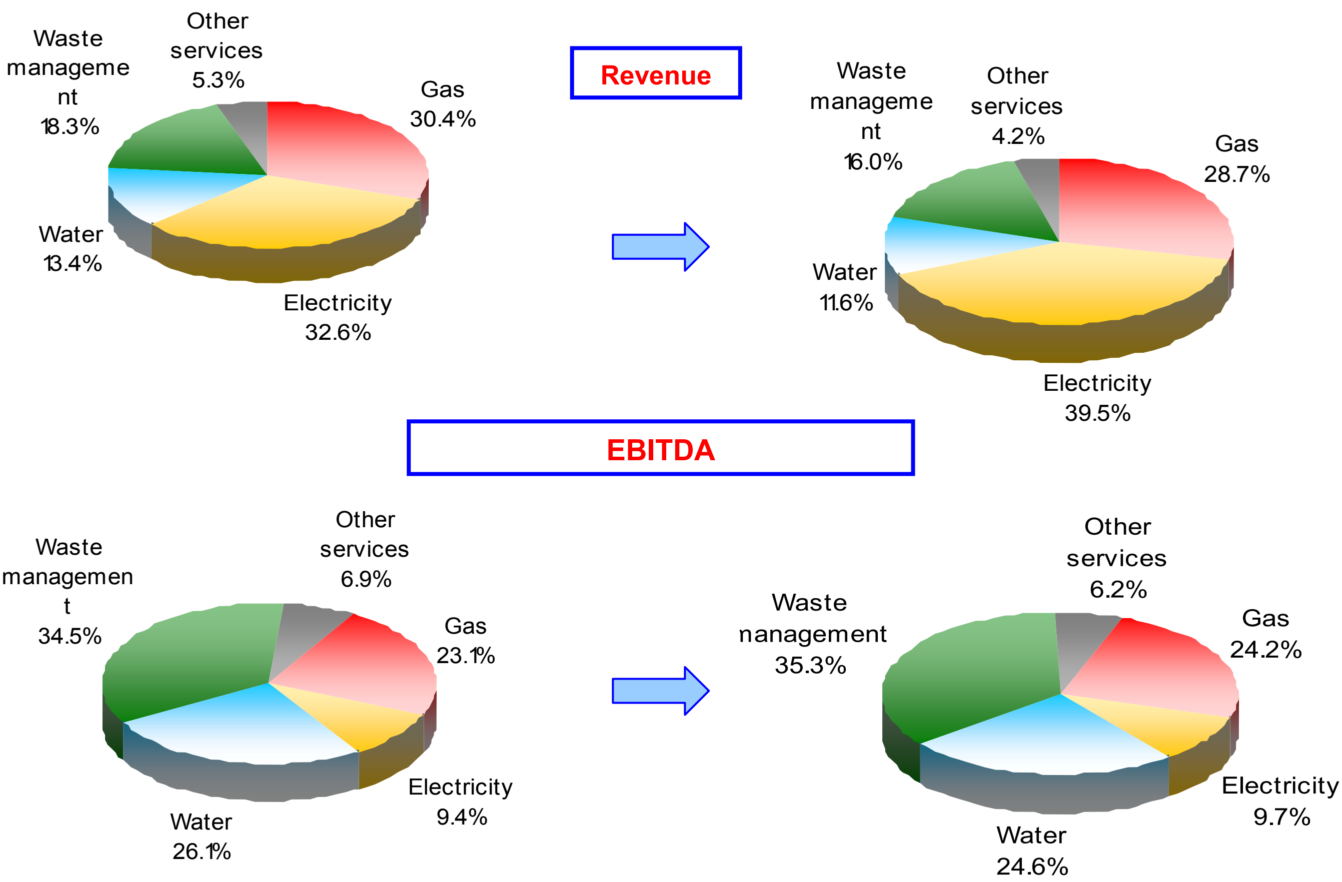
Analysis by Business Segment

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 regarding 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 Services (District Heating, Public Lighting, Heat Management, Industrial microgeneration and other minor services).

An analysis of the breakdown of EBITDA by business segment, compared to the previous year, shows: (i) growth in the gas area, positively affected by increased volumes from extension of the business area and the more favourable weather conditions of the first quarter; (ii) growth in the waste management area, benefiting from the full entry into operation of the new WTEs (currently being tested and inspected) and increased quantities treated; (iii) growth in the electricity area, which consistently increases its business volume; (iv) the resulting reduction of the contribution of other areas in terms of percentage impact, though still growing in terms of absolute margin.

The breakdown and development over the years in terms of Revenues and EBITDA is illustrated in the following charts:

BREAKDOWN OF THE BUSINESS PORTFOLIO



In order to provide a more detailed picture of 2008 performance, the following chapters analyse the Group's various business segments, compared with the corresponding period of 2007.

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 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 2008 the impact of the Gas area, which includes sales and distribution activities, increased to provide an approximate 24% contribution to EBITDA.

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

(mln/€)	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Area EBITDA	**104.7**	**127.8**	**23.2**	**+22.1%**
Group EBITDA	453.4	528.3	+74.9	+16.5%
Percentage weight	*23.1%*	*24.2%*	*+1.1 p.p.*	

2008 benefited from an increase in volumes sold and distributed linked to expansion of the scope of consolidation to include the SAT Sassuolo and Megas Urbino areas. It should be mentioned that in the first three months of the year the weather conditions were more favourable compared to 2007.

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:

Quantitative data	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Number of customers (thousand units)	1,018.7	1,065.7	+47.0	+4.6%
Volumes distributed (millions of cubic metres	2,150.4	2,370.3	+219.9	+10.2%
Volumes sold (millions of cubic metres) (*)	2,336.7	2,493.1	+156.4	+6.7%
- of which Trading volumes (*)	223.2	294.8	+71.6	+32.1%

(*) 2007 proforma values compared to the new scope of consolidation

For a correct understanding of the quantitative data it should be remembered that the acquisition of SAT Sassuolo had an approximate 111.5 million cubic metre impact on the distribution component of the results.

Volumes distributed increased from 2,150.4 million cubic metres in 2007 to 2,370.3 million cubic metres in 2008, up by 10.2%: the almost 220 million cubic metre increase includes:

- 111.5 million from the integration of SAT Sassuolo;
- 76.9 million from the consolidation of Megas Urbino;
- 31.5 million from the more favourable weather conditions and consumer trends.

Volumes sold increased from 2,336.7 million cubic metres in 2007 to 2,493.1 million in 2008, up by 6.7%. The Marche Multiservizi business area contributes to the increase in volumes sold by 63.3 million cubic metres, mainly linked to expansion of the business area to include Urbino.

These two factors contributed to the financial results summarised below:

Income statement (mln/€)	31-Dec-2006	Inc %	31-Dec-2007	Inc %	Abs. Change	Change %
Revenues	922.00.00		1,130.3		+208.3	+22.6%
Operating costs	(810.5)	-87.9%	(997.4)	-88.2%	+186.9	+23.1%
Personnel costs	(39.5)	-4.3%	(46.6)	-4.1%	+7.1	+18.1%
Capitalised costs	32.07.00	3.5%	41.06.00	3.7%	+8.9	+27.3%
EBITDA	**104.07.00**	**11.4%**	**127.08.00**	**11.3%**	**+23.1**	**+22.0%**

Revenues of the Gas area increased by 22.6%, passing from Euro 922.0 million in 2007 to Euro 1,130.3 million in 2008, due to greater volumes distributed and sold, which have a corresponding impact on operating costs.

Higher capitalised costs and higher personnel costs are linked to the increased business area and extraordinary work on the networks to improve overall security, as already mentioned in the chapter on investments.

With respect to the previous year, the Group recorded a Euro 23.2 million increase in EBITDA in this segment, from Euro 104.7 million to Euro 127.8. million, with a percentage margin in line with that of 2007.

In addition to the increase in volumes, also worthy of mention is the overall improvement in sales margins offered by more effective trading activity and increased purchase synergies.

__Analysis of the Electricity Area__

The Electricity area continued to grow in terms of both business volumes and margins. With further developments in sales and trading activity, it contributes almost 40% to the total Group business volumes and records an improvement in overall margins.

The contribution to the total margins for the Group increased slightly from 2007 to 2008, as illustrated in the table below:

(mln/€)	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Area EBITDA	**42.7**	**51.4**	**+8.7**	**+20.3%**
Group EBITDA	453.4	528.3	+74.9	+16.5%
Percentage weight	*9.4%*	*9.7%*	*+0.3 p.p.*	

An analysis of the Electricity area results is given below:

Income statement (mln/€)	31-Dec-2007	Inc.%	31-Dec-2008	Inc%	Abs. Change	Change %
Revenues	989.2		1,555.0		+565.8	+57.2%
Operating costs	(945.1)	-95.5%	(1,506.5)	-96.9%	+561.4	+59.4%
Personnel costs	(20.0)	-2.0%	(22.0)	-1.4%	+2.0	+10.5%
Capitalised costs	18.6	1.9%	24.9	1.6%	+6.3	+33.9%
EBITDA	**42.7**	**4.3%**	**51.4**	**3.3%**	**+8.7**	**+20.3%**

Revenues increased by over 57%, from Euro 989.2 million in 2007 to Euro 1,555.0 million in 2008, in relation to greater volumes traded and a stronger commercial penetration.

The start-up in 2007 of the Teverola and Sparanise power plants, in which the Group has a considerable investments, has helped sales action, offering the benefit of increased raw materials purchases at a competitive price.

Revenues from distribution reduced, however, following application of the new AEEG tariffs at the end of 2007.

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

(millions of euro)	31-Dec-2007	Inc.%	31-Dec-2008	Inc%	Abs. Change	Change %
Sales revenues	412.0	41.6%	595.9	38.3%	+183.9	+44.6%
Distribution revenues	50.5	5.1%	45.3	2.9%	-5.2	-10.3%
Trading / other	526.7	53.2%	913.8	58.8%	+387.1	+73.5%
Total revenues	**989.2**	**100.0%**	**1,555.0**	**100.0%**	**+565.8**	**+57.2%**

The quantitative data for the sector by customer type, illustrated below, demonstrates the trend in volumes linked to the aforementioned management policies:

Quantitative data	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Number of customers (thousand units)	**273.2**	**286.9**	**+13.7**	**+5.0%**
Volumes sold (Gw/h)	4,334.7	5,075.2	+740.5	+17.1%
Volumes distributed (Gw/h)	2,247.9	2,263.4	+15.5	+0.7%

The increased volumes traded explains the proportionate increase in operating costs from the purchase of raw materials, while percentage margins decreased from 4.3% in 2007 to 3.3% in 2008.

Labour costs increased with respect to 2007, linked to sales activity developments, while capitalised costs increased due to greater investments in the Group networks. For this purpose it should be remembered that in 2008 the mass project continued for the installation of electronic meters on the distribution network managed by the Group

As at 31 December 2008, EBITDA recorded an increase compared to 2007, from Euro 42.7 million to Euro 51.4 million, a 20.3% increase. The increase in sales margins and benefits linked to trading activity were partially offset by the effects of the decrease in distribution tariffs which reduced the service margin.

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 and almost complete coverage of the area in question.

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

Agreements were set up with all of the aforementioned agencies to regulate the integrated water service, and in addition to extending the licence terms up to 2022 on average, also guarantee the Group the return on its capital investment over the next few years.

In 2008 the Integrated Water Cycle area showed an improvement in results compared to the same period in the previous year:

(mln/€)	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Area EBITDA	**118.5**	**130.2**	**+11.8**	**+9.9%**
Group EBITDA	453.4	528.3	+74.9	+16.5%
Percentage weight	26.1%	24.6%	*-1.5 p.p.*	

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

Income statement (mln/€)	31-Dec-2007	Inc.%	31-Dec-2008	Inc%	Abs. Change	Change %
Revenues	407.6		459.0		+51.4	+12.6%
Operating costs	(342.0)	-83.9%	(359.0)	-78.2%	+17.0	+5.0%
Personnel costs	(89.8)	-22.0%	(100.8)	-22.0%	+11.0	+12.2%
Capitalised costs	142.7	35.0%	131.0	28.5%	-11.7	-8.2%
EBITDA	**118.5**	**29.1%**	**130.2**	**28.4%**	**+11.7**	**+9.8%**

Revenues increased by 12.6% compared to 2007, in line with forecasts. The increase in business volume is linked mainly to expansion to include the areas of Sassuolo and Urbino and to the expected tariff increases: these effects were partly affected by a reduction in pro capita consumption estimated to be around 1-1.5%.

The increase in operating costs was limited to Euro 17 million, with an impact on revenues reducing from 84% in 2007 to 78% in 2008, despite the fact that the previous year benefited from the lower cost for the purchase of water from third party companies due to the particularly dry weather, and 2008 was negatively affected by the increase in average purchase tariffs for electricity used by the plants.

The recorded increase is limited to expansion of the business area. It should also be mentioned that 2008 also recorded a drop in subcontracted work in the latter part of the year, in line with the slowdown in real estate activities resulting from the economic crisis.

The results performance for 2008 is in line with that of previous quarterly figures, though growth slowed in the second half of the year due to the above-mentioned considerations.

EBITDA for this area in 2007 increased by Euro 11.7 million, passing from Euro 118.5 million in 2007 to Euro 130.2 million in 2008 (+9.8%).

The following table illustrates the main quantitative indicators for the Water Cycle area:

Quantitative data	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Number of users (thousand units)	1,015.0	1,153.9	+138.9	+13.7%
Volumes sold (millions of cubic metres)				
Aqueduct	247.1	257.0	+9.9	+4.0%
Sewerage	216.0	224.4	+8.4	+3.9%
Purification	216.2	224.3	+8.1	+3.8%

It should be mentioned that the increase in users is linked to expansion of the business area, whilst volumes increased to a less than proportionate amount due to falling consumption as already indicated.

Analysis of the Waste Management Area

The Waste Management area consolidates the growing results of previous accounting periods compared to 2007, recording a further increase in the last quarter of 2008, also due to the contribution from the new Ferrara and Forlì plants.

The margins continued to increase compared to 2007, as illustrated in the table below:

(mln/€)	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Area EBITDA	**156.3**	**186.3**	**+30.0**	**+19.2%**
Group EBITDA	453.4	528.3	+74.9	+16.5%
Percentage weight	*34.5%*	*35.3%*	*+0.8 p.p.*	

The Hera Group is reconfirmed as the most important integrated operator in the sector at European level, due to the fact that it has 74 treatment and disposal plants for municipal and special waste.

The Group operates through 7 ATOs in the provinces of Ravenna, Forlì-Cesena, Rimini, Bologna, Ferrara Modena and Pesaro-Urbino in the area of municipal sanitation services including, sweeping, collection and disposal of municipal waste, as for the water cycle services. With all agencies, agreements compliant with current regulations are in operation.

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

Income statement (mln/€)	31-Dec-2007	Inc.%	31-Dec-2008	Inc%	Abs. Change	Change %
Revenues	553.6		632.1		+78.5	+14.2%
Operating costs	(289.4)	-52.3%	(328.0)	-51.9%	+38.6	+13.3%
Personnel costs	(129.1)	-23.3%	(142.1)	-22.5%	+13.0	+10.1%
Capitalised costs	21.3	3.8%	24.2	3.8%	+2.9	+13.2%
EBITDA	**156.3**	**28.2%**	**186.3**	**29.5%**	**+30.0**	**+19.2%**

Revenues as at the end of 2008 increased by Euro 78.5 million (+14.2%) compared to 2007, from Euro 553.6 million to Euro 632.1 million. The increase is mainly due to (i) corporate and territorial integration, (ii) tariff increases with regard to the major municipal waste management services, (iii) higher disposal volumes and (iv) the increase in revenues from electricity produced.

As a result of intense commitment and the investments made, the waste management services provided in the territory have led to a significant increase in separate waste management: net of volumes arising from sweeping activities (as envisaged by the DPCM project on separate collection of 5 June 1997), in terms of percentage-based incidence on total volumes collected, increased by almost seven percentage points, from 38.4% in 2007 to 45.0% in 2008, a result positioned among Italy's top performers. In accordance with new regulations, in force since March 2008, the volumes from sweeping activities must also be taken into account in the calculation: in the light of this change, the 2007 and 2008 percentages become 36% and 42%, respectively.

With regard to waste treated at Group plants, as illustrated in the table below, the total volumes increased by 17.3%.

Quantitative data (thousand tonnes)	31-Dec-2007	Inc.%	31-Dec-2008	Inc%	Abs. Change	Change %
Municipal waste	1,666.5	37.9%	1,762.5	34.2%	+96.0	+5.8%
Market waste	1,384.5	31.5%	1,241.5	24.1%	-143.0	-10.3%
Special waste from plant by-products	961.5	21.9%	1,594.0	30.9%	+632.5	+65.8%
Direct customers-subsidiary companies	385.8	8.8%	560.2	10.9%	+174.4	+45.2%
Waste treated by type	**4,398.3**	**100.0%**	**5,158.2**	**100.0%**	**+759.9**	**+17.3%**
Landfills	1,522.6	34.6%	1,597.8	31.0%	+75.2	+4.9%
Waste to energy plants	599.1	13.6%	622.4	12.1%	+23.3	+3.9%
Selection plants	257.6	5.9%	343.9	6.7%	+86.3	+33.5%
Compost plants	339.8	7.7%	352.2	6.8%	+12.4	+3.6%
Stabilisation and chemical-physical plants	848.2	19.3%	1,057.9	20.5%	+209.7	+24.7%
Other	831.0	18.9%	1,184.0	23.0%	+353.0	+42.5%
Waste treated by plant	**4,398.3**	**100.0%**	**5,158.2**	**100.0%**	**+759.9**	**+17.3%**

The increase in municipal waste is linked to expansion of the scope of consolidation, whilst the significant increase in subproducts from the plants is linked to heavier rainfall in 2008 which led to increased production of sewage sludge and leachate. The overall performance of disposed market waste quantities, which includes those relating to customers managed directly by subsidiaries, increased by 1.1% and is linked mainly to the increased disposal capacity made available through start-up of the new plants.

EBITDA for the Waste Management area increased from Euro 156.3 million in 2007 to Euro 186.3 million in 2008, a 19.2% increase.

Analysis of the Other Services Area

The Other Services area, which includes Public Lighting, District Heating, Heat Management, Microgeneration and sundry Other Services, was confirmed again for 2008, increasing on the 2007 figure, despite the disposal of certain no-core services.

(mln/€)	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
Area EBITDA	**31.2**	**32.6**	**+1.4**	**+4.3%**
Group EBITDA	453.4	528.3	+74.9	+16.5%
Percentage weight	*6.9%*	*6.2%*	*-0.7 p.p.*	

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

Income statement (mln/€)	31-Dec-2007	Inc.%	31-Dec-2008	Inc%	Abs. Change	Change %
Revenues	160.4		164.2		+3.8	+2.3%
Operating costs	(129.6)	-80.8%	(138.7)	-84.5%	+9.1	+7.1%
Personnel costs	(22.6)	-14.1%	(19.7)	-12.0%	-2.9	-13.0%
Capitalised costs	23.0	14.4%	26.8	16.3%	+3.8	+16.2%
EBITDA	**31.2**	**19.5%**	**32.6**	**19.8%**	**+1.4**	**+4.4%**

Revenues and EBITDA increased compared to the previous year, mainly in district heating, which recorded higher volumes sold, in public lighting which continues sales progress to new municipalities and a focus on operating efficiency, and in microgeneration which doubled its result of the previous year due to the new plants installed.

These increases offset the negative effect from the disposal of services in the Rimini area.

The following table notes the main quantitative indicators in this area:

Quantitative data	31-Dec-2007	31-Dec-2008	Abs. Change	Change %
District heating				
Heat volumes distributed (Gwht)	391.5	422.6	+31.1	+8.0%
Public lighting				
Light units (thousand)	319.1	326.8	+7.7	+2.4%
Municipalities served	60	64	+4	+6.7%

1.08 Commercial Policy and Customer Care

The commercial policy for 2008 was again basically broken down into two major programmes:

- Commercial Development
- Optimisation of Customer Management

Commercial Development

During 2008 there was an increase of the supply points on all services (as illustrated in the table)

Supply points	2007	2008	Delta (07/08)
Gas	970,275	983,071	12,796
Electricity	271,727	286,864	15,137
TIA	779,944	793,620	13,676
Water	958,466	978,743	20,277

For the free market services, the increase was achieved by continuing the commercial development policy broken down as follows:

- ✓ Multi-service: simplifying customer management by offering a sole contact and just one bill for energy services (Gas and Electricity), and also for licensed services (water and TIA) in districts managed by Hera.
- ✓ Proximity to the customer: being "physically" close to the customers through a network of branches and a widespread sales structure; being quickly accessible through contact centres and the web; being socially responsible and contributing to the growth of the territory and local communities through its activities.
- ✓ Simplified management: independent management through the new portal *HER@ ONLINE* and the option of receiving the bill via e-mail.
- ✓ Economic advantage and transparency: proposing offers that are always competitive and with no surprises, suited to the needs of all customers (more than thirty offers are available, many of which can be customised further).

The pillars of the sales strategy are otherwise based on the following customer segments:

- ✓ Families
- ✓ Small and medium-sized companies
- ✓ Large companies
- ✓ Blocks of flats
- ✓ Public Administrations

For families, our range of offers was further enhanced on deregulation of the electricity market in July 2007. Specifically, in June 2008 the new dual fuel offer, Tre per Tre, was launched for families – three years at a diminishing fixed price (calculated on the raw material component), with single and dual timer options. Added to which is the Formula Risparmio, offering savings on the raw material component defined by the AEEG (applied for all customers that have not changed over to the deregulated market).

Optimisation of Customer Management

Since it was founded, the Hera Group has maximised integration between services and group systems by setting up a single platform composed of two main structures:

- o Group Invoicing and Collection System
- o Management channels

Group Invoicing and Collection System

Through its unified systems, Hera issued over 15 million bills in 2008, following the multi-service strategy that allows our customers to simplify administration and reduce the costs payable. In the second half of 2008 customers were also offered the option to receive bills via e-mail, in replacement of the printed and mailed version.

With regard to payment methods, in 2008 the option to pay at Sisal and Lottomatica outlets and online credit card payments saw a boom among customers choosing not to pay by direct debit, the first of these options seeing a total of 16,000 payments per month and the second around 2,000 payments per month.

The new method open to customers of submitting meter readings via sms, available since 2007 as an additional option to submissions via telephone and web, saw a strong increase in numbers.

Management Channels

Again in 2008 the Hera Group continued its policy of strengthening the contact channels available to customers with the goal of making contact increasingly simple and fast. Hera has 5 separate contact channels:

1. mass market call centre
2. business call centre
3. branches
4. web
5. mail

Average contact centre waiting time (secs)	2005	2006	2007	2008
residential customers	70.2	34.5	46.2	66.1
business customers		43.9	26.8	42.4
Number of calls to the contact centre (no.)	**2005**	**2006**	**2007**	**2008**
residential customers	1,394,458	1,991,264	2,375,823	2,489,180
business customers		59,686	105,447	115,997
Percentage of successful calls to the contact centre (%)	**2005**	**2006**	**2007**	**2008**
residential customers	87.10%	94.10%	94.20%	93.20%
business customers		89.00%	97.60%	95.50%

A number of service parameters that highlight the accessibility of these channels are shown below.

Average waiting time at branches (mins)	2005	2006	2007	2008
Average	**26.89**	**23.85**	**21.88**	**18.5**

In 2008 a new queue management model was implemented in the main Group branches, allowing average waiting times to be improved, reducing them to just 18.5 minutes. This result was achieved as part of the "F.A.S.T." automated queue timesaving project, which by synchronising the expected customer flows with available human resources and implementing new operating methods offered optimisation of operations and, consequently, improved quality of service in terms of waiting times.

During 2008 we witnessed substantial improvement of all the accessibility parameters except for the average contact centre waiting time, which in the aftermath of increased traffic the waiting time also increased but remained at levels substantially lower levels than those of 2005 and lower than target times set by the AEEG. The first half of 2008 was characterised by a mass influx of calls that led to waiting times higher than those of 2007. This result is also partly attributable to the commitment to response training for personnel which allowed us to achieve important results in terms of customer problem-solving capacity. In fact, according to the overall Group Customer Satisfaction survey, the score for problem-solving capacity increased by 6 points in 2008 compared to 2007. Furthermore, in the second half of the year the average waiting times and percentage of calls answered improved compared to 2007 for the mass market channel and remained stable for the business channel.
In support of the telephone channel, web services (Hera on line) were improved to allow customers the option of always being able to consult their position or perform operations such as online meter-reading and receive bills via e-mail.

Today the Group has 85 branches spread across the entire area covered. Of these, 8 area branches are located in the main cities served, 38 are medium-sized "priority" branches normally located in municipalities outside the main cities, 47 are "contact points", i.e. smaller branches normally in peripheral locations.

The project to modernise the layout of the Group's main branches continued in 2008. It follows architectural lines that communicate the concepts of territoriality, neighbourhood and respect for the environment, and reconciles these with accessibility, liveability and service efficiency. The layout, optimised on the basis of specific focus group results, after completion of the first central branch in Bologna (September 2007), was extended and inaugurated in the Forlì and Cesena branches in December 2008. The project will continue in 2009 with modernisation of the Imola and Ravenna branches.

1.09 Trading and Procurement Policy

2008 was the year in which, after the bubble burst on subprime mortgages, the real estate crisis became a full-blown financial crisis, affecting first the financial system and afterwards the economic system.
In September the economic scenario changed drastically, also as a result of the commodities shock and the disintegration of faith in the financial markets after the Lehman crash: the leading European economies, including Italy, technically went into recession, in the last two quarters recording negative growth rates and castigated by the decline in investments, consumption and net exports.
Forecasts for the Eurozone say that the recession will continue, with a possible recovery in 2010.
On the currency front, the first part of 2008 was characterised by a marked depreciation of the dollar against the euro, in parallel with a steep rise in raw materials prices, especially crude oil. This was followed by a notable process of appreciation of the US dollar, also due to a rapid downsizing perceived in the exchange rate differential, when the European Central Bank (ECB) began cutting benchmark rates.
The first few months of 2009 could be affected by a tendency towards appreciation of the US dollar as a consequence of difficulties likely to emerge between Eurozone governments in the identification of effective community policies. The second half of the year could instead see a new depreciation of the US currency due to the deterioration of public accounts in the United States.
In terms of market rates, just as the Federal Reserve (FED) reduced the benchmark rate (from 4.25% at the start of the year to today’s 0-0.25%), multiplying the various methods for cash injection to the system, the ECB also cut the benchmark rate to 2.5% in December, whilst the various Eurozone governments have adopted different measures in support of the banking and economy system, such as the introduction of government guarantees on deposits and bank issues, and financing to stimulate investment in infrastructures, in the clean energy sector and in SMEs.
The downward trend of rates is also forecast for 2009, along with further ECB cuts planned in the first quarter.
With regard to Italy, the country's economy is particularly hard hit by the international crisis. Though the real estate crisis has had less impact on Italy than on other countries such as the UK and United States, the economic situation has in any event caused GPL to fall: an estimated decrease of 0.5% in 2008, and a further decrease to -1.8% forecast for 2009.
Inflation, as in the rest of the Eurozone, increased in the first half of the year, and then fell. The average annual inflation rate for 2008 was assessed at 3.4%, higher than that of 2007 (1.8%).

Reference Scenario

	2008	2007	% change
$/bbl Brent Dated price	96.99	72.52	34%
$/€ exchange rate	1.47	1.37	7%
€/bbl Brend Dated price	65.03	52.67	23%

With regard to energy commodities, after the feverish increase in the first few months of 2008, from the second half of July a downward, highly unstable trend set in. The 2008 Brent dated peak of 144.4 dollars per barrel was reached in mid-July, and the minimum was recorded on 24 December as 33.65 dollars per barrel, more than four times less than July's peak price.

Such steep fluctuations were mainly caused by the drop in demand and increased stocks.

On the US market, West Texas Intermediate (WTI) recorded its minimum barrel price of $ 31.41 on 22 December 2008, closing at 31 December at $ 44.60 dollars, against the Brent barrel price of $ 41.76.

Oil prices continue to fall, dragged down by 2009 global demand figures and forecasts of -0.1% on 2008 figures, despite supply cuts implemented by OPEC.

The reduced production in OPEC countries has seen the application of two major cuts:

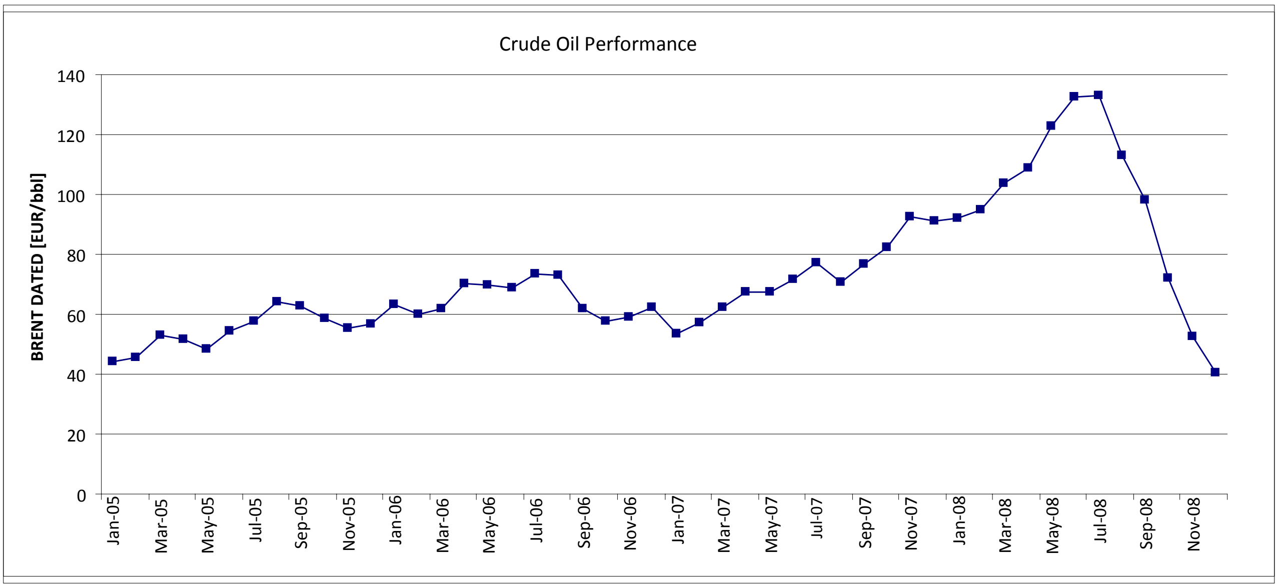
- one of 2 million barrels decided in September and
- one of 2.2 million barrels decided in December

bringing market prices back to around 70-80 dollars per barrel, even though in the first part of 2009 these reductions have not had the desired effect.

Given the current price levels, investments are suffering drastic reductions and operators are keeping a close eye on decisions of the major world producers and of the more influential OPEC producers: Saudi Arabia intends to apply further cuts and the decisions of other producers could follow in their footsteps.

The collapse of spot prices has resulted in certain producers choosing to stockpile rather than sell, triggering a gradient change in the forward curve.

Oil products have speculatively followed the negative performance of the crude oil benchmarks, gasoil recording a particularly strong decrease from an average 815 dollars per tonne in January to an average 1,230 dollars per tonne in July, and closing in December around the 422 dollar mark.



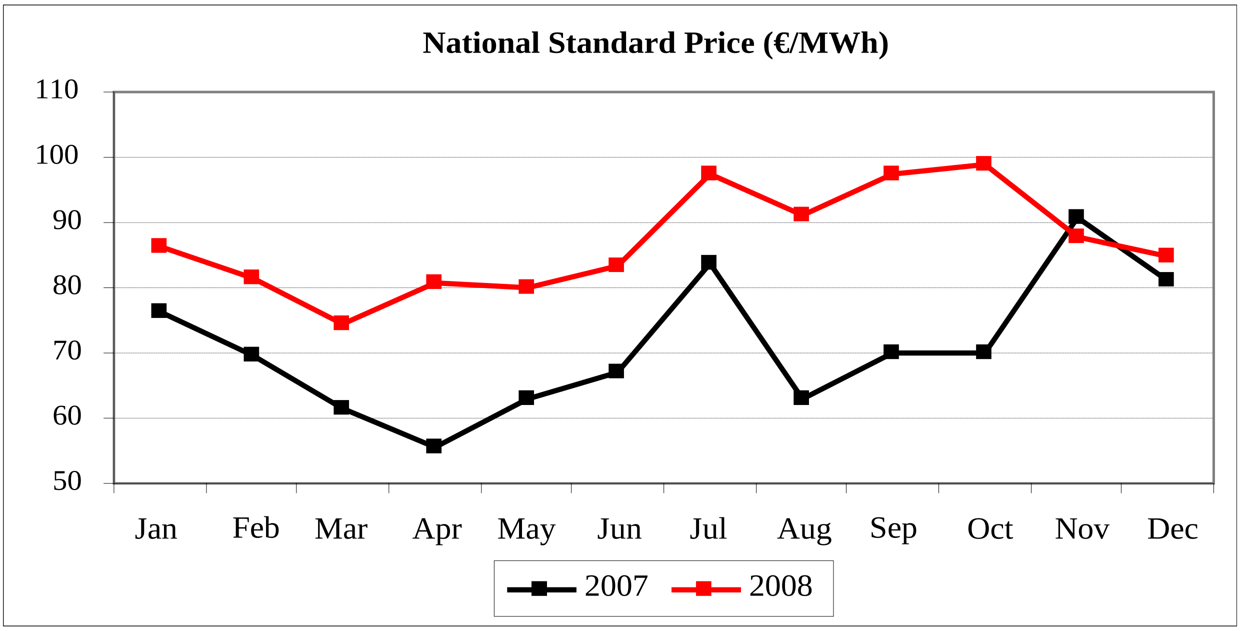
With regard to electricity, in 2008 demand fell by 0.7% compared to 2007.

The geographic difference in the figures confirms the fact that a fall in demand can be caused by a slowdown in industrial production. For example, in the northern regions in November demand fell by 9-10%, whilst in southern regions the range was 3-6%.

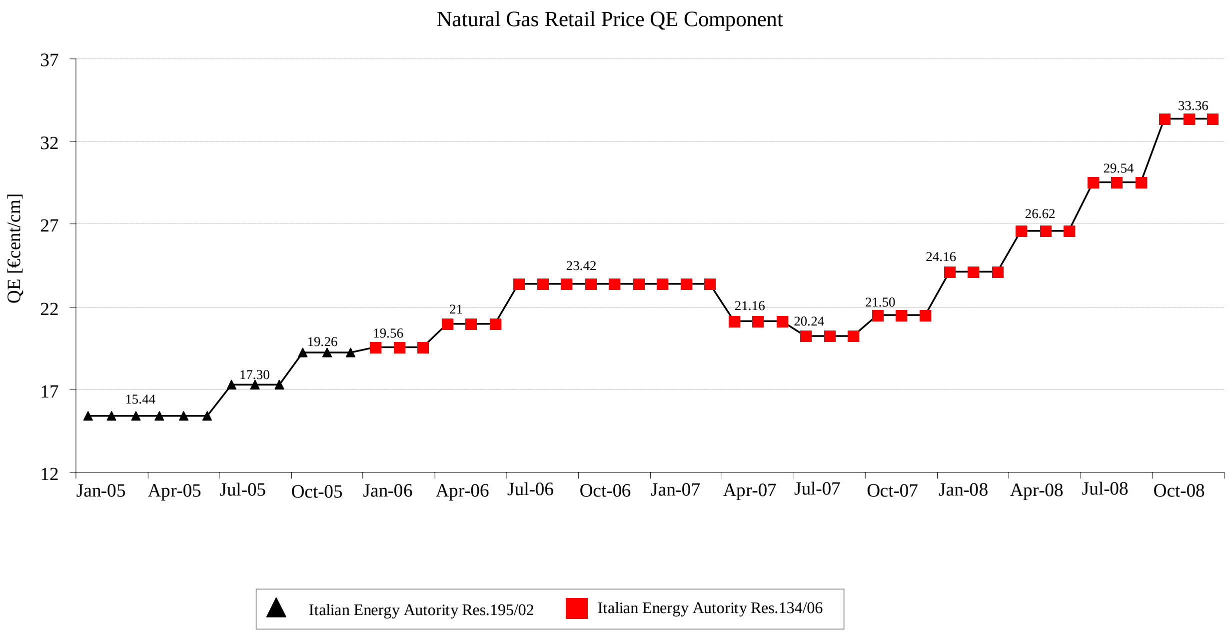
Unlike previous years, the last part of the year recorded an increase in net imports. In November 2008, for example, a 20.9% increase was recorded on the figure for the same period in 2007, which reduced production quotas in the thermo-electric sector (-16.8% compared to November 2007).

The average stock market price was Euro 86.96 per MWh, up 22.6% on the Euro 71.0 per MWh of 2007 (source: Gestore del mercato elettrico -GME).

The price performance was characterised by the presence from August onwards of a strong differential that was rapidly cancelled out in November. This performance can be shown in relation to the period of the rising price of commodities, which began the previous year and stopped suddenly after the summer.



With regard to gas, compared to 2007 the 2008 volumes saw a strong increase in the first four months of the year (1 January-30 April: +12.1%), a reduction in the second quarter (-4.6%) and a further strong drop in the last quarter (approx -9.4%), with total methane gas consumption in Italy reaching a volume of 84.379 billion cubic metres. National production continued its downward trend, in 2008 standing at under 9 billion cubic metres, down 8.4% on 2007.
December confirms the negative trend seen in the previous year with consumption falling by 8.7% compared to the 2007 figure, determined by the increasing impact of the unfavourable economic situation that has brought certain industries to a standstill. The industrial sector, in fact, is that recording the highest decrease, reaching -22.8% in the last month of the year.
In supply terms, the fall in gas demand translates to a decrease in imports and in the infrastructures load factor, compared to the same period in the previous year.
The 2009 outlook for economic growth forecasts a settling of the crisis during the year and a drop in consumption, the extent of which is difficult to predict.
In this context, the average value of the energy rate (QE) in 2008 (calculated according to AEEG resolution no. 134/06) was Eurocents 28.42 per cubic metre compared to an average Eurocents 21.58 per cubic metre in 2007 and an expected value of Eurocents 23.65 per cubic metre for 2009. As these figures suggest, the sharp drop in the oil price recorded during the second half of 2008 has not yet entirely worked its way through to gas prices, and is destined to have repercussions mostly during 2009. This is naturally due to the effect of the delays associated with the formulas for updating gas prices.



Gas division

Legislative/Regulatory Framework

Updating criteria for the cost of wholesale and resale marketing extended to 30 September 2009 – AEEG Resolution no. 100/08)

By this resolution, containing "Measures for the implementation of procedures launched by Electricity and Gas Authority resolution no. 208/07 of 3 August 2007 on the reform of protection mechanisms for natural gas end users and the criteria for updating the variable cost of wholesale marketing", the intention of the AEEG is to extend the current updating criteria to 30 September 2009.

AEEG Resolution no. 192/08

On 19 December 2008, by this resolution containing "Urgent amendment measures to the updating criteria for economic conditions for the supply of natural gas to protected end users and update for the quarter January-March 2009", and in order to guarantee prompt enactment of article 3, subsection 8 of Italian Decree Law 185/08 (the "anti-crisis law decree"), the AEEG removed the no-change limit as of the update for the quarter January-March 2009. This initiative should have no economic effect given that the provision envisages a supplement for later issue to include a definition of the method by which wholesale operators can recover documented damages.

Significant Events

Winter 2008-09 management

The last quarter of 2008 recorded particularly mild autumn weather, coinciding with the first repercussions of the economic crisis. The combination of these two phenomena led to the start of a gas surplus situation. With a view to mitigating the risk of reaching the end of the winter in a long position, from January 2009 Hera Trading acquired a part of the Hera Comm supply on the Bologna regulation and measurement station, shared with ENI Gas & Power.

2008-2009 thermic year storage capacity

During March, the contracts with Stogit and Edison Stoccaggio for the modulation storage service for the 2008-2009 thermal years were renewed.

Finalisation of new procurement contracts

In April, modulated gas procurement contracts were finalised for the regulation and measurement stations for approximately 1,800 million cubic metres for the thermal year 2008-2009 with ENI Gas & Power (1,030 million cubic metres), EDISON S.p.A. (730 million cubic metres), R.E.I. S.p.A. (15 million cubic metres) and Flame Energy (25 million cubic metres). A further modulated gas procurement contract for the regulation and measurement stations due to expire in December 2008 was renewed with ENI G&P for an annual volume of 350 million cubic metres, expiring March 2010.

During the summer, other unmodulated gas procurement contracts were finalised for foreign, frontier and virtual points of exchange for a total of 435 million cubic metres per year (200 million cubic metres EDISON S.p.A., 175 million cubic metres VNG, 60 million cubic metres ENI Gas & Power).

Second step of allocation capacity – Trans Austria Gasleitung GmbH (TAG)

In June, TAG GmbH launched the transport capacity allocation procedure for the second step of the gas pipeline upgrading, for a total of 3.28 billion cubic metres per year. The procedure involved the random allocation of 25 lots of 15,000 cubic metres per hour (approx. 120 million cubic metres per year), with a maximum 25 subsidiaries of each Group allowed to participate in the draw. Hera Trading coordinated the participation of the Hera Group (25 companies) and was awarded one lot with the subsidiary Gastecnica Galliera.

Later, Hera Trading acquired a second lot on the secondary market from Società Intervento Pronto of the Gas Rimini Group, which had initially drawn that lot.

Flame Energy fully operative on the Italian market

As from October, FLAME ENERGY became fully operative on the Italian market. Operations at the virtual point of exchange, which began in 2007, were extended to modulated supply to the regulation and measurement stations.

Electricity Division

Legislative/Regulatory Framework

Proposal to divide up the national transmission network in the northern area

At the beginning of April, Terna launched a consultation on an amendment to the Network Code (Annex 24) which amongst other things proposed to split the current northern area of the electricity market into two, north-east and north-west: the reasons adopted for this initiative were linked to the expected increase in coming years in congestion in the current northern area.

On 1 July, the Authority issued consultation paper no. 24/08 in which it was proposed to separate the area from 2009 and for a period of two years. After preliminary investigations, however, by general regulatory resolution no. 116/08 the Authority decided not to accept the part of the Terna proposal to review Annex 24 with regard to the northern area, leaving the former hub aggregation structure in place (a change in the allocation of network hubs for the southern regions, however, was approved). In the text of the resolution, the Authority called upon Terna to provide a more in-depth report, and the presentation of certain information (including the progress of investments to solve the congestion problem) and formulation of a new proposal for the North area for 2010-2011 by next June: according to initial results from the new investigation, that proposal may again contemplate dividing up the area.

Auctions for forward procurement of resources for the MSD dispatch services market

The competitive procedures for the forward procurement of resources on the MSD market, launched by the System Manager in 2007 following issued of AEEG Resolution no. 130/07 were relaunched in 2008 and involved services rendered on a quarterly basis (active and reactive power reserve products).

Emission trading system: decision on the allocation of 2008-2012 emission quotas

On 29 February 2008 the Environment, Land and Sea Minister and the Economic Development Minister approved the Decision on allocation of CO2 emission quotas for the period 2008-2012. The Decision was disclosed to the European Commission for compliance checks against the Commission Decision of 15/05/2007. The Ordinary Supplement no. 275 to Official Journal no. 291 of 13 December 2008 published both the Decree on approval of the proposed allocation of CO2 emissions and the Resolution of 27 November 2008 issued by the Enactment and Management Committee for Directive 2003/87/EC which rendered the Allocation Decision executive. Teverola and Sparanise, both considered new entrants in the period, were allocated the following quotas:

Allocations - National Allocation Plan (t CO2)					
	2008	**2009**	**2010**	**2011**	**2012**
Teverola	720.466	684.443	655.624	619.601	590.782
Sparanise	1.414.902	1.344.157	1.287.561	1.216.815	1.160.219

Electricity market reform (the “Anti-crisis Decree Law”)

At the end of November the Italian Government issued Decree Law no. 185 of 29/11/2008 (“Urgent measures in support of families, labour, employment and enterprise, and rearrangement of the national strategic framework as an anti-crisis measure"), which amongst other things envisages a series of innovations affecting the electricity market. Among the contents of article 3 for this sector, the version of the Decree approved by the Parliamentary Commissions envisages the following reforms:

- The setup of an intraday energy market with continuous trading integrated with the MSD market, replacing the current settlement market.
- For the MSD market, the reform envisaged involves operations based on economic transparency and efficiency criteria in the selection of resources to be implemented under economic merit criteria. Also promoted is an incentive scheme to reduce costs borne by the system manager, including by means of trading on conclusion of the services rendered. Lastly, it was established that, in particular circumstances of network congestion or system security dangers, certain action can be taken by the Authority to declare the supply of dispatch services essential for certain specifically identified plants (the ‘must run’ mechanism with equal producer remuneration treatment).
- For the MGP market (*Mercato del Giorno Prima*), review of the energy price formulation mechanism was established, to be defined on the basis of economic merit criteria (this review will be implemented downstream of amendments to the intraday market and its integration into the MSD).
- Except for cases governed by the Authorities, publication within 7 days by the GME is envisaged with regard to offers submitted to the MGP market, plus monthly reports on network and system blackouts.
- Expansion of the forward markets for physical and financial energy was promoted, with the development of new products, including long-term products.
- It was established that within 24 months the MSE (electricity services market), on recommendations from Terna, may divide the National Transmission Network into no more than three macro areas.
- After consulting the Authority, the MSE will have the option of applying temporary measures to promote competition in areas subject to anomalous market conduct.

New legal framework on renewable source incentives

The 2008 Finance Act reformed the incentive regime for renewable sources. The reform, valid for new plants started up, envisages extension of the incentive scheme to 15 years by means of green certificates and differentiation of the benefit according to the source type adopted. In addition, the reform has led to the setup of a fifteen-year system for incentive tariffs which those in possession of renewable source-driven plants of less than 1 MWh can adopt on a voluntary basis as an alternative to the green certificates system.
The same law also established rules for the pricing of green certificates issued by the GSE and, for the period 2007-2012, established an increase of 0.75 percentage points per year on the compulsory quota of input of energy produced from renewable sources for energy producers and importers established under art. 11, Italian Legislative Decree no. 79 of 16 March 1999.
On 18 December 2008 the Ministry for Economic Development and the Ministry for the Environment issued a joint decree in enactment of the provisions of the 2008 Finance Act. Amongst other things, as a measure to guarantee transition from the old to the new incentive scheme, the decree establishes the option prepayment through the GSE of green certificates issued for production by 2010 at the average market price for the three-year period prior to the order.

Significant Events

Strong development in electricity trading activities

In 2008, also as a result of favourable market conditions, there was a strong boost to the trading of electricity and environmental certificates, this also due to the tools and means of support developed within the market and the fine-tuning of risk monitoring procedures and the correct disclosure of balance sheet assets according to IAS (fair value and M2M - mark 2 market-).

Consolidation of the asset management structure

Together with the commercial start-up of the Teverola and Sparanise plants, the asset management business unit responsible for managing the logistics/dispatch of energy produced by the plants and the management/optimisation of the power purchase agreements (PPA) was consolidated in the electricity segment.

Sole purchaser auctions

In order to procure the energy necessary for serving its customers (greater consumer protection), during 2008 the Sole Purchaser called three auctions for bilateral physical contracts regarding the years 2009-2010. Hera Trading took part in some of these auctions, and was awarded the supply of 1,353 MWh of products per month in 2008, 265 MWh base load for 2009 and 110 MWh base load for 2010.

Risk Management

During 2008, operating management of commodity and/or currency risk was implemented in a “hedging” context, aimed at establishing the margins provided by the budget for commercial transactions in the Gas and Energy Divisions of both Hera Trading and Hera Comm.

From an organisational point of view, the task was centralised into a single Risk Management division located in the Gas Division.

This approach, based on the creation of a concentrated risk portfolio without generating a duplication of competences, enables the unitary management of risks common to the two divisions and, based on macrohedging rather than specific hedging formulas, has made it possible to achieve certain benefits, such as:

- Achievement of greater levels of hedging;
- Elimination of constraints on the minimum hedging volumes;
- Optimisation of costs for reduced recourse to the market, by netting the positions of single contracts and the positions generated by the Gas and Energy Divisions;
- Increased flexibility in evaluating procurement contracts with non-standard index-linked formulas;
- Increased flexibility in structuring the products and services, with the option of proposing/quoting index-linked formulas other than those existing in the acquisition portfolios;
- Increased visibility of over-the-counter (OTC) commodity prices.

The activity carried out in the Concentrated Risk area, based on derivatives, even if only for hedging purposes, does not meet the requirements of IAS 39 for the application of hedge accounting. Consequently, the result achieved and the book value the derivatives portfolio are included in the operating result of the Gas Division.

Relations with other investee companies

Galsi Spa

Hera Trading still holds shares in Galsi S.p.A. The company is working on preparing the executive gas pipeline project and its compression and measurement stations, as well as on acquiring the necessary permits.

In September 2008 the articles of association and shareholders’ agreements were amended on exit of the shareholders Wintershall and Progemisa (Sardinia Region).

The final contract was signed with SNAM Rete Gas in September 2008 for the latter’s construction of the part of the project relevant to Italian territory.

Project plans for these works are almost finalised and conditions exist for launch of the stage to define the contractor's plan.

Tasks are in progress regarding obtaining authorisations. On 3 February 2009 the first Services Conference was held. In general the project enjoys strong backing. At present the most evident problem lies in the assignment of a compression station in the municipality of Olbia.

At the beginning of February 2009, the contract was signed with the Financial Advisor (Citigroup and Intesa Sanpaolo).

Contractual definition is under way with regard to carrier activities provided by the company acting on behalf of the Shippers, for which Financial Advisor input is necessary for completion.

To date, FID acceptance is still officially set for the end of June 2009, and the first gas during 2012.

The project is currently classed as strategic by the European Union and due to receive a grant of Euro 100,000,000.

In January 2009 the shareholders paid in a final sum of Euro 5,000,000 for the share capital increase of Euro 25,000,000 resolved in 2006.

Again during 2008, shareholders paid in two sums of Euro 10,000,000 on each occasion with regard to a further share capital increase of Euro 20,000,000 resolved at the end of 2007.

Following the exit of shareholders Wintershall and Progemisa, the shareholding structure is as follows:

Sonatrach	41,60%
Edison Gas	20,80%
Enel Power	15,60%
Hera Trading	10,40%
Sfirs	11,60%

Flame Energy GmbH

The joint shareholding of Hera Trading Srl and VNG-Erdgascommersz GmbH in the trading company Flame Energy, with registered office in Vienna, continues. In 2007 the capital increase to Euro 3,000,000 was implemented, as resolved by the shareholders' meeting on 21 December 2006.

The company decided it would not employ its own staff, at least during the start-up stage, and for operations makes use of services provided by the shareholders. It has been active in the wholesale trade of gas since September 2006, becoming operative also on the Italian market in October 2007 at the virtual point of exchange and, from October 2008, fully operative for modulated supply to regulation and measurement stations.

Dyna Green Srl.

Hera Trading Srl continues to hold shares in Dyna Green, a company whose purpose is the research and development of opportunities to purchase and import gas from Libya on behalf of its shareholders. The company's term is until 31 December 2010, its share capital is Euro 30,000, and its registered office is in Milan, Italy.

In June, Euro 120,000 was paid in as a shareholders' loan for a future capital increase.

The shareholding structure is:

- Acea 33.33%
- Dyna Network 33.33%
- Hera Trading 33.33%

Significant events after the balance sheet date

- From 6-20 January 2009 the supply of gas from Russia via the Ukraine was interrupted as a result of a dispute between the two countries. Hera Trading supplies from the same supplier suffered reductions due to force majeure. The reduced deliveries received totalled approximately 5.5 million cubic metres. This reduction led to a surplus capacity being distributed from stocks for a number of days, though this did not represent a problem for the company in recovery terms.

- After final approval by the Senate, Italian Law Decree no. 185 of 29 November 2008 (the "Anti-Crisis Decree") was transposed to law (Italian Law no. 2 of 28 January 2009: "Urgent measures in support of families, labour, employment and enterprise, and rearrangement of the national strategic framework as an anti-crisis measure". The content of articles regarding reform of the electricity market remains the same as that described earlier.

1.10 Financial Policy and Rating

In spite of the well-known difficult financial situation today, during 2008 the Group was able to both limit the appreciable overall increased cost of money and not sustain impacts from the general reduction of liquidity. In fact, in the face of a substantial reduction in short-term rates of reference - but not those of mid-term – we witnessed an enormously broad increase of the spreads, which also led to doubling the cost of money for companies, and a reduction of liquidity available on the financial market.

This goal was for the most part achieved through several structured financial transactions completed before the current financial crisis emerged. They made it possible to keep up a very solid and competitive financial structure, and to avoid the need to necessarily turn to the market to finance debt falling due.

The financial policy objectives which the Company had already set for itself in previous years were as follows:

1. **Interest-rate Risk**: definition and application of a strategy for hedging the interest rate risk which is accurate and consistent with consequent total coverage of the long-term debt at a fixed rate and fully compatible with the Italian accounting principles of reference.
2. **Debt Quality**: consolidation of the short-term debt in favour of the long-term portion.
3. **Credit Facilities**: attainment of abundant uncommitted and committed credit facilities, so as to ensure sufficient liquidity for covering each financial commitment at least over the next two years.
4. **Financial Charges**: reduction of the cost of money.

In this light, the following was carried out in 2008:

1. **Interest-rate Risk**: All hedging transactions in place are perfectly consistent with the underlying debt and in compliance with IAS/IFRS standards. The long-term transactions issued at a variable rate were at the same time hedged at the fixed rate.

2. **Debt Quality:** During 2008 the following re-financing transaction was mainly carried out in order to keep the portion of long-term debt over 90% of the total at the same average cost of the previous year. It concerns the bond issue called "Puttable, Callable, Resettable Bond" orchestrated by the Group together with Banca IMI, BNP Paribas and The Royal Bank of Scotland. Of the value of Euro 200 million, it can be raised to Euro 250 million, maturing in 2031. The Bond will not be redeemable for the first three years, from 25 September 2008, and will be regulated with a quarterly coupon at the fixed rate of 4.20% p.m., equal to the 3-month Euribor at the time of issue, reduced by approximately 90 basis points. Upon maturity in the third year, should it not be redeemed at face value, the amount of the Bond will be increased to Euro 250 million and will pay a fixed rate of 4.65% (equal to the 20-year IRS at the time of issue, reduced by about 30 basis points), increased by the fixed credit spread with five-year intervals, unless redeemed at face value on the same dates.

This transaction as well was studied so as to perfectly fit the Group's needs and in the meantime get extremely competitive costs both in the short-term and long-term without exposing the Company to risks. Moreover, financial covenants are not contemplated, except for a corporate rating limit by even just one Rating Agency below the investment grade level (BBB-).

As everyone knows, the Group still has another four puttable bond issues that were issued during the previous year, totalling Euro 300 million. None of the various maturities of all the existing issues have concurrent expiration dates.

In short, the potential implicit refinancing risk is not deemed such in the case financial institutions should exercise the put option in so far as (i) the financing in question can be considered similar to 3 or 5-year loans with bullet repayment, (ii) in any case their expiration dates, as previously mentioned, are not concurrent, but rather varied over time, (iii) the Business Plan the BoD approved does not show a worsening of its credit, and therefore difficulty in accessing the capital market over the next few years and, (iv) Hera SpA has at its disposal back-up credit facilities that are irrevocable and fully available, totalling Euro 350 million, in order to in any case be able to meet potential expiration dates. However, as at the date this report is drawn up, these credit facilities are being increased up to a total of roughly Euro 500 million, valid for another 3 years.

3. **Credit Facilities:** The credit facilities and the related financial activities are not concentrated on any specific financial backer but are distributed equally among leading Italian and International Banks with a use much lower than 30% of the total available.

4. **Financial Charges**: in spite of the considerable increase of rates and spreads mentioned above, Hera has been able to keep the cost of money at an overall average level of 4.3%, therefore considerably beneath the market quota.

Readers are reminded that Hera S.p.A. has a Bond outstanding for Euro 500 million, featuring a fixed rate coupon of 4.125%, maturing in February 2016.

Hera S.p.A. maintained an "A1 stable" long-term rating from Moody's and an "A negative" 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 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 CO_2 and a considerable increase of the specific production of biogas. In 2008 the experimental activities focused on enhancing the anaerobic process continued, with a first industrial application of the process to a real scale plant aimed at checking its profitability.

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 multi-utilities, various university departments and the Italian Institute of Health are members of the study group. In 2008 a partnership also with the Centro Ferrara Ricerche and with the Istituto Mario Negri was initiated in order to conduct some surveys on micro-pollutants of pharmaceutical origin 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 NOx 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 prototype of the new filter was designed and samples were planned for characterizing emissions in detail by way of analyses conducted by the Group laboratories in collaboration with the Italian Institute of Health.

Electro-osmotic reclamation of sewage sludge project. The aim of the project, started in 2006 in collaboration with the University of Ferrara, is to apply the electrokinetic techniques used for reclaiming polluted land, so as to improve the features of sewage sludge. Following the interesting pollutant content removal results achieved with the early tests in 2006 on a micro-prototype, in 2007 tests on the large-scale prototype were conducted. The results achieved during 2008 pointed out interesting capabilities of removing some organic and inorganic pollutants, however demanding considerable energy commitments which at the time make using other technologies preferable.

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 extremely interesting.
The survey techniques were refined in 2008 by 1) building a device for automatic acquisitions in the field, without supervision, 2) developing a statistical analysis instrument on MatLab® platform, and 3) designing a device for simulating water losses.

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. The project came to an end in 2008 with the technological transfer of the results to Hera Ferrara.

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 multi-utilities 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 and relevant installation of the necessary instruments.

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 Bologna ENEA laboratories during 2007. Operational tests were conducted on the ENEA premises in 2008 and the possibility of upgrading the cell was assessed with the manufacturer.

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 2008 works were started at the Calderara di Reno (BO) treatment plant, which will be used as the test site.

Water Cycle Plant Modelling Project. The project envisages the development of mathematical models aimed at both the hydraulic and process simulation of purification plants. The goal consists of acquiring the instruments and know-how necessary for starting the coordination of the mathematical modelling of integrated water cycle plants. This activity, which goes together with the one already consolidated on the network models, has become necessary for supporting the management, upgrading and streamlining of the plants. The project was carried out in collaboration with ENEA.

Energy Laboratory. A feasibility study for building a centre for experimentation for applied research on production technologies of energy from renewable and alternative sources was completed in 2008.

1.12 Human Resources and Organisation

Human Resources

At 31 December 2008 the Hera Group had 6,391 employees (consolidated companies), with the following breakdown by role: managers (115), middle managers (306), employees (2,980), and workers (2,990). This workforce was the result of the following changes: new resources (+194), resigned resources (-234)(1), changes in the perimeter of companies(2) (+396), divestment of non core services(3) (-79). 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 792 units).

Organisation

The year 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 multi-utilities 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.

(1) Includes 31 resigned resources going to Romagna Acque
(2) SAT: +209, MEGAS: +187
(3) Funerary services and Urban Quality at Hera Rimini: -79

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 has been 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 negotiations were initiated 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. Negotiations were completed in Forlì, Cesena and Modena, whereas others continue.

The Remote-control centralization project at the Forlì plant was given the green light. It is aimed at concentrating the remote-controlled functions of the plants at Fluids and the Technical Call Center as the location for receiving alarms and starting on-call and emergency services.

Trade union activity continued on the topics of organisational alignment, such as the standardisation of on-call practices in the Waste Management Division and of travelling indemnities. The trade unions were involved in the implementation of the laboratories project (rationalisation of the various Group laboratories), also using assessment meetings.

Based on the Group guidelines presented to the trade unions a long time ago, and a subsequent union platform, a comparison on the topic of tenders was initiated.

Every organisation and sector regulations development scenario that affects or in any case influences company policies on the topic of tenders was presented to the trade unions within this framework, like the scenarios on the possible evolution of the environmental regulations and those consequent to the obligations of the AEEG resolutions on functional and accounting separation and on the Independent Operator.

All initiatives that the Group undertakes and has undertaken regarding regulation of bids for tenders, from supplier qualification to those controlling execution of the contracted activities, the safety model referring to relations and risks common with those that work by contract in the company production cycle area and the training actions aimed at preserving internal knowledge and expertise as well as the Group's core activities, were also illustrated.

Training

In 2008 the intense training activity and professional refresher courses continued for both technical and operating staff as well as specific activities aimed at maintaining and enhancing the operating skills required for activities that are deemed to be critical from the point of view of service quality, safety and potential environmental impacts.

The increase in practice and training on the job activities that involved staff was particularly significant (+95.6%). Moreover, 60% of the training actions was carried out with internal teachers (45% in 2007), also in application of the School of Trades model, today on stream in all areas.

The plan to circulate the Code of Ethics, started in Fall 2007 with the training of managers called upon to coordinate the top-down meetings, was executed by involving more than 6,000 employees (97% of HERA Group personnel) for a total of more than 24,000 hours of training. More than 390 events were held.
All employees received explanatory notes about Italian Legislative Decree 231/2001 and the organisational model adopted by the HERA Group at the end of each event in order to ensure widespread awareness of the issue. Italian Legislative Decree 231/2001 was also the topic of special meetings held by the Internal Auditing Department, involving management of the Territorial Operative Companies and the subsidiaries.

In addition to the permanent updating on normative and regulatory aspects and on the information systems of reference, the training program for developing sales orientation was initiated in the sales and customer management area. All call centre and branch personnel were involved.
Additional School of Trades work sites were created during the year. They concerned the following activities:

- management of customers front office
- management of customers back office
- management of customers telephone.

Further one-to-one coaching for managers and executives as well as training on the economic and management aspects of public utilities that involved graduates and other potential new recruits were launched as part of the institutional and managerial training programs. The second edition of the training course on “regulation and market in public utility services” for managers and executives of all Group companies was held as part of the collaboration with the Fondazione Alma Mater.

To strengthen management's capability of planning and managing projects also with the help of support information system, 12 editions of the course on project management methodologies and project trends, the aim of the Balanced Scorecard system, were held in June and July. The project involved 230 managers and executives of the entire Group, totalling more than 3,500 hours of training.

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 the updating on the information systems of the customer management area).

The training program designed for the professional Information Systems family was started in the early months of 2008. During 2008 it involved all employees of the subsidiary Famula On Line. Specifically, the interventions envisaged for developing managerial and management skills, and skills on processes, were held whereas specialised training started in September, and it will continue in 2009.

The regulatory updating activity continued with the usual intensity and circulation. Specific meetings involving all personnel of all territories were held on Italian Legislative Decree 163/2006, as amended or added (so-called tenders code), on the HERA Group Guidelines for managing tender contracts, on the new technical rules for gas transport and distribution, on the new UNI 7129 standard and the user gas plant safety assessment, management of integrated water service in Emilia Romagna (with particular reference to meteoric waters), waste management and in particular on management of collection centres (Italian Ministerial Decree dated 8 April 200), etc.

A project entitled "Developing Resources" was started up as part of the corporate social responsibility policies, in collaboration with the ASPHI Foundation, within the framework of which a specific training course was held (using e-learning technologies) that involved the managers of otherwise-abled employees.

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 comprised dedicated events involving the various professional staff throughout 2008. In particular, specific updating sessions for RSPP/ASPP and for the Quality, Safety and Environment professional family, as well as for the Employers and Personnel and Organisation Department, were held. Training for Managers on safety, for management and the RLS's will commence at the beginning of 2009. Furthermore, continuity was given to the activity of training in carrying out legal obligations (fire-fighting, first aid, etc.).

A total of 207,560 hours of training were provided during 2008, with an overall increase of 38.3% over the final number of 2007.

More than 34,000 presences were recorded and 97.6% of Group employees was involved in at least on training activity.

The per capita hours grew further, rising from 24.3 in 2007 to 33.2 in 2008.

The total economic investment, net of costs of personnel undergoing training and of internal teachers, is higher at Euro 1.2 million.

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

training programme	man hours
professional training and specialised courses	93.625
quality, safety and environment	28.341
institutional and managerial training	66.859
information technology	18.735
Total	**207.560**

1.12 Information systems

The Hera Group information systems continued the course laid out in previous years during 2008, working according to the following guidelines: effectiveness in meeting business needs, ability to consolidate the operational efficiency of the Hera Group companies and structures, promptness in adapting the information systems to the regulations of the sector.

As far as the internal efficiency of the information systems is concerned, the goals were to improve the quality of the information technology services provided, consolidate the information system architectures in line with the technologies on the market, develop human capital in terms of specialised and managerial skills.

Important indicators that illustrate the contribution the information systems gives the business activities of the Hera Group are depicted by the following volumes:

- more than 2 million customers handled;
- approximately 15 million bills issued;
- about 2,350,000 requests for service handled through four channels:
  - call centres;
  - physical branches;
  - mail;
  - Internet.

In 2008 the information systems managed more than 80 projects, classified in the following types.

Support to the new business needs and meeting of the sector's regulatory requirements:

- start-up of the information system development plan in observance of the requirements set forth in the unbundling regulations;
- execution of the Gas and Electricity Network Distributor Portal for handling requests coming from the different vendors working on the territory of the networks managed by the Hera Group;
- completion of the MRO (Meter Replacement Order) project, aimed at replacing electronic electricity meters on a massive scale;
- development of the planning activities for integration in the Group's information systems of the Sat and Riccione Gas companies;
- execution of the on-line Customers Portal for providing information content and added value service such as, for example, the possibility of downloading the bill in electronic format and making on-line payments;
- start-up of managing new commercial offers (Dual Fuel and two-hour schedules);
- adaptation of the management information systems to different standards, both tax and regulatory (e.g. Resolutions of the Authority for Electrical Energy and Gas no. 156/07, 333/07, 348/07, 349/07, 89/08, 117/08).

Improvement of the efficiency of the Hera Group operating processes:

- start-up of the new *eProcurement* system, used for managing and assessing suppliers, supporting electronic auctions and contracting out supplies;
- evolution of the systems aimed at ensuring the securitisation process of the business trade receivables;
- extension of the new bill printing process to additional case records such as, for example, aperiodic bills, bills to third-party vendors, aggregated bills;
- continuation of the management activities concerning the street directory and basic cartography and issues for the gas, water, electricity, district heating and public lighting networks.

Reduction of technological risk and improvement of the levels of safety and efficiency in using information systems:

- start-up of the technological infrastructure and application updating plan by migrating to new releases for the key management information systems;
- continuation of the activities to consolidate and strengthen the technological infrastructure to support the constant increase of business volumes and to increase the degree of reliability in supplying services (e.g. virtualisation of the servers, centralisation of the territorial systems);
- adaptation of all fixed and mobile workstations to the latest safety standards;
- start-up of the project for adopting ITIL – Information Technology Infrastructure Library – best practices for supplying information services.

Lastly, it is reported that there was an important intervention of professional refresher courses during 2008 that involved the information systems staff; a large number of training sessions were held aimed at technical, process, management and managerial skills.

1.14 Quality, Safety and Environment

2008 was the year when the Central Office for Quality, Safety and Environment (DCQSA) was re-integrated into the staff under the Hera SPA Managing Director. This event brought about a new boost to QSA policy.

The newly established Central Office for Quality, Safety and Environment decided to interpret a new role by setting itself up as a centre of competence, able to create the conditions to get shared results meeting corporate charter of values such as: **integrity, transparency and personal responsibility toward Sustainable Development**.

The DCQSA development guidelines work through cultural, organisational and management areas that turn into outlining the development and growth of the company using leverage to share the courses, acquire and build a sense of group, the common commitment on all levels. It is also necessary to increase listening ability, support punctual application of the rules of law and commitments the company takes on regarding Impronta Etica, Services Charter and Sustainable Development.

The re-establishment of DCQSA also set out a new organisational structure even more representative of the skills necessary for change of role, bringing about concrete results with respect to the defined goals in the immediate future. In particular, sharing meetings were started, and they led to the issuing of Group procedures, no longer for separate structures. The next step, and point of reference for the entire management system, was the issue of the P001 procedure. It is the fundamental and establishing basis of the system and defines an analysis and rationalisation job for the existing Document Management System, in addition to have started development of the integrated system with the safety documentation.

During 2008 all certifications obtained in previous years were kept up for the Spa and the TOC, attaining a complete result of ongoing growth and improvement with the addition of several extensions in an extremely positive way.

During the second half of 2008 the request to have the particular, peculiar organisational complexity of the HERA Group recognised was sent to Sincert through a third-party organisation, DNV. It was asked to broach the OHSAS 18001 certification procedure with rules and parameters different from the standard ones used up until today, namely organising the certification procedure by portions of a goal in a three-year 2008-2010 course.

The undertaking to continuously improve the quality of the services supplied, environmental protection and the level of safety for workers and the community with the issue of the new Quality, Safety and Environment Policy, which emerged in the document approved by the Hera S.p.A. Board of Directors in December 2007, was adopted by all of the territorial companies, and also by the subsidiaries during the first half of 2008. It was delivered to all Group workers, put on the corporate intranet network and on the external portal, and is part of the information material delivered to each new employee.
The environmental and quality certifications depict the actual application of the QSE policy in Hera, together with the start-up of the OHSAS 18001 certification procedure.

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

1.15 Annual Report on Corporate Governance

Introduction

This report explains the methods and procedures with which Hera Spa (hereinafter "Company") assimilates the rules of the Code of Conduct (hereinafter "Code") published in March 2006. It contains a well-structured series of recommendations regarding the methods and rules for managing and controlling listed companies in order to augment clarity and concreteness of figures and roles, particularly of the independent directors and the committees within the board of directors.

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

Role and Composition of the Board of Directors

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

In particular, in accordance with the Articles of Association resolutions on the following matters are of the exclusive competence of the Board:

(i) appointment and/or revocation of the Chairman and Vice Chairman;

(ii) appointment and/or revocation of the Managing Director and/or of the General Managers;

(iii) formation and composition of the Executive Committee, appointment and/or revocation of the members of the Executive Committee;

(iv) determination of the powers delegated to the chairman, managing director and/or general managers and/or the Executive Committee and amendments thereto;

(v) approval of and amendments to long-term plans and business plans;

(vi) approval of and amendments to group regulations if adopted;

(vii) engagement and/or appointment, upon the proposal of the Managing Director, of the managers responsible for each departmental area;

(viii) proposal to place on the agenda of the Shareholders' Meeting the amendment to article 7 (public majority shareholding), 8 (limits to shareholding), 14 (validity of the Shareholders' Meeting and rights of veto) and 17 (appointment of members of the Board of Directors) of the Articles of Association;

(ix) the undertaking and disposal of equity investments worth more than Euro 500,000 (five hundred thousand);

(x) purchase and/or sale of properties worth more than Euro 500,000 (five hundred thousand);

(xi) the provision of sureties, liens and/or other collateral worth more than Euro 500,000 (five hundred thousand);

(xii) purchase and/or sale of companies and/or business units;

(xiii) the appointment of directors of subsidiary and/or investee companies;

(xiv) participation in tenders and/or public procedures that involve contractual obligations exceeding Euro 25,000,000.

The Company's Articles of Association envisage that the Board of Directors comprises 18 members. The current Board of Directors will remain in office until the approval of the financial statements relating to 2010.

In compliance with the provisions of art. 1.C.1 letter g) of the new Code, the board of directors has evaluated the size, composition and functioning of the board and its committees, and confirms its positive opinion on the functioning of the Board and acknowledges the following

Name and surname	office	position
Tomaso Tommasi di Vignano	Chairman	executive director
Maurizio Chiarini	Managing Director	executive director
Giorgio Razzoli	Vice Chairman	non-executive independent director
Mara Bernardini	Director	non-executive independent director
Filippo Brandolini	Director	non-executive independent director
Luigi Castagna	Director	non-executive independent director
Mauro Cavallini	Director	non-executive independent director
Piero Collina	Director	non-executive independent director
Pier Giuseppe Dolcini	Director	non-executive independent director
Ferruccio Giovanelli	Director	non-executive independent director
Lanfranco Maggioli	Director	non-executive independent director
Alberto Marri	Director	non-executive independent director
Nicodemo Montanari	Director	non-executive independent director
Roberto Sacchetti	Director	non-executive independent director
Luciano Sita	Director	non-executive independent director
Francesco Sutti	Director	non-executive independent director

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

a) they do not control, directly or indirectly, even via subsidiary or trust companies or third parties, the company; they do not exercise significant influence over the company; they are not parties to a shareholders' agreement via which one or more parties may exercise control or significant influence over the company;

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

c) they do not have nor have they had in the previous year, either directly or indirectly, significant commercial, financial or professional dealings:
   - with the company, one of its subsidiaries, or with some of the related important representatives of the same;
   - with a party who, also together with others as a result of shareholders' agreements, controls the company, or – if concerning companies or bodies – with the related important representatives, and who have not been employees of one of the afore-mentioned parties in the last three accounting periods;

d) they have not received in the last three accounting periods, from the company or from a subsidiary or parent company, significant remuneration in addition to the "fixed" emolument of the company's non-executive directors, including therein participation in incentive schemes linked to the company's performance, even share-based;

e) they have not been directors of the company for more than nine years in the last twelve months;
f) they have not covered the office of executive director in another company in which an executive director of the company covers the office of director;

g) they are not shareholders or directors of a company or a body belonging to the network of the firm appointed to audit the company's accounts;
h) they are not close family members of a party found in one of the positions contrasting with those described in the previous points.
i) they have the requirements of independences set forth under art. 148, section 3, of the FCA.

The following circumstances do invalidate the requisites for independence of a director: the appointment of the director by the shareholders or group of shareholders that control the Company, holding the office of director of a subsidiary of the Company and relative remuneration, holding the office of members of one of the advisory Committees described hereunder.

In pursuance of the provisions contained in Article 3 of the Code, the Board of Statutory Auditors has checked the correct application of the criteria and the assessment procedures adopted by the Board of Directors for ascertaining the independence of its members.

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

1. to chair and direct the Shareholders' Meetings;
2. to establish the agenda of the meetings of the Board of Directors taking into account the proposals of the Managing Director;
3. to supervise the execution of the resolutions passed by the corporate boards of the Company, also based on the periodic reports provided by the internal auditing department;
4. to represent the Company before third parties and in court with the power to appoint attorneys and lawyers;
5. in the case of urgency, to take, in association with the Managing Director, all decisions pertaining to the Board of Directors, notifying the Board of Directors thereof in the subsequent meeting;
6. in association with the Managing Director, to propose to the Board of Directors designation of Company representatives on the administrative and control boards of the investee companies;
7. to represent the company in relations with the shareholding public authorities;

   to propose to the Board the candidates standing for member of the Committees which the Board may decide to establish in compliance with the Stock Exchange regulations which the Company is obliged to observe, or which it intends to establish;

9. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
10. to supervise the Company's performance for the purposes of achieving corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
11. to be responsible for the organisation of the services and offices under his authority and also for the subordinate employees;
12. to supervise operations of the Company and of the subsidiaries, providing the Board of Directors with a monthly report;

13. to draw up the Long-term Plans and Business Plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of directives established by the Board, and to exercise the powers delegated thereto, and in particular those listed hereunder, in compliance with said strategies and directives;
14. to propose to the Board all the initiatives that he may deem useful to the interests of the Company, and the Group, and to draw up proposals on matters reserved for said Board;
15. to represent the Company in the shareholders' meetings of companies, associations, entities and bodies which do not constitute stock companies, of which said Company is member, with faculty to issue special proxies;
16. make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting on said accounts;
17. to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, Stock Exchanges, the National Commission for Listed Companies and the Stock Exchange (CONSOB), the Ministry for Foreign Trade, and the Italian Exchange Office as well as any other Public Administration or Authority; by way of example:
    a. to sign notices, including notice to the General Register of Shares and to CONSOB, and to fulfil the corporate obligations provided by law and regulations;
    b. to submit reports, motions and appeals, to apply for licences and authorisations;
18. to represent the Company in all active and passive lawsuits, in all stages of civil and administrative proceedings, before arbitration boards, with the widest powers to:
    a. bring conservative, restraining and executive actions, request summary judgments and seizure of property and oppose the same, enter civil proceedings, file motions and appeals;
    b. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators and perform all else that proves necessary to the positive outcome of the lawsuits at issue;
19. to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
20. to stipulate and sign contracts and memorandums of association of companies, associations and consortiums worth no more than Euro 500,000 (Euro five hundred thousand) for each transaction;
21. to establish, in the Company's interests, consultancy activities with external experts and professional consultants, specifying terms and conditions of payment, all within the limits of Euro 100,000 (Euro one hundred thousand) for each transaction;
22. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
23. to participate, as far as his authority permits, in the capacity of representative of the Company, as lead company or as principal company, in the formation of joint ventures, T.A.C. (Temporary Associations of Companies), E.G.E.I. (European Group of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;

24. to take part, as far as his authority permits, in the Company's name, also in T.A.C. (Temporary Associations of Companies), E.G.E.I. (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international level, even admitted to State grants or aid, for the awarding or works, supplies of plant, including "turnkey", and/or of goods and/or of studies and/or of research and/or of services in general for any national, EU or international public or private entity; submit applications for participation as from the prequalification stage; submit bids and, in the case of awarding, sign the relative documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
25. to take part, as far as his authority permits, in any type of public or private auction or invitation to bid in Italy and abroad;
26. to stipulate, amend and terminate contracts for insurance policies with expense limits relating to the annual premium, including the insurance fidejussory policies up to the value of Euro 500,000 for each transaction (said limit shall not apply to transactions related to participation in tenders);
27. to rent or let out property under lease or sublease and stipulate, amend and terminate the relative contracts;
28. to deliberate the cancellation, reduction, restriction of mortgages or liens registered in favour of the Company, as well as subrogation in favour of third parties, where the aforesaid cancellations and waivers are requested further or subordinate to the full discharge of the credit;
29. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements in any case pertaining to the corporate purpose – including those referring to know-how, trademarks and patents – even in association with other companies;
30. to establish, register and renew mortgages and liens for third parties' account and to the benefit of the Company; permit mortgage cancellations and limitations for third parties' account and to the benefit of the Company for return and reduction of obligations; waive mortgages and mortgage subrogation, including those of a legal nature, and effect any other mortgage transaction, always for third parties' account and to the benefit of the Company, and therefore receivable, exonerating the competent property registrars from each and any responsibility;
31. to appoint lawyers and attorneys in any disputes and for any stage of proceedings; conclude settlements, sign arbitration agreements and arbitration clauses, also proceeding to nominate and appoint arbitrators;
32. to appoint attorneys for single acts, within the powers assigned;
33. to decide the Company's subscription to bodies, associations, and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of said entity and participation in the same does not involve an outlay of more than Euro 100,000.00 (Euro one hundred thousand).

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

During the same meeting the Board of Directors passed a resolution to vest the Managing Director with the following powers:

1. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
2. in the case of urgency, to take, in association with the Chairman, all decisions pertaining to the Board of Directors, notifying the Board of Directors thereof in the subsequent meeting;
3. to implement corporate and Group strategies, within the context of directives established by the Board, and to exercise the powers delegated thereto, and in particular those listed hereunder, in compliance with said strategies and directives;
4. to propose to the Board all the initiatives that he may deem useful to the interests of the Company, and the Group, and to draw up proposals on matters reserved for said Board;
5. to draw up the annual budget to be submitted before the Board of Directors;
6. to be responsible for the organisation of the services and offices under his authority and also for the subordinate employees;
7. to define the functional structures of the Company and its subsidiaries, within the framework of the general organisation guidelines established by the Board, specify the criteria for personnel recruitment and management in compliance with the annual budget; propose the engagement of directors to the Board of Directors; engage, appoint and dismiss personnel up to and excluding the rank of General Manager, in compliance with the provisions contained in the annual budgets; adopt and implement the disciplinary sanctions, dismissal and any other measure in respect of blue-collar workers, office workers, assistants and auxiliary staff;
8. to stipulate, amend and terminate contracts for the opening of credit, loans of any type and duration; request the drawdown of tranches of loans, up to the amount of Euro 3,000,000 (Euro three million) for each contract;
9. to open and close current accounts with banks and credit institutions, withdraw sums from the accounts held in the Company's name, issuing for this purpose the relative cheques or equivalent credit documents, and order transfers utilising effective availability or credit lines in the current account;
10. make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting on said accounts;
11. to draw bills on customers, endorse also for discount promissory notes, bills and drafts as well as cheques of any kind and effect any consequential transaction;
12. to actively and passively represent the Company before the Tax Authorities and Commissions of any nature and rank as well as before the Bank for Deposits and Loans, the Bank of Italy, Customs Offices, Post and Telegraphic Offices; by way of example:
    a. to sign tax and VAT returns and to fulfil any tax-related obligation,
    b. to submit reports, motions and appeals, to apply for licences and authorisations;
    c. to issue receipts, in particular for payment orders in relation to credits subject to factoring transactions;
    d. to perform any transaction at the Bank for Deposits and Loans, the Bank of Italy, Customs Offices, Post and Telegraphic Offices for shipment, deposit, clearance and collection of goods, credit instruments, parcels and packages, registered and insured letters, issuing receipt in discharge;

13. to represent the Company in all lawsuits pertaining to labour law including the power to:
    a. settle individual labour disputes concerning the categories of officers, white-collar workers, assistants and auxiliaries;
    b. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators and perform all else that proves necessary to the positive outcome of the lawsuits at issue;
14. to represent the Company before the offices of the Social Security and Welfare Institutions for the settlement of issues relating to employees of the Company, and also before the Trade Unions in negotiations for contracts, agreements and labour disputes, with the power to sign the relative documents;
15. to issue guarantees and grant loans up to the value of Euro 500,000 (Euro five hundred thousand) for each transaction; said limit shall not apply to transactions related to participation in tenders; issue, accept and endorse credit instruments;
16. to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
17. to participate, as far as his authority permits, in the capacity of representative of the Company, as lead company or as principal company, in the formation of joint ventures, T.A.C. (Temporary Associations of Companies), E.G.E.I. (European Group of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
18. to take part, as far as his authority permits, in the Company's name, also in T.A.C. (Temporary Associations of Companies), E.G.E.I. (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international level, even admitted to State grants or aid, for the awarding or works, supplies of plant, including "turnkey", and/or of goods and/or of studies and/or of research and/or of services in general for any national, EU or international public or private entity; submit applications for participation as from the prequalification stage; submit bids and, in the case of awarding, sign the relative documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
19. to take part, as far as his authority permits, in any type of public or private auction or invitation to bid in Italy and abroad;
20. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
21. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements in any case pertaining to the corporate purpose – including those referring to know-how, trademarks and patents – even in association with other companies;
22. to establish, in the Company's interests, consultancy activities with external experts and professional consultants, specifying terms and conditions of payment, all within the limits of Euro 100,000 (Euro one hundred thousand) for each transaction;
23. to conclude settlements, sign arbitration agreements and arbitration clauses, also proceeding to nominate and appoint arbitrators;
24. to arrange for sureties to be provided by third parties in favour or in the interests of the Company, both in its position as creditor and as debtor, not exceeding the amount of Euro 100,000 (Euro one hundred thousand) for each transaction;

25. to provide for the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:
    a. works and supplies necessary for the transformation and maintenance of properties and plant;
    b. purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, as well as finance leases and rentals of said assets, with the cost limit referring to the annual rental;
    c. purchases, also under usage licence with the cost limit referring to the annual premium, and job orders relating to EDP programmes;
    d. commercial information;
26. to appoint attorneys for single acts, within the powers assigned;
27. the Managing Director is also assigned the powers and responsibilities set forth in Italian Legislative Decree No. 626 dated 19 September 1994, as well Italian Legislative Decree no. 81 of 9 April 2008, and subsequent amendments and integrations on the matter of workers' health and safety at work, all of which with faculty to delegate;
28. in particular, the Managing Director is assigned the role of "Employer" pursuant to and for the purposes of Italian Legislative Decree No. 626 dated 19 September 1994 and art. 2 of Italian Legislative Decree No. 81 of 9 April 2008, and subsequent amendments and integrations, with the duties provided for therein with faculty to delegate, as far as is permitted by said decree, the performance of every activity useful and/or necessary for ensuring compliance with the provisions of the law;
29. lastly, the Managing Director is assigned the powers and responsibilities set forth in Italian Legislative Decree No. 196 dated 30 June 2003 concerning the protection of individuals and other parties in observance of the handling of personal details.

Hence both the Chairman and the Managing Director are executive directors.

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

The Board of Directors in compliance with the provisions of Article 23 of the Articles of Association and Article 150 of the Legislative Decree 58/98, regularly reports to the Board of Statutory Auditors, at least on a quarterly basis, normally during the meetings of the Board of Directors or even directly with written report sent to the Chairman of the Board of Statutory Auditors, on the activities performed and on the most important economic and financial operations implemented by the Company and by its subsidiaries, as well as on the operations in which the directors have an interest, on their own behalf or on behalf of third parties or which have been influenced by the party that exercises the activity of direction and coordination. The director, pursuant to Article 2391 of the Italian Civil Code, informs the other directors and the Board of Statutory Auditors of any interest that, on his own account or on behalf of third parties, he has in a given transaction of the Company, indicating the nature, terms, origin and extent; if the Managing Director is involved, he must refrain from undertaking the transaction entrusting it to the Board.
The board of directors met 12 times in 2008. All the directors and all the standing auditors participated in 2 meetings, while in the other 10 meetings almost all the directors and almost all the Board of Statutory Auditors participated.

The General Manager of Operations and the General Manager of Development and Market (appointed on 1 July 2008), who are invited to attend the Board of Directors meetings, attended 12 and 6 meetings, respectively in 2008.

As for the current financial year, as at 26 March 2009 3 board of directors meetings have been held. Almost all directors attended two meetings and all directors attended one meeting. Almost all standing auditors attended one meeting and all standing auditors attended two meetings.. On the date of 26 March 2009. 8 board of directors meetings have been scheduled for the rest of the year.

The Chairman ensures that each Director and Statutory Auditor has all the information and documentation necessary for discussing the business on the agenda of the Board meetings at least 3 days before the meeting, except in cases of necessity and urgency.
Lastly, the Chairman and the Managing Director ensure that the Board of Directors is also informed on the most important changes in legislation and regulations relating to the Company and corporate offices.

Role and Composition of the Executive Committee

With approval of the financial statements as at 31 December 2007, the administrative body, and consequently the Executive Committee, came to term. Therefore, the Board of Directors that had been appointed during the Shareholders' Meeting held on 29 April 2008 appointed the Executive Committee with the following members on 30 April 2008, as provided for by art. 23.3 of the Articles of Association:

- Tomaso Tommasi di Vignano – Chairman of the executive committee;
- Giorgio Razzoli - Vice Chairman of the executive committee;
- Maurizio Chiarini – Member of the executive committee.

With regards to the annual definition of the Group Industrial Plan and budget, and to the proposals for appointment of 1st level Senior Executives, the Committee has the task of expressing an opinion prior to presentation to the Board of Directors and also resolving:

1. as to contracts and conventions in any way pertaining to the corporate purpose worth more Euro 2 million per single contract;
2. in the interests of the Company, consultancy arrangements with external experts and professional consultants, specifying terms and conditions of payment, worth more than Euro 100,000 and up to Euro 500,000 and more generally on the overall criteria for use;
3. as to the Company's subscription to bodies, associations, and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of said entity and participation in the same involves an outlay of more than Euro 100,000 and up to Euro 500,000;
4. to settle disputes and/or waive credits of an amount exceeding Euro 1,000,000;
5. as to the activation, amendment and termination of contracts for the opening of credit, loans of any type and duration which involve a commitment of more than Euro 1,000,000 and up to Euro 5,000,000; request the drawdown of tranches of loans, for an amount of more than Euro 3,000,000 and up to Euro 5,000,000 per single contract;
6. as to the stipulation, amendment and termination of contracts relating to:
    - works and supplies necessary to the transformation and maintenance of properties and plants worth more than Euro 15,000,000;
    - *purchase and disposal of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers worth more than Euro 8,000,000*

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

The Executive Committee met 8 times during 2008, and all the members attended all the meetings.

Appointment and remuneration of the directors

The appointment procedures in accordance with art. 2449 of the Italian Civil Code will be surpassed with the introduction of the list voting system also by the majority shareholders during the next Shareholders' Meeting, scheduled in second call on 28 April 2009.
The majority list will appoint 14 of the 18 members of the Board of Directors.
The other 4 members of Board of Directors not nominated by local authorities will be nominated by the Shareholders' Meeting on the basis of the list vote system provided for by Article 17 of the Articles of Association which specifies that the list must be presented by shareholders representing at least 1% of shares with voting rights and must be filed, at the Company's registered office at least 20 days prior to the date set for the Shareholders' Meeting, together with the curriculum vitae of the candidates, their irrevocable acceptance of the appointment and a certificate verifying that there are no grounds for ineligibility and/or forfeiture. Declarations stating they have the independence requisites established for the auditors by art. 148, section 3, of the FCA and of those provided by the Code may also be required.
These lists are made public via publication in three national newspapers, of which two financial newspapers, at least 10 days prior to the Shareholders' Meeting.
The local authorities holding shares have entered into a Voting Trust and Share Transfer Rules Agreement which provides clauses on the composition of the Board of Directors.

There is also a pact of consultation signed on 27 October 2006 by 6 majority shareholders of Hera Spa that envisages clauses regarding the composition of the Board of Directors.

The Shareholders' Meeting of 29 April 2008 awarded the directors a fixed annual remuneration.
The Board of Directors, during the meeting held on 23 June 2008, resolved to assign the Chairman and Managing Director remuneration comprising a fixed amount, inclusive of the indemnity due thereto, as well as an additional variable annual sum linked to the Company's operating results or to the achievement of specific targets set by the Remuneration Committee. During that same meeting, the board of directors passed a resolution to pay the Vice-Chairman a fixed annual consideration including the fee owed thereto as director and any other remuneration for offices held in group companies.
In the meeting of 14 May 2008, the Board of Directors also assigned a further fixed annual amount only to the directors holding specific offices, over and above the fee due thereto as directors, for serving on other boards of directors of group companies and/or other boards associated with the Company's Board of Directors.

Committees

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

a) Remuneration Committee

During the meeting held on 4 November 2002, the Board of Directors, in compliance with the provisions of the Code, set up the Remuneration Committee with the role of formulating proposals to the Board of Directors for the remuneration of the Chairman, the Managing Director, the General Manager and the directors covering specific roles, as well as on the basis of indications provided by the Managing Director, for the adoption of general criteria for the remuneration of management, without prejudice to the Managing Director's duty to define policies and levels of management remuneration.

This Committee, renewed in its composition on 14 May 2008, is composed of Giorgio Razzoli as Chairman, and Francesco Sutti, Piero Collina and Nicodemo Montanari. The Chairman of the Board of Directors and the Managing Director may attend the Committee meetings upon express invitation of the Chairman of the Committee.

During 2008, the Remuneration Committee held 2 meetings; all the members attended one meeting, while the majority of the members attended the other meeting.

The afore-mentioned meetings dealt with the subjects relating to the final results of the Balanced Scorecard for 2007, the 2007 Remuneration Policy for the fixed and variable portions for Directors, Directors of subsidiary companies and Hera Group Executives, the remuneration for Senior Management and the remuneration for the General Manager.

b) Internal Control System and Internal Control Committee

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

The individual responsible for Internal Auditing provides a report on his activities, on a quarterly basis or whenever he considers it necessary, to the Managing Director, the Chairman of the Board of Directors, the Internal Control Committee and to the Board of Statutory Auditors.

In terms of hierarchy, he is not subordinate to the heads of the operating divisions.
In compliance with the provisions of the Code, the Board of Directors of the Company, during the meeting held on 4 November 2002, passed a resolution to set up an Internal Control Committee with advisory and proposal-related functions. This Committee, renewed in its composition on 14 May 2008, is composed of Giorgio Razzoli as Chairman, Luigi Castagna, Stefano Zolea and Lanfranco Maggioli. The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the Chairman and, upon the express invitation of the Chairman of the Committee, the Chairman of the Board of Directors and the Managing Director, may attend the Committee's meetings. The Committee has been assigned the functions indicated under paragraph 8.C.3 of the Code, with the exception of the tasks pursuant to letters c), d) and e) of the afore-mentioned paragraph, which are performed by the Board of Statutory Auditors.

The Internal Control Committee met 4 times in 2008; 2 meetings were attended by all of the members while 2 meetings were attended by the majority of members.

The audit tasks were presented and evaluated, and the 2008 Activity Plan and development of the activities pertaining to Italian legislative decree 231/01 were defined during the afore-mentioned meetings.

c) Committee for the Proposal of Appointments

In light of the procedure for nominating the members, the Board of Directors does not deem establishment of a Committee for the Proposal of Appointments necessary.

d) Ethics Committee

During its meeting of 12 September 2007, the board of directors of Hera Spa set out the new text of the “mission” and “values and working principles” of the group, and consequently approved the updated version of the Code of Ethics that is a “social responsibility” tool of the company for implementing principles of ethics inspired by good practices of conduct and addressed to pursuing the Company’s mission.
Therefore, in implementation of art. 60 of the aforesaid Code, the Board of Directors appointed a special Committee during its meeting of 8 October 2007. The job of the committee is to monitor the circulation and implementation of the principles of the Code of Ethics, and its composition was renewed on 14 May 2008, made up of two Hera Spa directors – Giorgio Razzoli and Luciano Sita – and an executive who is a social responsibility expert.
The Executive Committee met 5 times during 2008, and all the members attended all the meetings. During these meeting reports from the Committee were analysed, results of the initiatives to circulate the Code of Ethics were checked, and the Annual Report of the Ethics Committee to the Board of Directors was prepared.

Handling of Corporate Information

As from 1° April 2006, date when the new legislation concerning internal dealing came into force, disciplined by Article 114 of the FCA and by Articles 152-*sexies*, 152-*septies* and 152-*octies* of the Issuers’ Regulation No. 11971 dated 14 May 1999, introduced by means of CONSOB Resolution No. 15232 dated 29 November 2005, the Internal Dealing Code of Conduct adopted by Hera S.p.A., during the Board Meeting held on 10 March 2003, ceased to be effective.

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

In compliance with the provisions of the Issuers' Regulations, the timescales and communication formalities for the transactions carried out by the significant parties have been identified by the procedure adopted by Hera S.p.A. Hera S.p.A. has identified the Corporate Department of the Legal and Corporate Affairs as the party tasked with receiving, handling and disclosing the information to the market.
The appointed party will avail of the External Affairs Department for the disclosure of the information to the market by means of the NIS screen-based system (Network Information System).

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

Transactions with Related Parties

For the purpose of reviewing and updating the guidelines and principles of conduct for the implementation of Articles 5 and 11 of the Code of Conduct in its previous 1999 version as amended in 2002, already approved during the meeting held on 27 May 2003, and in consideration of CONSOB Resolution No. 14990 dated 14 April 2005 which amended the same notion of related party, during the meeting held on 10 October 2006, Hera S.p.A.'s Board of Directors approved - in accordance with Articles 1 and 9 of the new Code of Conduct – the new guidelines on significant transactions, on transactions with related parties and on transactions where the directors is the bearer of an interest, so as to guarantee that they are carried out transparently and in observance of the criteria of substantial and procedural correctness.

In short, the guidelines are as follows:

1. The Board of Directors has identified the following as significant transactions, even if entered into within the sphere of the Group:
   - *a) transactions which oblige the Company to make a disclosure document available to the general public, drawn up in accordance with the provisions established by the CONSOB;*
   - *b) the undertaking and disposal of equity investments worth more than Euro 500,000 (five hundred thousand);*
   - *c) purchase and/or sale of properties worth more than Euro 500,000 (five hundred thousand);*
   - *d) the provision of sureties, liens and/or other collateral worth more than Euro 500,000 (five hundred thousand);*
   - *e) purchase and/or sale of companies and/or business units;*
   - *f) participation in tenders and/or public procedures that involve the undertaking of contractual obligations exceeding Euro 25,000,000 (twenty-five million);*
   - *g) the issue of financial instruments;*
   - *h) the raising of loans, credit facilities or other lending transactions, in total for amounts greater than Euro 5,000,000 (five million) per individual transaction.*

   At the time of the examination and approval of all the significant transactions, the Board of Directors received adequate information from the delegated bodies concerning Hera S.p.A.'s interest in performing the transaction, the economic feasibility of the same, and the coherence with the Company's strategic plans.

The Board of Directors examines and preliminarily assesses the existence of the afore-mentioned requisites, also in the event that they are referable to transactions by Hera S.p.A.'s subsidiary companies

2. The Board of Directors identifies the parties indicated by the international accounting principles concerning financial statement disclosure on transactions with related parties (IAS No. 24), adopted according to the procedure pursuant to Article 6 of EC Regulation No. 1606/2002, as "related parties" and therefore, in the case of HERA S.p.A., these are as follows:
   a. the parties subject, directly or indirectly, to the sole or joint control of HERA S.p.A., and the companies associated with HERA S.p.A.;
   b. the executive and non-executive directors, standing auditors and, if appointed, general managers of Hera Spa and its subsidiaries and their close family members;
   c. the companies in which the executive and non-executive directors or the standing auditors or, if appointed the general managers of Hera Spa or its subsidiaries or the related close family members exercise considerable influence. This case also includes the companies which have just a sole director, an auditor or a general manager in common with Hera Spa or with its subsidiaries.
3. The significant transactions, along with any transaction which exceeds the threshold of Euro 5,000,000, if concluded by Hera S.p.A. or by its subsidiaries with related parties, are subject to the decision-making responsibilities of the respective administrative bodies.

   Infragroup transactions concluded under standardized conditions and which are not considered to be atypical or unusual, are excluded from the afore-mentioned decision-making responsibilities. Atypical or unusual transactions, infragroup or otherwise, concluded with related parties which exceed the threshold of Euro 500,000, are subject to the afore-mentioned decision-making responsibilities.

   Transactions which, due to their purpose or nature, fall within the normal course of the Company's business and those which do not contain particularly critical elements in relation to their features or the risks inherent to the nature of the counterpart, originally carried out, are considered to be typical or usual transactions. Those concluded under equal conditions with any other party are standardized condition transactions.
4. Transactions with related parties entered into by Hera Spa or its subsidiaries, are reserved for the decision-making responsibility of the respective Boards of Directors.

   In this case, the Boards of Directors will be adequately informed by the delegated bodies on the following elements:
   a. degree of correlation between the counterparts;
   b. an indication of the most important contractual and financial characteristics and terms of the transaction;
   c. Hera Spa's interest or that of its subsidiaries in carrying out the transactions;
   d. substantial correctness of the transaction.

   So as to avoid that the transaction is stipulated under conditions other than those which would have likewise been negotiated between unrelated parties, Hera S.p.A.'s Board and – in relation to the transactions not subject to the prior approval of the Board – the delegated bodies will see that the transaction is concluded, subject to the opinion of the Internal Control Committee and/or with the assistance of independent experts of proven professionalism and competence for the purpose of evaluating the assets and the financial, legal or technical consultancy.

Any Director who has an interest in the transaction, potential, indirect or otherwise, on its own account or on behalf of third parties, after having promptly and fully informed the other directors of the existence of the interest and of other significant circumstances, shall withdraw from the board meeting at the time of resolution.

By means of indirect interest, we mean an interest which concerns:

a. the close family members of the Director, potentially capable of influencing the Director;
b. or a company directly or indirectly controlled by the Director.

Statutory Auditors

The Board of Statutory Auditors comprises three standing members and two alternate members. As it expired with the approval of the financial statements at 31 December 2007, the Board of Statutory Auditors was renewed during the Shareholders' Meeting held on 29 April 2008, and will remain in office until the financial statements regarding 2010 are approved.
In pursuance of the provisions contained in Article 10 of the Code, the Board of Statutory Auditors has appraised the correct application of the criteria and the assessment procedures adopted for assessing the independence of its members.

Composition of the Board of Statutory Auditors

Name and surname	office
Sergio Santi (*)	chairman
Fernando Lolli	standing auditor
Antonio Venturini	standing auditor
Stefano Ceccacci (*)	alternate auditor
Roberto Picone	alternate auditor

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

The Articles of Association envisage that the Statutory Auditors must possess the requirements of integrity and professionalism established by legislation in force.

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

The office of statutory auditor is not compatible with that of councillor or alderman of local public authorities, or with that of statutory auditor in more than 3 listed companies with the exclusion of the subsidiaries of the Company pursuant to Article 2359 of the Italian Civil Code and Article 93 of Italian Legislative Decree No. 58/98. In this latter case, the statutory auditor who subsequently exceeds said limit automatically falls from office as statutory auditor of the Company.

The statutory auditors are appointed by the Shareholders' Meeting on the basis of the list voting system envisaged by Article 26 of the Articles of Association which specifies that (i) the Municipalities, Provinces and Consortiums established in accordance with Article 31 of Italian Legislative Decree No. 267/2000 and the associates or the joint-stock companies controlled by the same may present a single list and (ii) the shareholders other than those indicated in point (i) may present lists provided that they represent at least 3% of the shares with voting rights. The lists must be filled at the registered offices at least 20 days prior to the date of the Shareholders' Meeting, together with the declaration of the individual candidates stating they accept the office and certifying the inexistence of grounds for ineligibility or incompatibility provided by law, as well as the existence of the requirements of integrity and professionalism required by law for the members of the Board of Statutory Auditors. Together with the lists, a declaration stating there are no agreements or connections of any kind with other shareholders who have presented other lists must also be presented.

These lists are made public via publication in three national newspapers, of which two financial newspapers, at least 10 days prior to the Shareholders' Meeting.

The Board of Statutory Auditors met 19 times in 2008; all members attended 15 meetings, whereas almost all members were present at 4 meetings.

The local authorities holding shares in the Company have entered into a Voting Trust and Share Transfer Rules Agreement which envisages clauses on the composition of the Board of Statutory Auditors.

There is also a pact of consultation signed on 27 October 2006 by 6 majority shareholders of Hera Spa that envisages clauses regarding the composition of the Board of Statutory Auditors.

Relations with Shareholders

In order to favour a more detailed knowledge of the Company on the part of the shareholders, the Company has set up a special structure dedicated to investors relations. On 11 March 2003, Mr. Jens Klint Hansen was appointed as head of investor relations (Investor Relations may be contacted through the telephone number + 39 051 287737 or the email address ir@gruppohera.it).

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

The Shareholders' Meeting Regulations are published on the Company's website www.gruppohera.it

Administrative Responsibility of the Company

Legislative Decree 231/2001 introduced into Italian legislation the administrative responsibility of legal entities, companies and associations. In particular, the law introduced the penal responsibility of entities for certain offences committed in the interest or to the advantage of the same by persons fulfilling roles of representation, administration or management of the entity or one of its organisational units with financial and operating independence, as well as persons who exercise, even de facto, management and control thereof and, lastly, persons subject to the direction or supervision of one of the above mentioned parties. The important offences are the offences against Public Administration and corporate offences committed in the interest of the companies.

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

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

Hence the Board of Directors set up the Supervision Board, whose composition was renewed on 14 May 2008 and is composed of the Head of Internal Auditing of Hera SpA as the Chairman, the Head of Legal and Corporate Affairs of Hera SpA and an external member to which it entrusted the aforesaid duties including the periodic reporting to the corporate boards of Hera SpA on the implementation of the said model.

The Supervision Board met 5 times in 2008; 4 meetings were attended by all the members, while one meeting was attended by the majority of the members.
The Supervision Board provided for the revision of the organisational model which was extended to the other Group companies. The Supervision Board also applied and analysed the information flows that permit the Board to supervise the effectiveness of and compliance with the models.
In order to carry out the checks and controls, the Supervision Board drew up a schedule of measures for checking compliance with the protocols adopted.

Table 1: Structure of the Board of Directors and Committees until 28 April 2008

Consiglio di amministrazione							Comitato Controllo ●		Comitato Remunerazione ♦		Eventuale Comitato Nomine ◊		Eventuale Comitato Esecutivo	
Carica	Componenti	esecutivi	non esecutivi	indipendenti	****	Numero di altri incarichi **	***	****	***	****	***	****	***	****
presidente	Tomaso Tommasi di Vignano	X			100%	1							X	100%
amm. delegato	Maurizio Chiarini	X			100%	-							X	100%
vice presidente	Giorgio Razzoli		X	X	100%	-	X	100%	X	100%			X	100%
amministratore	Mara Bernardini		X	X	100%	-								
amministratore	Filippo Brandolini		X	X	100%	-								
amministratore	Luigi Castagna		X	X	100%	-	X	100%						
amministratore	Pier Luigi Celli		X	X	33%	-			X	100%				
amministratore	Piero Collina *		X	X	67%	1			X	0%				
amministratore	Pier Giuseppe Dolcini *		X	X	100%	-					Non presente			
amministratore	Giuseppe Fiorani		X	X	100%	-								
amministratore	Lanfranco Maggioli		X	X	100%	-								
amministratore	Vander Maranini		X	X	100%	-	X	100%						
amministratore	Nicodemo Montanari		X	X	100%	-			X	100%				
amministratore	Fabio Roversi Monaco *		X	X	67%	3								
amministratore	Roberto Sacchetti		X	X	100%	-								
amministratore	Luciano Sita		X	X	100%	-								
amministratore	Bruno Tani *		X	X	100%	-								
amministratore	Stefano Zolea		X	X	100%	-	X	0%						

Number of meetings held during the year of reference (until 28 April 2008)
BoD: 3
Internal Control Committee:1
Remuneration Committee: 1
Appointment Committee: 0
Executive Committee:1

Table 1: Structure of the Board of Directors and Committees since 29 April 2008

Consiglio di amministrazione							Comitato Controllo ●		Comitato Remunerazione ♦		Eventuale Comitato Nomine ◊		Eventuale Comitato Esecutivo	
Carica	Componenti	esecutivi	non esecutivi	indipendenti	****	Numero di altri incarichi **	***	****	***	****	***	****	***	****
presidente	Tomaso Tommasi di Vignano	X			100%	1							X	100%
amm. delegato	Maurizio Chiarini	X			100%	-							X	100%
vice presidente	Giorgio Razzoli		X	X	100%	-	X	100%	X	100%			X	100%
amministratore	Mara Bernardini		X	X	89%	-								
amministratore	Filippo Brandolini		X	X	100%	-								
amministratore	Luigi Castagna		X	X	100%	-	X	100%						
amministratore	Mauro Cavallini		X	X	100%	-								
amministratore	Piero Collina *		X	X	78%	1			X	100%				
amministratore	Pier Giuseppe Dolcini *		X	X	89%	-					Non presente			
amministratore	Ferruccio Giovanelli		X	X	100%	-								
amministratore	Lanfranco Maggioli		X	X	100%	-	X	67%						
amministratore	Alberto Marri *		X	X	89%	1								
amministratore	Nicodemo Montanari		X	X	100%	-			X	100%				
amministratore	Roberto Sacchetti		X	X	100%	-								
amministratore	Luciano Sita		X	X	67%	-								
amministratore	Francesco Sutti		X	X	89%	-			X	100%				
amministratore	Bruno Tani*		X	X	100%	-								
amministratore	Stefano Zolea		X	X	100%	-	X	100%						

Number of meetings held during the year of reference (since 28 April 2008)
BoD: 9
Internal Control Committee: 3
Remuneration Committee: 1
Appointment Committee: 0
Executive Committee: 7

● Summary of the reasons for the absence of the Committee or other composition with respect to the Code's recommendations, if any:
♦ Summary of the reasons for the absence of the Committee or other composition with respect to the Code's recommendations, if any:
◊ Summary of the reasons for the absence of the Committee or other composition with respect to the Code's recommendations, if any: the Committee was not formed pursuant to the Articles of Association: the appointment of 14 directors lies with the local authorities as per art. 2449 of the Italian Civil Code and that of the other 4 directors with the other shareholders through the list voting system

Notes
* When the asterisk is seen, this means that the director has been designated through the lists presented by the minority interest
** The number of director or statutory auditor appointments held by the party in question in other companies listed on organised markets, including foreign markets, in financial, banking, insurance companies or large enterprises
*** In this column, an "X" indicates the Board member's membership of the Committee
**** This column indicates the percentage of attendance of the directors in the Board meetings and Committee meetings respectively

Table 2: Board of Statutory Auditors

Office	Members	% attendance of Board meetings	Number of other positions **
Chairman *	Sergio Santi (regular until 28.4.2008)	95%	1
Standing auditor	Fernando Lolli	84%	-
Standing auditor	Antonio Venturini (Chairman until 28.4.2008)	100%	-
Standing auditor	Stefano Ceccacci		-
Standing auditor	Roberto Picone		-
Number of meetings held during solar year:	**19**		

Indicate the quorum required for the presentation of lists by the minority shareholders for the election of one or more standing members: Article 26 of the Articles of Association specifies that (i) the Municipalities, Provinces and Consortiums established in pursuance of Article 31 of Italian Legislative Decree No. 267/2000 as well as the associates and joint-stock companies in any case controlled by said entities, may present a single list and (ii) the shareholders other than those indicated under point (i) may present lists provided that they represent at least 3% of the shares with voting rights.

notes:
* The asterisk indicates whether the statutory auditor has been appointed by means of lists presented by minority shareholders.
**This column indicates the number of offices as director or statutory auditor the party concerned holds in other companies listed on organised Italian markets.

Table 3: Other provisions of the Code of Conduct

	YES	NO	Summary of the reasons for any deviation from the Code recommendations
System of delegated powers and transactions with related parties			
Has the BoD delegated powers defining:			
a) limits	X		
b) procedures for exercise	X		
c) frequency of reporting?	X		
Has the BoD reserved the right to examine and approve the transactions of particular importance in financial and economic terms (including transactions with related parties)?	X		
Has the BoD defined guidelines for the identification of "important" transactions?	X		
Are the above guidelines described in the report?	X		
Has the BoD defined special procedures for approval of the transactions with related parties?	X		
Are the procedures for approval of the transactions with related parties described in the report?	X		
Procedures for the most recent appointment of directors and statutory auditors			
Were the candidatures for the office of director filed at least 10 days in advance?	X		
Were the candidatures for the office of director accompanied by thorough information?	X		
Were the candidatures for the office of director accompanied by specification of suitability to qualify as independent?	X		
Were the candidatures for the office of statutory auditor filed at least 10 days in advance?	X		
Were the candidatures for the office of statutory auditor accompanied by thorough information?	X		

cont.d

	yes	no	Summary of the reasons for any deviation from the Code recommendations
Shareholders' Meetings			
Has the company approved Shareholders' Meeting Regulations?	X		
Are the Regulations attached to this report (or is it specified where they may be obtained/downloaded?)	X		
Internal control			
Has the company appointed the individuals in charge of internal control?	X		
In terms of hierarchy, are the individuals in charge non-subordinate to the heads of the operating divisions?	X		
Organisational unit in charge of internal control (pursuant to Article 8 of the Code)	X		
Investor relations			
Has the company appointed an individual responsible for investor relations?	X		

Organisational unit and references (address/telephone/fax/e-mail) of the individual responsible for investor relations	*Jens Klint Hansen (Hera Spa V.le Carlo Berti Pichat 2/4, 40127 Bologna / telephone No. 051 287737 / Fax No. 051 287224 / e-mail ir@gruppohera.it.*

1.16 Performance of the Parent Company in 2008

In compliance with Italian regulations in enactment of European Regulation no. 1606 of 19 July 2002, the financial statements of the parent company, Hera Spa, were prepared according to IAS/IFRS standards.
The chief results attained during the year are presented below.

(in millions of €)	2007	2008	Abs. Change	Change %
Revenues	1,821.6	1,881.8	60.02.00	3.3%
EBITDA	229.00.00	275.03.00	46.03.00	20.2%
EBIT	58.02.00	103.01.00	44.09.00	77.1%
Net profit	91.06.00	84.05.00	(7.1)	-7.8%

The interpretation of results must also take into consideration the current economic setup of the Group, characterised by the distribution of the total result between the parent company and the various sales, operational and maintenance companies and specific business units. For this reason, there was a shift in Hera Spa's profitability towards the dividend component from subsidiaries and towards the results of financial operations and equity investments. The implementation of the service contracts between the different units of the Group also led to an increase in the value of production and EBITDA.

A summary is presented below of the reclassified balance sheet and financial position as at 31 December 2008, shown on a comparative basis with the position as at 31 December 2007:

Analysis of capital employed and sources of financing (mln/€)	31-Dec-07	%	31-Dec-08	%	Abs Change	Change %
Net fixed assets	2,775.0	100.1%	3,064.2	104.5%	289.2	10.4%
Net working capital	227.5	8.2%	100.2	3.4%	-127.3	-56.0%
Gross capital employed	**3,002.5**	**108.3%**	**3,164.4**	**107.9%**	**161.9**	**5.4%**
Provisions	(229.3)	-8.3%	(232.3)	-7.9%	-3.0	1.3%
Net capital employed	**2,773.2**	**100.0%**	**2,932.1**	**100.0%**	**158.9**	**5.7%**
Total shareholders' equity	1,437.4	51.8%	1,465.7	50.0%	28.3	2.0%
Net financial indebtedness	1,335.8	48.2%	1,466.4	50.0%	130.6	9.8%
Sources of financing	**2,773.2**	**100.0%**	**2,932.1**	**100.0%**	**158.9**	5.7%

The net capital employed increased as at 31 December 2008 by Euro 158.9 million, rising from Euro 2,773.2 million to Euro 2,932.1 million. Net fixed assets as at 31 December 2008 amount to Euro 3,064.2 million, an increase of Euro 289.2 million compared with 31 December 2007. The change is connected with investments made, which are more fully described in the Group's report on operations. Net working capital stands at Euro 100.2 million. Other provisions increased from Euro 229.3 million to Euro 232.3 million, resulting in a Euro 3 million increase. Shareholders' equity increased from Euro 1,437.4 million to Euro 1,465.7 million. In relation to the aforementioned change, the net financial position increased from Euro 1,335.8 million as at 31 December 2007 to Euro 1,466.4 million at the end of 2008.

1.17 Holdings of Directors, Statutory Auditors and General Managers

Name and surname	Office held in Hera Spa	Investee company	number of shares held at the end of the previous year	number of shares purchased during the year	number of shares sold during the year	number of shares held at 31 December 2008
Tomaso Tommasi di Vignano (1)	Chairman	Hera Spa	8000 (1)	2000 (1)		10.000
Maurizio Chiarini	Managing Director	Hera Spa	-	-	-	-
Giorgio Razzoli	Vice-Chairman	Hera Spa	-	-	-	-
Mara Bernardini	Director	Hera Spa	-	-	-	-
Filippo Brandolini	Director	Hera Spa	-	-	-	-
Luigi Castagna	Director	Hera Spa	1950 (1)	32.050	-	34.000
Mauro Cavallini (in office since 29/04/2008)	Director	Hera Spa	-	-	-	-
Piero Collina	Director	Hera Spa	-	-	-	-
Pier Giuseppe Dolcini	Director	Hera Spa	2.750	-	-	2.750
Ferruccio Giovanelli (in office since 29/04/2008)	Director	Hera Spa	-	-	-	-
Lanfranco Maggioli (1)	Director	Hera Spa	500 (1)	-	-	500
Alberto Marri (in office since 29/04/2008)	Director	Hera Spa	3.810.000 (2)	450.000	-	4.260.000
Nicodemo Montanari	Director	Hera Spa	-	2.500	-	2.500
Roberto Sacchetti	Director	Hera Spa	-	-	-	-
Luciano Sita	Director	Hera Spa	-	-	-	-
Francesco Sutti (in office since 29/04/2008)	Director	Hera Spa	-	-	-	-
Bruno Tani	Director	Hera Spa	-	35.000	-	35.000
Stefano Zolea	Director	Hera Spa	-	-	-	-
Sergio Santi	Chairman of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Fernando Lolli	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Antonio Venturini	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Roberto Barilli	General Manager of Operations	Hera Spa	-	8000 (1)	-	-
Stefano Venier	General Manager of Development and Market	Hera Spa	-	-	-	-
Pier Luigi Celli (in office until 28/04/2008)	Director	Hera Spa	-	-	-	(3)
Giuseppe Fiorani (in office until 28/04/2008)	Director	Hera Spa	3.700	-	-	3.700 (3)
Vander Maranini (in office until 28/04/2008)	Director	Hera Spa	-	6600 (1)	-	6.600 (3)
Fabio Alberto Roversi Monaco (in office until 28/04/2008)	Director	Hera Spa	-	-	-	(3)

(1) held indirectly via spouse.

(2) shares held at 29/04/2008, date of appointment.

(3) shares held at 28/04/2008, date office terminated.

1.18 Resolutions concerning the Parent Company results for the year

The Shareholders' Meeting of Hera Spa:

- having acknowledged the Director's Report on operations.
- having acknowledged the Report of the Statutory Auditors;
- having acknowledged the Independent Audit Report;
- having reviewed the financial statements as at 31 December 2008 which closes with a net profit of Euro 84,523,059.96;

resolves

a) to approve the Financial Statements as at 31 December 2008 of Hera Spa and the Directors' Report prepared by the Board of Directors;

b) to allocate the net profit of the financial year 01 January 2008-31 December 2008, equivalent to Euro 84,523,059.96, as follows:
   - Euro 4,226,153.00 to the legal reserve;
   - Euro 80,296,906.96 per dividend to the shareholders;

c) to supplement the dividend to Shareholders in the amount of 2,322,109.20 withdrawing this amount from the "retained earnings" reserve, and thus for a total of Euro 82,619,016.16 corresponding to Euro 0.08 per share, allocating the highest distributable dividend regarding any treasury shares in portfolio as at the registration date to extraordinary reserve

d) to start paying the dividend on 04 June 2009, with detachment of coupon no. 6 on 01 June 2009.



CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP

2

2.01 Consolidated Financial Statements

2.01.01 Income Statement

€ /000	Notes	31-Dec-2008	31-Dec-2007
Revenues	4	3,716,336	2,863,298
Change in inventories of finished products and work in progress	4	2,604	-4,249
Other operating income	5	73,081	46,038
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-2,421,439	-1,613,916
Service costs	7	-716,045	-724,694
Personnel costs	8	-331,078	-300,912
of which non recurring			*5,278*
Amortisation, depreciation and allowances	9	-247,556	-232,797
Other operating costs	10	-43,688	-50,399
Capitalised costs	11	248,530	238,212
Operating profit		**280,745**	**220,581**
Portion of profit (loss) pertaining to associated companies	12	2,123	1,235
Financial income	13	22,162	28,599
Financial charges	13	-116,169	-107,875
Pre-tax profit		**188,861**	**142,540**
Taxes for the period	14	-78,597	-32,637
of which non recurring			*32,930*
Net profit for the year		**110,264**	**109,903**
Attributable to:			
Shareholders of Parent Company		94,765	96,246
Minority shareholders		15,499	13,657
Earnings per share	14.1		
base		0.092	0.095
diluted		0.092	0.095

Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the income statement are indicated in paragraph 2.02 of these consolidated Financial Statements.

2.01.02 Balance Sheet

€ /000	Notes	31-Dec-2008	31-Dec-2007
ASSETS			
Non-current assets			
Tangible fixed assets	15	2,889,134	2,546,028
Intangible fixed assets	16	197,190	219,305
Goodwill and consolidation difference	17	372,696	316,621
Equity investments and securities	18	98,524	121,729
Financial assets	19	8,597	6,802
Deferred tax assets	20	60,329	45,080
Financial instruments - derivatives	21	241	9,685
		3,626,711	**3,265,250**
Current assets			
Inventories	22	60,735	49,992
Trade receivables	23	1,161,295	1,005,692
Contract work in progress	24	21,704	18,407
Financial assets	25	7,655	15,214
Financial instruments - derivatives	21	300,387	8,309
Other current assets	26	133,625	200,362
Cash and cash equivalents	27	193,635	211,014
		1,879,036	**1,508,990**
TOTAL ASSETS		**5,505,747**	**4,774,240**

cont.d

Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the balance sheet are indicated in paragraph 2.02 of these consolidated Financial Statements.

cont.d

€ /000	Notes	31-Dec-2008	31-Dec-2007
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and provisions	28		
Share capital		1,032,738	1,016,752
-Reserve for treasury shares par value		-2,300	-617
Reserves		413,301	376,365
-Reserve for treasury shares value exceeding par value		-1,529	-1,211
Reserves for derivative instruments valued at fair value		-16,125	4,365
Retained earnings (losses)		4,383	0
Profits (losses) for the period		94,765	96,246
Group shareholders' equity		**1,525,233**	**1,491,900**
Minority interest share		53,892	46,692
Total shareholders' equity		**1,579,125**	**1,538,592**
Non-current liabilities			
Loans - maturing beyond the next year	29	1,560,658	1,396,693
Employee leaving indemnity and other benefits	30	105,788	102,876
Provisions for risks and charges	31	193,789	182,048
Deferred tax liabilities	32	121,454	121,050
Payables for financial leases - maturing beyond the next year	33	11,175	13,904
Financial instruments - derivatives	21	23,571	1,836
		2,016,435	**1,818,407**
Current liabilities			
Banks and other borrowings - maturing within the next year	29	204,818	248,481
Due to financial leases coming due during the next financial year	33	4,737	5,637
Trade payables	34	1,084,427	889,416
Income taxes liabilities	35	119,173	66,687
Other current liabilities	36	201,723	198,512
Financial instruments - derivatives	21	295,309	8,508
		1,910,187	**1,417,241**
TOTAL LIABILITIES		**3,926,622**	**3,235,648**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**5,505,747**	**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 2.02 of these consolidated Financial Statements.

2.01.03 Cash Flow Statement

Consolidated cash flow statement (*)	31-Dec-08			31-Dec-07			
Operating assets							
Cash flow							
Net profit pertaining to Group and minority shareholders	110,264			109,903			
Depreciation and writedowns of tangible fixed assets	155,699			135,021			
Amortisation and writedowns of intangible assets	41,144			41,151			
Total cash flow	**307,107**			**286,075**			
Changes in prepaid and deferred taxation	(15,255)			(10,876)			
Employee leaving indemnities and other benefits							
Provisions / (uses)	(1,328)			(10,174)			
Provisions for risks and charges							
Provisions / (uses)	(3,988)			29,497			
Total cash flow before changes in net working capital	**286,536**			**294,522**			
Working capital							
Change in trade receivables	(110,044)			(5,370)			
Change in inventories	(12,818)			(216)			
Change in other current assets	70,087			(93,311)			
Change in trade payables	156,136			142,934			
Change in tax liabilities	51,426			(19,675)			
Change in other current liabilities	(8,968)			23,681			
Change in working capital	**145,819**			**48,043**			
Liquidity generated by operations		**432,355**			**342,565**		a)
Investment activities							
Disposal/(investment) in tangible assets, net of net investments/disinvestments	(415,625)			(476,482)			
Disposal/(investment) in intangible assets, net of net investments/disinvestments	(12,148)			(29,208)			
Goodwill	(2,118)			(1,816)			
Investments in equity investments net of disposals	(6,021)			1,814			
(Increase)/decrease in other investments	5,764			14,920			
Liquidity generated/(absorbed) by investment activities		**(430,148)**			**(490,772)**		b)
Financing activities							
Medium/long-term loans	146,229			459,450			
Change in shareholders' equity accounts	(22,054)			2,002			
Change in short-term bank indebtedness	(69,727)			(195,365)			
Dividends paid out	(92,922)			(89,655)			
Change in financial leasing payables	(6,859)			(20,948)			
Change in financial instruments - derivatives	25,747			(9,892)			
Liquidity generated/(absorbed) by financing activities		**(19,586)**			**145,592**		c)
			(17,379) (a+b+c)			**(2,615) (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	193,635			211,014			
	(17,379)			**(2,615)**			

(*) In accordance with Consob Regulation no. 15519 of 27 July 2006, the effects of relations with related parties on the cash flow statements are shown in the special cash flow statements on the pages that follow, and are further described under paragraph 2.02 of these financial statements.

.

The sheet reflects the approach regarding the hedging derivatives already adopted in building the net financial position; for this purpose also the cash flow statement as at 31 December 2007 was reclassified.

2.01.03 Statement of Changes in Shareholders' Equity

€/000	Share capital	Provisions	Cash Flow-Hedge Reserve	Profit for the period	Shareholders' equity	Minority interest share	Total
Balance as at 31 December 2006	**1,016,637**	**368,744**	**649**	**90,105**	**1,476,135**	**40,207**	**1,516,342**
treasury shares in portfolio	-502	-784			**-1,286**		**-1,286**
change in the fair value of derivatives for the period		1,214	3,716		**4,930**	256	**5,186**
change in scope of consolidation		-495			**-495**	921	**426**
other movements		-2,318			**-2,318**	-6	**-2,324**
Appropriation of profits for 2006:							
- dividends paid out		-78,148		-3,164	**-81,312**	-8,343	**-89,655**
- allocation of undivided profits to		70,895		-70,895	**0**		**0**
- allocation to other reserves		16,046		-16,046	**0**		**0**
Profit for the period				96,246	**96,246**	13,657	**109,903**
Balance as at 31 December 2007	**1,016,135**	**375,154**	**4,365**	**96,246**	**1,491,900**	**46,692**	**1,538,592**
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	-1,683	-920			**-2,603**		**-2,603**
change in the fair value of derivatives for the period		-1,404	-20,490		**-21,894**	-489	**-22,383**
capital increase due to merger of Sat - shareholders'	14,540	30,288			**44,828**		**44,828**
capital increase due to conferral of assets in kind - shareholders'	1,446	3,015			**4,461**		**4,461**
change in scope of consolidation		-3,834			**-3,834**	2,489	**-1,345**
other movements		127			**127**	106	**233**
Appropriation of profits for 2007:							
- dividends paid out				-82,518	**-82,518**	-10,404	**-92,922**
- allocation of undivided profits to		4,666		-4,666	**0**		**0**
- allocation to other reserves		9,062		-9,062	**0**		**0**
Profit for the period				94,766	**94,766**	15,498	**110,264**
Balance as at 31 December 2008	**1,030,438**	**416,154**	**-16,125**	**94,766**	**1,525,233**	**53,892**	**1,579,125**

2.02 Consolidated Financial Statements Consob resolution 15519 – 27 July 2006

2.02.01 Income statement - resolution 15519 of 27 July 2006

€/000	Notes	2008	of which Related Parties A	B	C	D	Total	%	2007	of which Related Parties A	B	C	D	Total	%
Income Statement															
Revenues	4	3,716,336	129	31,459	78,636	3,140	113,364	3.1	2,863,298	23	13,319	79,568	6,688	99,598	3.5
Change in inventories of finished products and work in progress	4	2,604							-4,249						
Other operating revenues	5	73,081	728	4,388	60	73	5,249	7.2	46,038	73	2,907	180	158	3,318	7.2
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-2,421,439	-1	-79,836	-706	-22,053	-102,596	4.2	-1,613,916	0	-69,975	-233	-18,079	-88,287	5.5
Service costs	7	-716,045	-2,164	-23,782	-12,083	-38,378	-76,407	10.7	-724,694	-4,337	-18,446	-11,244	-30,819	-64,846	8.9
Personnel costs	8	-331,078							-300,912						
(of which non-recurring)									5,278						
Amortisation, depreciation and allowances	9	-247,556							-232,797						
Other operating costs	10	-43,688	-2	-5,857	-890	-514	-7,263	16.6	-50,399	-2	-5,504	-961	-636	-7,103	14.1
Capitalised costs	11	248,530							238,212						
Operating profit		280,745	-1,310	-73,628	65,017	-57,732	-67,653		220,581	-4,243	-77,699	67,310	-42,688	-57,320	
Portion of profits (losses pertaining to associated companies)	12	2,123		2,123			2,123	100.0	1,235		1,235			1,235	100.0
Financial income	13	22,162		1,322		4,424	5,746	25.9	28,599		775		1,879	2,654	9.3
Financial charges	13	-116,169	-385		-666	-144	-1,195	1.0	-107,875	-128	-54	-355		-537	0.5
Pre-tax profit		188,861	-1,695	-70,183	64,351	-53,452	-60,979		142,540	-4,371	-75,743	66,955	-40,809	-53,968	
Tax for the year	14	-78,597							-32,637						
(of which non-recurring)									32,930						
Discontinued operations															
Profit for the year from discontinued operations															
Net profit for the year		110,264	-1,695	-70,183	64,351	-53,452	-60,979		109,903	-4,371	-75,743	66,955	-40,809	-53,968	
Due to:															
Shareholders of Parent Company		94,765							96,246						
Minority shareholders		15,499							13,657						
Earnings per share	14.1														
base		0.092							0.095						
diluted		0.092							0.095						

Note 4 on related parties

Under the item “revenues” regarding relations with related parties, we see an increase Euro 13,766 thousand compared to 31 December 2007, mostly attributable to intensification of trade relations with associated companies (Set Spa, FlameEnergy Trading Gmbh, Sgr Servizi Spa).

Note 6 on related parties

Under the item “use of raw materials and consumables” regarding relations with related parties, the significant increase compared to the previous year, Euro 14,309 thousand, is chiefly due to intensification of trade relations with the associated company Set Spa.

Key of headings of related parties columns:
A subsidiaries
B associated companies
C related companies with significant influence
D other related parties

2.02.02 Balance sheet - resolution 15519 of 27 July 2006

€/000	Notes	31-Dec-2008	*of which Related Parties* A	B	C	D	Total	%	31-Dec-2007	*of which Related Parties* A	B	C	D	Total	%
ASSETS															
Non-current assets															
Tangible fixed assets	15	2,889,134							2,546,028						
Intangible fixed assets	16	197,190							219,305						
Goodwill and consolidation difference	17	372,696							316,621						
Equity investments and securities	18	98,524	16	67,967		29,288	97,271	98.7	121,729	1,436	93,857		24,745	120,038	98.6
Financial assets	19	8,597		8,466			8,466	98.5	6,802		6,620			6,620	97.3
Deferred tax assets	20	60,329							45,080						
Derivative financial instruments	21	241							9,685						
		3,626,711	16	76,433		29,288	105,737		3,265,250	1,436	100,477		24,745	126,658	
Current assets															
Inventories	22	60,735							49,992						
Trade receivables	23	1,161,295	741	38,561	12,506	13,371	65,179	5.6	1,005,692	3,569	35,046	18,858	5,102	62,575	6.2
Contract work in progress	24	21,704							18,407						
Financial assets	25	7,655							15,214						
Derivative financial instruments	21	300,387							8,309						
Other current assets	26	133,625	182	-1	879	17,510	18,570	13.9	200,362	31		400	712	1,143	0.6
Cash and cash equivalents	27	193,635							211,014						
		1,879,036	923	38,560	13,385	30,881	83,749		1,508,990	3,600	35,046	19,258	5,814	63,718	
TOTAL ASSETS		5,505,747	939	114,993	13,385	60,169	189,486		4,774,240	5,036	135,523	19,258	30,559	190,376	

continued

Key of headings of related parties columns:
A subsidiaries
B associated companies
C related companies with significant influence
D other related parties

€/000	Notes	31-Dec-2008	*of which Related Parties* A	B	C	D	Total	%	31-Dec-2007	*of which Related Parties* A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and provisions	28														
Share capital		1,032,738							1,016,752						
-Reserve for treasury shares at par value		-2,300							-617						
Provisions		413,301							376,365						
-Reserve for treasury shares exceeding par value		-1,529							-1,211						
Reserves for derivative instruments valued at fair value		-16,125							4,365						
Retained earnings (losses)		4,383							0						
Profits (losses) for the period		94,765							96,246						
Group shareholders' equity		1,525,233							1,491,900						
Minority interest share		53,892							46,692						
Total shareholders' equity		1,579,125							1,538,592						
Non-current liabilities															
Loans - maturing beyond the first year	29	1,560,658							1,396,693						
Provision for employee leaving indemnity and other similar benefits	30	105,788							102,876						
Provisions for risks and charges	31	193,789							182,048						
Deferred tax liabilities	32	121,454							121,050						
Payables for financial leases -	33	11,175							13,904						
Derivative financial instruments	21	23,571							1,836						
		2,016,435							1,818,407						
Current liabilities															
Banks and other borrowings - maturing within the next year	29	204,818							248,481						
Payables for financial leases -	33	4,737							5,637						
Trade payables	34	1,084,427	499	36,115	7,886	15,895	60,395	5.6	889,416	3,154	18,686	4,671	10,018	36,529	4.1
Income taxes payable	35	119,173							66,687						
Other current liabilities	36	201,723	1		1,598	3,306	4,905	2.4	198,512	12		16,799	1,063	17,874	9.0
Derivative financial instruments	21	295,309							8,508						
		1,910,187	500	36,115	9,484	19,201	65,300		1,417,241	3,166	18,686	21,470	11,081	54,403	
Total liabilities		3,926,622	500	36,115	9,484	19,201	65,300		3,235,648	3,166	18,686	21,470	11,081	54,403	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,505,747	500	36,115	9,484	19,201	65,300		4,774,240	3,166	18,686	21,470	11,081	54,403	

Key of headings of related parties columns:
A subsidiaries
B associated companies
C related companies with significant influence
D other related parties

2.02.03 Cash flow statement - resolution 15519 of 27 July 2006

Consolidated cash flow statement *pursuant to Consob Resolution 15519 of 27 July 2006*	31/12/08		of which Related Parties
Operations			
Cash flow			
Net profit pertaining to Group and minority shareholders	110,264		
Depreciation and writedowns of tangible fixed assets	155,699		
Amortisation and writedowns of intangible fixed assets	41,144		
Total cash flow	**307,107**		
Changes in prepaid and deferred taxation	(15,255)		
Employee leaving indemnities and other benefits:			
Provisions / (uses)	(1,328)		
Provisions for risks and charges:			
Provisions / (uses)	(3,988)		
Total cash flow before changes in net working capital	**286,536**		
Working capital			
Change in trade receivables	(110,044)		(2,604)
Change in inventories	(12,818)		
Change in other current assets	70,087		(17,427)
Change in trade payables	156,136		23,866
Change in tax liabilities	51,426		
Change in other current liabilities	(8,968)		(12,969)
Change in financial instruments - derivatives	(5,277)		
Change in working capital	**140,542**		
Liquidity generated by operations		**427,078**	
Investment activities			
Disposal/(investment) in tangible assets, net of investments/disinvestments	(406,106)		
Disposal/(investment) in intangible assets, net of investments/disinvestments	(21,667)		
Goodwill	(2,118)		
Investments in equity investments net of disposals	(6,021)		(6,467)
(Increase)/decrease in other investments	5,764		(1,846)
Change in financial instruments - derivatives	31,024		
Liquidity generated/(absorbed) by investment activities		**(399,124)**	
Financing activities			
Medium/long-term loans	146,229		
Change in shareholders' equity accounts	(22,054)		
Change in short-term bank indebtedness	(69,727)		
Dividends paid out	(92,922)		(21,315)
Change in financial leasing payables	(6,859)		
Liquidity generated/(absorbed) by financing activities		**(45,333)**	
		(17,379) (a+b+c)	
Change in net financial position			
Cash and cash equivalents at the beginning of the year	211,014		
Cash and cash equivalents at the end of the year	193,635		
	(17,379)		

2.03 Explanatory notes

2.03.01 Consolidated explanatory notes

Accounting principles and valuation criteria

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

The 2008 consolidated financial statements, comprised of the income statement, balance sheet, cash flow statement, changes in shareholders' equity and notes to the accounts, have been prepared in application of Regulation (EC) 1606/2002 of 19 July 2002, in observance of the international accounting standards (IFRS) approved by the European Commission, supplemented with the relevant interpretations (Standing Interpretations Committee – SIC and International Financial Reporting Interpretations Committee – IFRIC) issued by the International Accounting Standards Board (IASB) and provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

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

Information on the operations of group companies and on significant events after year-end is provided in the Directors' Report.

The data of these financial statements are comparable with the same data of the previous financial year. In the case of reclassifications, the notes commenting on the single items provide all necessary information.

In comparing single items in the income statement and balance sheet, it is necessary to take into consideration the changes in consolidation basis indicated in the specific paragraph in addition to the extraordinary transactions that led to the integration of Sat Spa into Hera Spa and of Megas Spa into Marche Multiservizi Spa, transactions that both went into effect starting on 1 January 2008.

The general principle adopted in preparing these consolidated financial statements is the cost principle, except for the financial assets and liabilities (including the derivative instruments), which were measured at fair value. The changes introduced by the IAS 39 amendment, approved in October 2008 which allows financial assets other than derivative instruments measured at fair value to be reclassified to the income statement, are not applicable to the Group.

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

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

These consolidated financial statements as at 31 December 2008 were approved by the board of directors at the meeting held 26 March 2009, which approved their circulation.

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. Sub-totals have been included to highlight the intermediate aggregates (operating income) used also in the reports on the balance sheet data provided to third parties.

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.

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

Scope of consolidation

The consolidated financial statement as at 31 December 2008 includes the financial statements of the parent company Hera Spa and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, in such a way as to obtain benefits from the company's activity.

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

Interests comprising fixed assets in large-scale associated companies are valued at equity. Those of an insignificant size are instead carried at cost.

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

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

Evaluation criteria and consolidation principles

The financial statements used for the preparation of the balance sheet and income statement schedules were those which the companies included within the scope of consolidation reclassified and adjusted (on the basis of specific instructions issued by the parent company) for the purposes of consistency with the accounting policies and principles of the Hera Group. With regard to associated companies, adjustments in shareholders' equity values were considered in order to adapt to IAS/IFRS principles.

When drawing up the consolidated balance sheet and income statement schedules, the assets and liabilities as well as the income and expenses of the consolidated companies are included on a line-by-line basis. However, the receivables and payables, income and expenses, gains and losses resulting from operations carried out between companies included in the scope of consolidation have been eliminated. The book value of the equity investments is eliminated against the corresponding portion of the subsidiary's shareholders' equity.

With the first consolidation, the positive difference between the book value of the equity investments and the fair value of the assets and liabilities acquired is attributed to the elements of the assets and liabilities and residually to goodwill. The negative difference is immediately recorded in the income statement, as itemised in the following paragraph, "business combinations". This negative difference is recorded under the consolidation reserve item only if it regards acquisitions prior to 31 March 2004. The total of capital and reserves of subsidiaries pertaining to minority interests is recorded within shareholders' equity in the account "minority interests in capital and reserves". The portion of the consolidated result relating to minority interests is recorded in the account "Net profit (loss) for the period pertaining to minority interests".

Dividends recorded in the income statements of the consolidated companies are eliminated during the consolidation process of the relevant companies, against the retained earnings reserves under shareholders' equity. Dividends received from companies measured with the equity method reduce the book value of the investment. Dividends declared by companies assessed at cost remained accounted for in the income statement.

The valuation of the financial statement items has been carried out on the basis of the general criteria of prudence and accruals, with a view to the business as a going-concern. For the purposes of the accounting entries, priority is give to the economic substance of the transactions rather than their legal form.

The same standards and policies applied to the previous financial year were followed in preparing these consolidated financial statements. As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have balancing entry in the balance sheet. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

The criteria and principles adopted are outlined here below.

Tangible fixed assets – Tangible fixed assets are recorded at acquisition or production costs, including accessory costs, or at the value based on expert appraisals of the business assets, if relating to purchased companies, net of the related accumulated depreciation and any impairment. The production cost includes the portion of the direct and indirect costs reasonably attributable to the asset (such as: personnel costs, transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notarial fees, land registry expenses). Cost includes any professional fees and, for certain assets, capitalised financial charges up to the moment the asset enters into service. The cost also comprises the costs for reclamation of the site on which the tangible fixed asset exists, if it complies with the provisions of IAS 37.

Ordinary maintenance costs are charged in full to the income statement. Improvement, modernisation and transformation costs which increase the value of the assets, are charged to the balance sheet assets concerned.

The book value of tangible fixed assets is subject to assessment so as to identify any losses in value, and on any occasion that events or changes in circumstances indicate that the book value cannot be recovered (for details, see the section "losses in value – impairment").

Depreciation starts to be applied when the assets are ready for use. Work in progress includes costs relating to tangible fixed assets for which the process of economic use has not yet commenced. The tangible fixed assets are systematically depreciated in each accounting period using the economic-technical rates considered representative of the residual possible usefulness of the assets. The following tables contain the depreciation rates taken into account for the depreciation of the assets.

General services	min %	max %
Land	0	0
Buildings	1.5	3
Property complex - Via Razzaboni Mo		
- land	0	0
- buildings	1 – 1.25	2 – 2.5
- external building works	1.66	3.33
Light construction	5	10
General plant	7.5	15
Equipment	5	10
Office furniture and machines	6	12
EDP machines	10	20
Vehicles and internal means of transport	10	20
Automobiles	12.5	25
Measurement and laboratory equipment	5	10
Remote control	10	20
- remote control apparatus (RTU)	5	10
- supervision centres	4.16	8.33
- data transmission network (telephone cable)	2.5	5
- data transmission network (fibre optics)	3.33	6.67
Public Lighting	4	8
- type 1 centre	2	4
- type 2 centre	1.25	2.5
- lighting unit (multiple points)	1.25	2.5
- lighting unit (single points/columns)	2	4
- flux controllers	1.25	2.5
- distribution network	1.43	2.86
- votive lighting	1.66	3.33
Electricity substations	3.5	7

Purification service	min %	max %
Land	0	0
Buildings/Civil works	1.5	3
Buildings IDAR construction section	1.5	3
General and specific plant	7.5	15
Specific IDAR plant	5	10
Specific ITFI plant	5	10
Specific plant	5	10
- Purification plant/Civil works	1.66	3.33
- Purification plant	3.33	6.67
Lifting plant	6	12
Laboratory equipment	5	10
Network	2.5	5
Electricity substations	3.5	7
Equipment	5	10
Furniture	6	12

District heating and gas service	min %	max %
Land	0	0
1st stage pressure reducer stations - Abstraction		
- Buildings	2.5	5.5
- General plant	7.5	15
- Specific plant	4	10
2nd stage pressure reducer stations - district - specific plant-user stations	5	10
User transformers - Specific plant	4	8
Distribution network in steel	2.22	8
Distribution network in cast iron or spheroidal cast iron	2	8
Distribution network in PE or PVC	2.86	8
Outlets/Intakes	2.5	8
Meters	4	10
Cathodic protection	4	8
Electricity substations - Specific plant	3.5	7
Cogeneration and district heating		
- Production - Buildings	2.5	5.5
- Production - General plant	4.5	9
- Production - Specific plant	4.5	9
Distribution network	2.86	8
Meters	2.5	5
Heat exchange units	4.5	9
- Boilers	1.43	2.86
- Heat exchangers	2.5	5
- Expansion tanks	1.66	3.33
Pumping stations		
- Electricity substation	2	4
- Generators	2.75	4.55
- Pumps	3.33	6.67
- Electricity substations	3.5	7
Equipment	5	10

Water service	min %	max %
Land	0	0
Buildings/Civil works	1.75	3.5
Wells		
- Buildings/Civil works	1.75	3.5
- General and specific plant	1.25	2.5
- Disinfection plant	2.5	5
- Pumps	5	10
- Building works	1.43	2.86
Abstraction - Buildings/Civil works	1.25	2.5
Lifting and fresh water stations		
- Buildings/Civil works	1.75	3.5
- General plant	7.5	15
- Specific plant	6	12
- Fresh water plant	4	8
- Disinfection plant	2.5	5
- Transformers	2	4
- Pumps	3.34	6.67
- Tanks	1.25	2.5
- Filtration plant and filters	2.78	5.56
- Generators and blowers	2.28	4.55
- Building works	1.43	2.86
Tanks	2	4
- Disinfection plant	2.5	5
- Building works	1.11	2.22
Pipelines and distribution network	2.5	5
Distribution network in steel, cast iron or spheroidal cast iron	1	2
Distribution network in reinforced cement-PE-PVC	1.43	2.86
Outlets/Intakes and connections	2.22	5
Meters	4	10
Electricity substations - Specific plant	3.5	7
Road vehicles	10	20

Electricity production and distribution service	min %	max %
Land	0	0
Buildings	1.5	3
MV underground and overhead distribution network	2	4
LV underground and overhead distribution network	4	8
HV/MV - LV/MV transformers	3.5	7
- station transformers	2	4
- pole transformers	2.5	5
Connections	3.33	8
Meters	4	10
Tables	1.66	3.33
Limiting devices	1.66	3.33
Masonry and single-pole stations	1.66	3.33
Polyfers	1.25	2.5
Receiver stations	1.66	3.33

Waste Management Services	Min %	Max %
Land	0	0
Buildings	1.50	3.00
Secondary building units (warehouse)	1.50	3.00
General plant	7.50	15.00
Specific plant IIR	5.00	10.00
- land	0	0
- buildings	1.00 – 1.25	2.00 – 2.50
- fixed plant pertaining to real estate	1.66 – 2.00	3.33 – 4.00
- external building works	1.66	3.33
- electric production plants	2.00	4.00
- general plant	2.50	5.00
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.50	5.00
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity production	2.50	5.00
- waste-to-energy line control systems	5.00	10.00
Specific BIOGAS plant, storage + IRE	5.00	10.00
- land	0	0
- buildings	1.00 – 1.25	2.00 – 2.50
- fixed plant pertaining to real estate	1.66 – 2.00	3.33 – 4.00
- external building works	1.66	3.33
- electric production plants	2.50	5.00
- CDR packing	2.50	5.00
- selection, chopping, feeding and sorting plant	2.50—3.33	5.00 – 6.67
- ventilation plant	3.33	6.67
- general plant – stabilisation plant – storage tanks	2.50	5.00
- control systems	5.00	10.00
- containers and bins	5.00 – 10.00	10.00 – 20.00
- internal handling equipment	4.16	8.33
Specific waste composting plant	5.00	10.00
- land	0	0
- buildings	1.00 – 1.25	2.00 – 2.50
- fixed plant pertaining to real estate	1.66 – 2.00	3.33 – 4.00
- external building works	1.66	3.33
- general plant and lifting equipment	3.33	6.67
- pre-selection plant	2.50	5.00
- mixing plant	3.33 – 5.00	6.67 – 10.00
- palleting plant	5.00	10.00

- energy recovery plant	2.50	5.00
- screening and refining plant	3.33 – 4.16	6.67 – 8.33
- weighing plant	2.25	5.00
- dioxidization / organic treatments systems	3.3	6.67
- second maturing	5.00	10.00
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10.00	20.00
Waste containers and equipment	5.00	10.00
General equipment	5.00	10.00
Snow service equipment	5.00	10.00
Sanitary equipment	5.00	10.00
Light construction	5.00	10.00
Motor vehicles	12.50	25.00
Controlled landfills		

Land is not depreciated. Landfills are depreciated on the basis of the percentage filled. In the year in which the assets were acquired the rates are reduced by 50%, as this is deemed to provide a reasonable approximation of the physical and technological deterioration of the asset.

Gains and losses deriving from the sale or disposal of assets are determined as the difference between the sales revenues and the net book value of the assets, and are charged to the income statement.

Leasing – Leasing agreements are classified as financial leases when the terms of the agreement are such that they essentially transfer all the risks and benefits of ownership to the lessee. The assets forming the subject matter of financial leasing agreements are recorded among tangible fixed assets and stated as Group assets at their fair value as of the date of acquisition, or, if lower, at the current value of the minimum payments due for the leasing; they are depreciated on the basis of their estimated useful life on a consistent basis with the assets owned. The corresponding liability vis-à-vis the lessor is recorded in the balance sheet. The payments for lease instalments are divided up into the principal portion and the interest portion and the financial charges are booked directly to the income statement for the period. All the other leases are considered to be operating leases and the related costs for the lease instalments are recorded on the basis of the conditions anticipated in the agreement.

Intangible fixed assets – Intangible fixed assets which are identifiable and can be monitored, and whose cost can be reliably determined based on the supposition that said assets will generate future economic benefits, are recorded in the accounts. These assets are stated at cost in accordance with the policies indicated for tangible fixed assets and if they have a defined useful life they are amortised systematically over the period of the estimated useful life. The amortisation commences when the asset is available for utilisation or in any case begins to produce economic benefit for the business. Work in progress includes costs relating to intangible fixed assets for which the process of economic use has not yet commenced. The intangible fixed assets have an undefined useful life, so they are not amortised but subjected to an annual impairment test, even in the absence of indicators which disclose losses in value.

Research costs are recorded in the income statement; development costs for new products and/or processes are booked to the income statement in the year they are incurred, if they do not have multi-year use requirements.

Advertising expenses are charged directly to the income statement.

Industrial patent rights and know-how are representative of assets which are identifiable and capable of generating future economic benefits under the Company’s control; these rights are amortised over the related useful lives.

Concessions and licences mainly comprise rights for the concession under management of local public services and are amortised on a straight-line basis over either the economic-technical life of the assets granted or the duration of the concession involved, whichever period is shorter. The residual value of the intangible fixed assets which corresponds with the water concessions contributed by the merged companies and/or the spun-off business segments, is by contrast amortised in consideration of the average residual management duration in light of the agreements currently in force with the area agencies. The residual value of the in tangible fixed assets which corresponds with the concessions for the management of the methane gas distribution networks contributed by the merged companies and/or the spun-off business segments is amortised in consideration of the residual transitory management duration anticipated by current legislation (Letta Decree and Marzano Law).

The gains and losses deriving from the disposal of an intangible fixed asset are determined as the difference between the disposal value and the book value of the assets; they are recorded in the income statement at the time of disposal.

Business combinations – Business combination transactions are stated by applying the purchase method, as a consequence of which the buyer acquires the shareholders' equity and takes over the assets and liabilities of the acquired company. The cost of the transaction includes the fair value of the transferred assets, liabilities taken on, capital instruments issued and all other additional charges as at the date of acquisition. Any positive difference between the cost of the transaction and the fair value at the date the assets and liabilities are acquired is attributed to goodwill (subject to impairment tests, as indicated in the following paragraph). If the process of allocating the purchase price shows a negative differential, it is immediately charged to the income statement at the date of acquisition. If non-absolute control investments are acquired, goodwill is recorded only for the part attributable to the Parent company.

Goodwill deriving from acquisition of an associated company is included in the book value of the investee company, as specified under the paragraph "investments in associated companies".

If additional equity investments are acquired after control is reached, the positive difference between the cost incurred for the purchase and the share held in the net assets acquired, stated at fair value, is entered as the consolidation difference.

Losses in value - impairment - As of each balance sheet date and when events or situation changes indicated that the book value cannot be recovered, the Group takes into consideration the book value of the tangible and intangible fixed assets in order to assess whether there is any indication that said assets have suffered a reduction in value. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total of the write-down. . The recoverable amount is either the net sales price or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the financial flows to which said assets belong. Future cash flows are discounted back at a discount rate (net of taxation) which reflects the current valuation of the market and takes into account the risks associated with the specific business activities.

If the recoverable amount of an asset (or of a unit generating financial flows) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value which the asset would have had if the write-down had not been made for the loss in value. The write-back of the value is charged to the income statement, unless the asset is valued at re-valued value, in which case the value write-back is charged to the revaluation reserve.

Treasury shares - In application of IAS 32, treasury shares are recognised as a reduction in shareholders' equity. Also, any differences generated by future purchase or sale transactions are recorded directly as changes in shareholders' equity, without passing via the income statement.

Equity investments and securities – The equity investments recorded in this item relate to long-term investments.

Investments in associated companies – An associated company is a company over which the Group is able to exercise significant influence, (but not control, or joint control), by means of participation in the decisions on the financial and operating policies of the investee company. Investments in associated companies are carried at equity, except in the cases where they are classified as "held for sale", or when they are not of a significant value; in such an event they are carried at cost, with write-downs, if necessary, based on the results of the impairment test. In accordance with the equity method, the investments are stated in the balance sheet at cost, as adjusted for the changes subsequent to acquisition in the net assets of the associated companies, net of any losses in value of the individual investments. The additional value of the acquisition cost with respect to the percentage due the Group of the current value of the identifiable assets, liabilities and potential liabilities of the associated company as of the acquisition date is recognized as goodwill. The goodwill is included in the book value of the investment and subject to an impairment test.

Other equity investments and securities – The other equity investments and securities belong to the category anticipated by IAS 39 "financial assets available for sale" (commented on hereunder in the specific paragraph). They comprise instruments representative of shareholders' equity and are stated at fair value. When the market price or fair value cannot be calculated, they are assessed at cost and can be adjusted if there are losses of value.

If the reasons for the write-down cease to exist, the investments carried at cost are re-valued within the limits of the write downs made and the effect is booked to the income statement, or to shareholders' equity if the investments are held as assets available for sale. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations vis-à-vis the investee company or in any event cover its losses.

As better described hereunder, the financial assets that the Company intends or is able to maintain until maturity are stated at cost, represented by the fair value of the initial payment made in exchange, increased by the transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method.

Loans and Financial Assets – The Group classifies the financial assets in the following categories:

- assets valued at fair value with matching entry in income statement;
- receivables and loans;
- financial assets held until maturity;
- available-for-sale financial assets.

Management determines their classification when they are first recorded.

Financial assets valued at fair value with matching entry in income statement

This category includes the financial assets acquired for short-term negotiation purposes, in addition to the derivatives, which are described in the specific subsequent paragraph. The fair value of these instruments is determined by referring to the market value on the date the period when it is recorded ends. Change in fair value of the instruments belonging to this category is immediately recorded in the income statement.

Classification amongst current and non-current reflects management's expectations regarding their negotiation: included amongst current assets are those whose negotiation is expected within 12 months or those identifies as held for negotiation.

Receivables and loans

Included in this category are assets not represented by derivative instruments and not listed on an active market, from which fixed or determinable payments are expected. These assets are valued at amortised cost on the basis of the effective interest rate method. Should there be objective proof of indicators of impairments, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future: the impairments determined with impairment testing are recorded in the income statement. If reasons for the previous write-downs should not exist in subsequent periods, the value of the assets is restored until the value that would have derived from applying the amortised cost if the impairment testing had not been carried out is applied. These assets are classified as current assets, except for the portions maturing after 12 months, which are included amongst the non-current assets.

Financial assets held until maturity

Unlike derivative instruments, these assets are those with a pre-established maturity and for which the Group plans to, and is able to, keep them in the portfolio until maturity. They are of an insignificant amount in the consolidated financial statements. Assets are classified as current assets if their contractual maturity is expected within the next 12 months. Should there be objective proof of indicators of impairments, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future: the impairments determined with impairment testing are recorded in the income statement. If reasons for the previous write-downs should not exist in subsequent periods, the value of the assets is restored until the value that would have derived from applying the amortised cost if the impairment testing had not been carried out is applied.

Available-for-sale financial assets

Financial assets not represented by derivative instruments designated expressly as falling within this item or not classified in any of the previous items are included in this category. They are of an insignificant amount in the consolidated financial statements. These assets are valued at fair value, the latter determined by referring to the market prices at the balance sheet date, infra-annual situations or using financial measurement techniques and models, recording their change in value with matching entry in a specific shareholders' equity provision ("provision for assets available for sale"). This provision goes back to the income statement only when the financial asset is actually sold or, in the case of negative changes, when the value reduction already recorded in the shareholders' equity is found to be unable to be recovered. Classification as current or non-current asset depends on management's plans and on the real negotiability of the security: those whose encashment is expected during the next 12 months are recorded as current assets.

Should there be objective proof of indicators of impairments, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future: the negative value changes previously recorded in the shareholders' equity provision are transferred to the income statement. The impairment previously booked is restored if the circumstances that brought about its recording no longer exist.

Environmental bonds – The Group is subject to the various environmental standards enacted (Directive 2003/87/EC – Emission Trading; Italian Ministerial Decree 24/05 and subsequent modifications – Green Certificates; Italian Ministerial Decree 20/7/04 – Energy Efficiency Bonds) that require that the obligations established through use of certificates or bonds be observed. Therefore, the Group is obliged to meet a need in terms of grey certificates (emission trading), green certificates and white certificates (energy efficiency bonds).

Developing markets on which these bonds/certificates are handled has also made it possible to initiate a trading activity.

The bonds are valued according to the destination they are assigned.

The bonds held to meeting the company's necessity are recorded as assets at cost. The environmental bonds assigned free of charge are initially recorded at a nil value. If the bonds in portfolio prove to be insufficient to meet the need, a special provision is set aside to guarantee adequate coverage when the bonds are delivered to the operator.

The bonds exceeding the need (assigned objective) are recorded as assets and marked as held for trading.

In fact, physical and financial buying and selling activities are started within the Group involving commodities (commented on in the paragraph "derivative financial instruments") and regarding environmental bonds such as emission shares, green certificates and white certificates for the amount exceeding the estimated need. These bonds are valued at fair value at the end of the year, with their changes recorded in the income statement.

Other non-current assets – These are stated at par value, and possibly adjusted for any losses in value corresponding to the amortised cost.

Trade receivables – Trade receivables are recorded at par value, reduced by an appropriate write-down in order to reflect the expected realisable value. This value corresponds to "amortised cost". Financial assets are recorded and reversed from the financial statements on the basis of the date of transaction; furthermore, these assets are reversed if sold, which transfers all risks and benefits associated with their management to third parties.

Contract work in progress – When the result of a contract can be reliably estimated, contract work in progress is valued on the basis of the contractual payments accrued with reasonable certainty, on a percentage of completion basis (cost-to-cost), so as to allocate the revenues and the economic result of the contract to the pertinent individual accounting periods, in proportion to the stage of completion of the work. The positive or negative difference between the value of the contracts and the advance payments received is recorded respectively among the balance sheet assets or liabilities. Contract revenues, in addition to the contractual payments, include the variations, the price review and the recognition of the incentives up to the extent it is probable that they represent effective revenues which can be determined reliably.

When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred.

When it is probable that the total contract costs will be greater than the contractual revenues, the expected loss is immediately stated at cost.

Inventories – Inventories are recorded at purchase cost, including directly chargeable related costs, or net estimated realisable value, whichever is the lower. Cost is determined on the basis of constant average cost. The net realizable value is calculated on the basis of the current costs of the inventories at year end, less the estimated costs necessary for achieving the sale.

The value of obsolete and slow-moving stock is written down in relation to the possible use or realization, by means of the provision of a specific materials obsolescence allowance.

Inventories of work in progress and finished products are valued at weighted average manufacturing cost for the period, which comprises the raw materials, the consumables and the direct and indirect production costs excluding general expenses.

Cash and cash equivalents – The item relating to liquid funds and cash equivalents includes cash and bank current accounts and deposits repayable on demand and other short-term financial investments with high liquidity that are readily convertible into cash and are subject to an insignificant risk regarding their change in value.

Financial liabilities – These are initially stated at cost, corresponding to the fair value of the liability net of the transaction costs that are directly attributable to the issue of said liability. Following their initial recognition, financial liabilities, with the exception of derivatives, are valued on the basis of amortised cost, using the original effective interest rate method.

Employee leaving indemnity and other employee benefits – The liabilities relating to the defined-benefits plans (such as employee leaving indemnity - TFR) are calculated net of any assets serving the plan on the basis of actuarial suppositions and on an accruals basis in line with the employment services necessary for obtaining the benefits; the valuation of the liability is checked by independent actuaries. The portion of net cumulative value of the actuarial gains and losses exceeding the current obligation value by 10% for benefits defined at the end of the previous year is amortised on the remaining average working life of the employees (corridor method).

Provisions for risks and charges – The provisions for risks and charges comprise the amounts set aside as recorded in the financial statements on the basis of current obligations (as emerging from past events) which the Group believes it probably will have to meet. The provisions are set aside on the basis of the best estimate of the costs required to meet the fulfilment, as of the balance sheet date (with the assumption that there are sufficient elements for being able to make this estimate) and are discounted back when the effect is significant). In such an event, the provisions are determined by discounting back the future cash flows at a pre-taxation discount rate which reflects the current market valuation and takes into account the risk associated with the business activities. When the discounting back is carried out, the increase in the provision due to the passing of time is recorded amongst the financial charges. If the liability is associated with an tangible asset (such as the recovery of sites), the provision is recorded as a matching entry to the asset to which it refers and the recording of the charge in the income statement takes place by means of the depreciation process of the tangible fixed asset to which the charge refers. The methodologies provided by IFRIC are adopted if liabilities are recalculated.

Trade payables – These refer to commercial supply transactions and are recorded at par value, corresponding to the amortised cost.

Other current liabilities – These concern sundry transactions and are stated at par value, corresponding to the amortised cost.

Derivative financial instruments – The Group holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate fluctuations and the risk of changes in methane gas and electricity prices. In relation to said activities, the Group must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas linked to the sale of said commodities. The instruments used for handling price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, are carried out through commodity-swap agreements, aimed at pre-establishing the effects on the sales margins irrespective of the changes in the afore-mentioned market conditions.

On a consistent basis with the chosen strategy, the Group does not enter into derivative transactions for speculative purposes.

The transactions which, in observance of the risk management policies, satisfy the requisites laid down by the accounting standards for hedge accounting treatment are classified as “hedging” (recorded in the terms indicated below), while those which, despite being entered into for hedging purposes, do not satisfy the requisites required by the standards, are classified as “trading”. In this case, the fair value changes of the derivative instruments are recorded in the income statement during the period when they take place. Fair value is determined on the basis of the market value of reference.

For registration purposes, the hedging transactions are classified as *“*fair value hedges*”* if they cover the risk of fluctuation in the market value of the underlying asset or liability; or as *“*cash flow hedges*”* if they cover the risk of changes in financial flows deriving both from an existing asset or liability, or from a future transaction, including transactions on commodities.

As far as derivative instruments classified as fair value hedges are concerned, which observe the conditions for the accounting treatment as hedging transactions, the gains and losses deriving from the determination of their market value are booked to the income statement. The gains and losses deriving from the adjustment to fair value of the element underlying the hedge are also booked to the income statement.

For instruments classified as cash flow hedges and that qualify as such, they are recorded in a special shareholders' equity reserve ("cash flow hedge reserve") but only referring to the "effective" amount, which is then recorded in the income statement at the time of economic manifestation of the underlying hedged object. The change in fair value referring to the ineffective portion is immediately recorded in the income statement of the period. If the underlying transaction should no longer be considered highly probable, or the hedging relationship can no longer be demonstrated, the corresponding portion of the “cash flow hedge reserve” is immediately recorded in the income statement. If, on the other hand, the derivative instrument is sold and therefore the hedging of the risk for which the transaction was created no longer qualifies as effective, The amount of “cash flow hedge reserve” relating to it is kept until the underlying contract arises.

Derivatives included under financial assets/liabilities are taken out and assessed at fair value, except for those cases where, in accordance with the provisions of IAS 39, the exercise price of the derivative instrument as at the starting date is close to the value calculated on the basis of the amortised cost of the reference assets/liabilities. In such case, the assessment of the included derivative instrument is absorbed in the assessment of the financial assets/liabilities.

Grants – Capital grants are stated in the income statement over the period necessary for correlating them to the related costs; they are represented in the balance sheet by recording the grant as deferred revenue. Operating grants, including those received from users for connection purposes, are considered to be revenues for services carried out during the accounting period and are therefore recorded on an accruals basis.

Revenue recognition - Revenues and income are stated net of returned items, discounts and rebates, and net of direct taxes related to the sales of products and services rendered. They are broken down into revenues deriving from operating activities and financial income which accrues between the sale date and the payment date.

Specifically:

- revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels);
- revenues from services rendered are recognised on the basis of services provided and in compliance with the relevant contracts;
- revenues from the sale of goods are recognised at the time the Group transfers the significant risks and benefits associated with ownership of the assets to the purchaser;
- costs are stated in accordance with the accruals principle.

Financial income and charges – Financial income and charges are recognised in accordance with the accruals principle.

Dividends of “other companies” are charged to the income statement at the time when the right to receive their payment is established, only if deriving from distribution of profit subsequent to the investee company’s acquisition. . If, instead, they derive from distribution of the investee’s reserves existing prior to acquisition or from a distribution of capital reserves, these dividends are entered as a reduction in the cost of said equity investment.

Income taxes for the financial year - Income taxes represent the sum of current and deferred taxes. Current taxes are based on the taxable income for the year. Taxable income differs form the result recorded in the income statement, as it excludes positive and negative components which will be taxable or deductible in other years, and excludes items which will never be taxable or deductible. Current tax liabilities are calculated using current tax rates in force at the balance sheet date, and are recorded under the item “income taxes payable”. In calculating the taxes for the year, the Company duly considered the effects deriving from the IAS tax reform introduced by Italian Law 244 of 24 December 2007, and in particular the strengthened principle of derivation set forth under art. 83 of the Consolidation Act on Income Taxes that now envisages that “the criteria of qualification, time allocation and classification in the financial statements required by the international accounting standards apply to parties that apply the international accounting standards, also in derogation of the provisions of the Consolidation Act on Income Taxes.

Deferred taxes are calculated having regard to the temporary differences in taxation, and are recorded under item “deferred tax liabilities”. The deferred tax assets are recorded to the extent in which their existence is considered probable in the years when their temporary differences will be reversed of a taxable income at least equal to the amount of the differences that will be offset.

Deferred and prepaid taxes are determined on the basis of the tax rates in force at the time the temporary differences are recorded. Any variations, as a result of amendments to taxes and/or to rates, will be recorded in the year in which the new provisions will come into force and will become effectively applicable. These changes are charged to the income statement, or the shareholders’ equity, depending on how the difference was originally charged.

Translation of foreign currency balances – The functional and reporting currency adopted by the Hera Group is the Euro. Foreign currency transactions are initially recorded using the exchange rate in force as of the transaction date. Foreign currency assets and liabilities, with the exception of fixed assets, are recorded using the exchange rate in force as at the period end date and the related exchange gains and losses are duly charged to the income statement; any net gain which might arise, is set aside in a specific restricted reserve until the date of realization.

Earnings per share – The earnings per share are represented by the net profit for the period attributable to the shareholders holding ordinary shares, taking into account the weighted average of the ordinary shares in circulation during the year. The diluted earnings per share are obtained by means of the adjustment of the weighted average of the shares in circulation, taking into account all the potential ordinary shares with dilution effect.

Transactions with related parties – These take place under normal market conditions.

New accounting principles

New IFRS and IFRIC interpretations

As of today, the IASB and the International Financial Reporting Interpretations Committee (IFRIC) have issued Standards and Interpretations not yet obligatory or not yet adopted by European Community lawmakers. However, the Group has considered the effects, with application starting from the deadlines envisaged by the separate standards, and has pointed out the potential impacts on its financial and economic situation as follows:

IFRS – IFRIC Interpretation		***Effects on the Group***
IAS 39 Amendments	Financial instruments	No significant effects are expected
IFRS 8	Operating segments	Application of the standard involves providing different information on the financial statements. The Group contemplates applying this modification starting from 1 January 2009.
IAS 23	Financial charges	As at today, the Group does not capitalise financial charges only when there are certain conditions. The new standard, which will be applied starting from 1 January 2009, to the contrary requires capitalisation of the financial charges on some asset classes.
IAS 1	Presentation of the financial statements	Application of the standard only involves providing different on the financial statements. The Group contemplates applying this modification starting from 1 January 2009
IFRS 2 Amendment	Share-based payments	Significant effects without share-based payments are not expected. The Group contemplates applying this modification starting from 1 January 2009.
IAS 27	Consolidated and separate financial statements	As of today, the Group already applies the Parent company approach, formulation of the Economic Entity, the only one expected to no longer be envisaged in the IAS 27 Amendment. The Group contemplates applying this modification starting from 1 January 2010.
IFRS 3	Business combination	Among other things, the new version of IFRS 3 contemplates that the transaction costs be recorded in the income statement, that the obligation to value the separate assets and liabilities of the subsidiary at fair value in acquisitions in several subsequent phases (for multi-phase acquisitions) be eliminated and that liabilities for payments on condition be recorded at the date of acquisition. The Group contemplates applying this modification starting from 1 January 2010.
IFRIC 12	Licensed services contracts	The Group plans to apply this modification after approval by the European Union. The Group is assessing the possible impact of its application.
IFRIC 13	Customer loyalty building programmes	No significant effects are expected.
IFRIC 14	Activity for defined benefit plans and minimum hedging criteria	Significant effects are not expected. The Group however contemplates applying this modification starting from 1 January 2009.
IFRIC 15	Contracts for building real estate property	Significant effects are not expected. The Group however plans to apply this modification after approval by the European Union. The Group is assessing the possible impact of its application.
IFRIC 16	Hedging an investment in a foreign company	Significant effects are not expected. The Group however plans to apply this modification after approval by the European Union.
IFRIC 17	Distribution of non-monetary assets to shareholders	The Group plans to apply this modification after European Union approval. There have never been any distribution of non-monetary assets to shareholders in the past.
IFRIC 18	Transfer of assets from customers	The Group plans to apply this modification following European Union approval. In the meantime, it is assessing the possible impact of its application.

Risk management

Credit risk

The Group is active in business areas characterised by a low credit risk, given the nature of the activities carried out and considering that the credit exposure is distributed on a large number of clients. The Italian market is virtually the only reference market. Assets are recognised in the financial statements net of any write-downs determined on the basis of the default risk of the counterparties, taking into account the information available on solvency and the historical data.

Liquidity risk

The liquidity risk to which the group is exposed may arise from difficulties in obtaining, in a timely manner, loans in support of operations. . Cash flows, financing needs and the liquidity of the Group's companies are centrally monitored or managed, under the control of the Group's Treasury Department, for the purpose of ensuring an efficient and effective management of financial resources. The financial planning of requirements, focused on medium term borrowings, and the availability margins on credit facilities, allow an efficient management of liquidity risk.

Foreign exchange risk and interest rate risk

The Group is exposed to the price risk for energy products and the relevant exchange rates, given that it effects some purchases transactions of raw materials, the prices of which are quoted in foreign currencies, or are influenced by the fluctuations of their rates.

Exposure to the interest rate risk arises from the need to finance the operations, and to invest any available liquidity. Fluctuations in market interest rates may negatively, or positively, affect the economic result of the Group, thus indirectly affecting costs and returns of financing and investment transactions.

The Group regularly assesses its exposure to the foreign exchange and interest rates risks (with reference to impact on the prices of raw materials), and manages these risks through the use of derivative financial instruments, in accordance with the provisions of its risk management policies. Within the context of these policies, the use of derivative financial instruments is only reserved for the purpose of managing the exposure to fluctuations in foreign exchange rates and interest rates connected with monetary flows and balance sheet assets and liabilities; under these policies, no speculative activity is allowed.

Significant estimates and valuations

Use of estimates

In drawing up the consolidated financial statements and related notes it is necessary for the directors to use estimates and valuations, with effects on the balance sheet figures, based on historical data and on the forecasts of specific events that should reasonably occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below. Specific information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

Impairment of goodwill

The Group carries out an impairment test on goodwill at least once a year. This test is based on the calculation of its value in use, which requires the use of estimates.

Allocations to provisions for risks

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

4 Revenues

	2008	2007	Change
Revenues from sales and services	3,716,336	2,863,298	853,038
Change in inventories of work in progress, semifinished and finished products and contract work in progress	-262	-635	373
Change in contract work in progress	2,866	-3,614	6,480
Other income and revenues	73,081	46,038	20,943
Total	**3,792,020**	**2,905,087**	**880,833**

Please see the report on operations for the analysis of sales trends by business sector and the note providing information by business area. Here the following should be noted:

- revenues for 2007 include Euro 10,912 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 2008.
- the different accounting method used for several electrical components compared to the previous year. These components are recorded directly in the financial accounts with both "revenues from sales and services" and "energy transport and storage" costs consequently reduced by the same amount. Please refer to note 6 of the income statement.

5 Other operating income

	2008	2007	Change
Insurance reimbursements	8,010	3,307	4,703
Sale of materials and stock	682	751	-69
Portion of capital grants	3,235	2,883	352
Portion of operating grants and from separate waste collection	11,452	8,444	3,008
Leases	3,817	4,078	-261
Use and re-assessment of provisions	13,289	4,067	9,222
Profits from the sale of assets	3,304	902	2,402
Costs reimbursed	2,020	1,381	639
Other	27,272	20,225	7,047
Total	**73,081**	**46,038**	**27,043**

The most substantial changes by comparison with 2007 are described below.

"Insurance reimbursements" shows an increase of Euro 4,703 thousand, due to:

- Euro 4,257 thousand for reimbursement of damages to the incinerator alternator of subsidiary Fea Srl;
- a reimbursement of Euro 100 thousand for damage to public illumination plants owned by the subsidiary Hera Luce Srl;
- Euro 834 thousand, mainly in compensation payments by insurance companies and debits charged to customers of the Province of Rimini for damage to goods owned by the Parent Company, chiefly in the water sector;
- Insignificant decreases are reported for other Group companies.

Item “operating grants and grants for separated waste collection” shows an increase of Euro 3,008 thousand, due to:

- Euro 830 thousand for higher volumes of packaging (plastic, glass, wood) deriving from the separated waste collection and sold to the Consortiums of the Conai Chain;
- Euro 2,160 thousand for grants paid to the Parent Company by the Raee Coordination Centre based on the provisions of the programme agreement entered into with Anci on 18 July 2008, regarding the new Raee (electric and electronic equipment waste) management system.

The item “Use and reassessment of funds” for Euro 13,289 thousand mainly comprises:

- Landfill post-closure provision for Euro 2,005 thousand;
- INPS litigation provision for involuntary unemployment and illness for Euro 842 thousand;
- provision for disposal of waste stored by subsidiary Ecologia Ambiente Srl for Euro 101 thousand;
- provisions for doubtful receivables amounting to Euro 8,100 thousand;
- other provisions for Euro 2,180 thousand.

The rise in “capital gains on sales of goods” of Euro 2,402 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 1,315 thousand).

The “Other” item for Euro 27,272 mainly comprises:

- Euro 8,998 thousand in energy efficiency securities (white certificates);
- brokerage for waste treatment deriving from other companies (Amsa, Amiat) at third party plants totalling Euro 5,509 thousand;
- gains generated following the sale to Romagna Acque of the line of business regarding water production plant management in the Aato territories of Forlì Cesena, Ravenna and Rimini for Euro 3,500 thousand ;
- recovered expenses from customers for Euro 658 thousand;
- enforcement of a guarantee policy for Euro 254 thousand.

The increase over the previous year is mainly due to the energy efficiency securities.

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

	2008	2007	Change
Methane ready for sale and LPG net of inventory charges	854,849	687,459	167,390
Income and charges from derivatives	-13,146	-10,154	-2,992
Fuel for heat generation	3,097	2,486	611
Electricity ready for sale	1,418,848	808,330	610,518
Water	24,104	20,076	4,028
Maintenance materials: handling and spare parts net of change on stock	69,684	57,608	12,076
Electricity	13,192	15,527	-2,335
Fuels and lubricants	14,512	11,929	2,583
Methane for industrial use	15,537	3,928	11,609
Chemical products	13,343	11,512	1,831
Consumables and sundry materials	7,419	5,215	2,204
Total	**2,421,439**	**1,613,916**	**807,523**

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. However, said item includes the valuation effect of the grey and green certificates.

7 Costs for services

	2008	2007	Change
Industrial utilities (water, methane, heat and electrical energy)	5,178	3,274	1,904
Charges for work and maintenance	252,880	241,455	11,425
Energy transport and storage	69,596	125,310	-55,714
Insurance	13,959	12,965	994
Cleaning and security costs	5,213	5,168	45
Transport, waste collection and disposal services	140,414	127,157	13,257
Announcements, advertising and disputes	7,941	8,221	-280
Transport	2,950	3,922	-972
Technical, organisation, legal and tax assistance consultancy	31,025	28,217	2,808
Remuneration to Statutory Auditors and Directors	5,081	5,065	16
Letture contatori	3,797	3,048	749
Postal and telephone costs	12,675	12,578	97
Recruitment, training and other staff costs	10,520	9,643	877
IT and data processing services	12,966	13,216	-250
Laboratory analyses	4,704	3,353	1,351
Bank fees and charges	6,694	5,022	1,672
Fees paid to local authorities	76,051	66,402	9,649
Rents and leases payable	20,370	17,806	2,564
Fees payable	4,542	3,706	836
Other	29,488	29,166	322
Total	**716,045**	**724,694**	**-8,649**

Comments on changes in the main operating costs compared with the previous financial year are contained in the report on operations. As far as the “energy transport and storage” costs are concerned, please note that the decrease compared to the previous year is attributable to the registration of several tariff components regarding electrical energy distribution directly in the financial accounts.

The Euro 9,649 thousand increase of “Fees paid to local authorities” is mainly due to:

- Euro 3,619 thousand in charges sustained by the Parent Company for use of public-owned networks, in fees paid to the asset companies for rent of gas, water and electricity cycle assets, and lease of the drop-off points;
- Euro 4,032 thousand in charges borne by Marche Multiservizi for use of the networks and for payment of the rent to the asset companies.

The reclassifications made in some 2007 items are provided below:

	2007 published	riclassification	2007 riclassified
Charges for work and maintenance	240,306	1,149	241,455
Postal and telephone costs	16,457	- 3,879	12,578
Rents and leases payable	15,856	1,950	17,806
Other	28,386	780	29,166
	301,005	**0**	**301,005**

8 Personnel costs

	2008	2007	Change
Wages and salaries	233,617	214,800	18,817
Social security	73,656	69,884	3,772
Provision for employee leaving indemnity	2,114	-4,115	6,229
Other costs	21,691	20,343	1,348
Total	**331,078**	**300,912**	**30,166**

A total comparison was made between the personnel costs of the two years, taking into account extraordinary and non-recurring effects generated 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, 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 average number of employees, broken down by categories, is provided below:

	2008	2007	Change
Executives	119	110	9
Middle Management	302	277	25
White-collar workers	2,952	2,692	260
Blue-collar workers	3,106	3,130	-24
Average number	**6,479**	**6,209**	**270**

The total, average, per capita cost of labour in the financial year 2008 was Euro 51 thousand higher than in the same period in the previous year, an increase of 5.45%.

As at 31 December 2008, the effective number of employees was 6,391 units. This represents an increase of 277 units compared with the same period of the previous year, mainly due to the integrations of Sat Spa and Megas Spa effective 1 January 2008.

9 Amortisation, depreciation and provisions

	2008	2007	Change
Depreciation of tangible fixed assets	155,699	134,674	21,025
Amortisation of intangible fixed assets	41,144	41,499	-355
Bad debt provisions	22,404	26,481	-4,077
Provisions for risks and other	28,309	30,143	-1,834
Total	**247,556**	**232,797**	**14,759**

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

10 Other operating costs

	2008	2007	Change
Land leasing	12,368	9,288	3,080
Taxation other than income taxes	4,020	15,050	-11,030
Membership fees and other fees	2,836	2,463	373
Special landfill levy	13,693	13,685	8
Losses on the sale of assets	638	458	180
Losses on receivables	310	65	245
Other minor charges	9,824	9,390	434
Total	**43,688**	**50,399**	**-6,711**

The most substantial changes by comparison with 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 increase over the previous year is for the most part due to the agreement entered into in 2008 for the rainwater collection and removal service in the Municipalities of Bologna, Casalecchio di Reno and Castel Maggiore.

The item “non-income-related tax” shows a reduction on 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.

11 Capitalised costs

	2008	2007	Change
Increases for internally-constructed fixed assets	248,530	238,212	10,318
Total	**248,530**	**238,212**	**10,318**

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 4,598 thousand (Euro 3,969 thousand at 31 December 2007) and Euro 11,855 thousand (Euro 6,998 thousand at 31 December 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

	2008	2007	Change
Portions of profits	2,512	1,361	1,151
Portions of losses	-389	-126	-263
Total	**2,123**	**1,235**	**888**

The share of “profits/losses generated by associated companies” includes effects due to valuation at equity. By comparison with the previous period, there was an increase of Euro 800 thousand ascribable to the company Sat Com Spa which on 1 January 2008 entered into the scope of consolidation owing to the incorporation of Sat Spa.

13 Financial income and charges

Financial income	2008	2007	Change
Bank interest income	3,917	4,266	-349
Interest income on other short-term receivables	107	543	-436
Interest charged to customers	1,573	159	1,414
Financial income generated by derivatives	0	2,907	-2,907
Financial income generated by derivatives on rates	7,980	16,929	-8,949
Financial income-capital gains on investment negotiations	824	22	802
Dividends from equity investments in other companies	4,356	1,909	2,447
Other financial income	3,405	1,864	1,541
Total financial income	**22,162**	**28,599**	**-6,437**

Financial charges	2008	2007	Change
Interest expense on bank current account overdrafts	20,730	13,628	7,102
Interest expense charged by banks for medium/long-term loans	29,470	31,183	-1,713
Financial charges generated by derivatives on commodities	0	2,827	-2,827
Financial charges generated by derivatives on rates	4,576	14,108	-9,532
Financial charges as a result of IAS 19	4,930	4,411	519
Financial charges generated by the application of "other international accounting standards"	5,147	10,746	-5,599
Write-downs of equity investments	0	326	-326
Capital losses on investment negotiations	388	180	208
Other financial charges	50,928	30,466	20,462
Total financial charges	**116,169**	**107,875**	**8,294**

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

The item “Equity investments in other companies” mainly regards a 2008 dividend on account paid to Hera SpA in December by represented by the dividends Energia Italiana Spa paid.

The item “Financial income – capital gains on investment negotiations” mostly comprises the capital gain from the sale of a 52.5% share of Sat Com Spa capital to Infracomm.

As for the income and charges on derivatives, commodities were reported at zero. This change is due to the different operations developed over the financial year 2008 compared to 2007; to this regard, please see note 21 of the balance sheet.

Income and charges on tax was positive for Euro 3,404 thousand, as is better described in note 21 of the balance sheet.

The item “Other financial charges” comprises:

- Euro 39,938 thousand for bond loans, up Euro 14,014 thousand over the previous year main in connection with new financing/bond loans taken on in the second half of 2007 and during 2008;
- Euro 2,563 thousand for the difference in charges after application of amortised cost. The recalculation increased the value by Euro 1,125 thousand compared with the same period a year earlier, because most of the bond loans and financing was accessed in the second half of 2007 (see comment in note 29). 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 3,024 thousand in financial charges paid after recalculation of amortisation rates for mortgages from the *Cassa Depositi e Prestiti*. Please refer to not 14 on tax and duties for a more complete description;
- Euro 1,351 thousand in assignment of credit charges;
- Euro 420 thousand in factoring charges.

The item “financial charges regarding application of other international principles” for Euro 5,147 thousand comprises:

	2008	2007	Change
IAS 37 Restoration of third party assets	3,846	5,071	-1,225
IAS 37 Landfill post-closure provision	316	4,455	-4,139
IAS 17 Financial leasing	985	1,220	-235
Total	**5,147**	**10,746**	**-5,599**

14 Income taxes

	2008	2007	Change
Current, deferred and prepaid taxes	78,597	32,637	45,960
Total	**78,597**	**32,637**	**45,960**

The impact of income taxes on the pre-tax profit is 41,6%, compared to 22.9% in 2007.
This tax rate change is justified taking into account the extraordinary entry, positive for Euro 32,930 thousand, which affected 2007, in addition to the decreased IRES and IRAP rates applicable starting in 2008.

In calculating the taxes for the year, the effects deriving from the IAS tax reform introduced by Italian Law 244 of 24 December 2007 were considered, and in particular the strengthened principle of derivation set forth under art. 83 of the Consolidation Act on Income Taxes that now envisages that "the criteria of qualification, time allocation and classification in the financial statements required by the international accounting standards apply to parties that apply the international accounting standards, also in derogation of the provisions of the Consolidation Act on Income Taxes.
With regard to the real impact of the reform, and in particular to the interpretative doubts about application of the strengthened principle of derivation, it is right to emphasise that as of today not only are there no official stances taken by the Tax Authorities, but the legislative scenario is incomplete as well. In fact, the regulations implementing application of the IAS tax reform introduced by the 2008 Finance Act have not yet been approved.
However, it is believed that the taxes have been calculated based on the best interpretation of the current regulations, although with the limitations listed above.

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 were filed against the first-instance ruling, and we are waiting for the hearing to be scheduled.

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 31 December 2008, outstanding receivables for collection came to Euro 2,174,291.

Regarding the former Meta Modena, for which there is no indemnity mentioned above, 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.

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 3,023,781 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.

It is then reported that art. 24 of Italian Legislative Decree 185 of 29 November 2008, converted with changes into Law 2 of 28 January 2009, put the revenue agency in charge of recovering aid equivalent to unpaid taxes and their interest due to the fiscal moratorium within 31 March 2009, “in order to totally implement” the 5 June 2002 decision of the Commission mentioned above. Presently, it would appear that the time available to the revenue agency to proceed with any recovery of taxes not yet paid with the procedure in force previously might be extended three months, and hence to the end of June 2009, because of the amendment to the de qua rule the government presented.

Currently, the Company is unable to calculate the liabilities that might derive from reopening the recovery procedure due to the many uncertainties surrounding interpretation of the regulations of the de qua procedure. In any case, management does not expect any significant liabilities will arise from definition of the above-mentioned procedure.

14.1 Earnings per share

Profit (loss) per share determined according to the IAS 33 method is shown in the following table:		
	2008	**2007**
Group profits (losses) for the period (A) (Euro thousands)	94,765	96,246
Weighted average number of shares in circulation		
for the purposes of calculating earnings (losses) per share:		
- base (B)	1,031,541,215	1,016,123,788
- diluted (C) A6	1,031,541,215	1,016,123,788
Profit (loss) per share (in Euro)		
- base (A/B)	0.092	0.095
- diluted (A/C)	0.092	0.095

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 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 Sembo and Sasso Marconi, in which 1,445,339 shares were issued.

15 Tangible fixed assets

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

Euro thousands		Land and buildings	Plant and machinery	Other moveable assets	Investments in progress	Total tangible fixed assets
Purchase cost						
Balance as at	**31/12/2007**	**328,338**	**2,183,575**	**283,112**	**524,557**	**3,319,583**
Increases		8,885	145,764	21,960	246,591	423,200
Disposals		(4,697)	(15,763)	(15,417)	(6,540)	(42,416)
Change in scope of consolidation		80	24,432	4,873	4,227	33,612
Other changes		29,914	207,639	13,014	(148,385)	102,183
Balance as at	**31/12/2008**	**362,520**	**2,545,648**	**307,543**	**620,451**	**3,836,161**
Accumulated depreciation						
Balance as at	**31/12/2007**	**53,945**	**546,250**	**173,359**	**-**	**773,554**
Depreciation for the year		7,405	124,396	23,899	-	155,699
Disposals		(802)	(6,960)	(13,155)	-	(20,917)
Change in scope of consolidation		-	3,679	2,349	-	6,028
Other changes		2,916	20,112	9,635	-	32,662
Balance as at	**31/12/2008**	**63,464**	**687,476**	**196,087**	**-**	**947,027**
Net value						
Balance as at	**31/12/2007**	**274,393**	**1,637,325**	**109,753**	**524,557**	**2,546,028**
Balance as at	**31/12/2008**	**299,056**	**1,858,172**	**111,456**	**620,451**	**2,889,134**

"Land and buildings", equal to Euro 299,056 thousand as at 31 December 2008, mainly relate to company-owned properties. The increase of this item is mostly ascribable to the extraordinary maintenance work carried out at the company premises in Bologna and Rimini. .

“Plant and machinery”, equal to Euro 1,858,170 thousand as at 31 December 2008, is made up of distribution, gas, water and electricity networks, waste disposal, purification and composting plants situated in the territory managed by Hera. The item, in addition to the costs for improvement to third party assets, also includes expenses incurred for the road system to the plants and the receivables due from the asset companies. The increase in the year is mainly because of the value reclassification of the item “Concessions” of the intangible fixed assets following expiration of several concessions regarding purification and gas service assets in several municipalities of the Bologna area (please see the comment under intangible fixed assets).

“Other moveable assets”, equal to Euro 111,455 thousand as at 31 December 2008, include the equipment, waste disposal bins, furniture, electronic machines, motor vehicles and motor cars.

“Investments in progress”, equal to Euro 620,453 thousand as at 31 December 2008, mainly consist of costs up until now incurred for the design of the Imola cogeneration plant and to construction of new lines and expansions relating to the Forli, Ravenna and Ferrara waste-to-energy plants.
The plants indicated above will be installed in 2009 and their period of depreciation will start from that year. With reference to the WTEs, a plan to partially reconvert them for using biomasses as fuel is currently under approval. As pointed out by a specific third-party appraisal, this change in destination will not reduce the value of using these plants.
The tangible fixed assets increased compared to the previous year by Euro 343,106 thousand. This value includes:

- “net change in the scope of consolidation” for Euro 27,584 thousand, referrable to the integration of Megas Spa in Marche Multiservizi Spa starting from 1 January 2008;
- "other net changes” for Euro 69,521 thousand, of which Euro 51,196 thousand due to integration of Sat Spa effective as at 1 January 2008 and Euro 18,325 thousand due to several reclassifications of assets from the intangible fixed assets.

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

16 Intangible fixed assets

Intangible fixed assets comprise:

		Patents	Licences, trademarks and similar rights	Other	Work in progress and prepayments	Total intangible fixed assets
PURCHASE COST						
Balance as at	**31/12/2007**	**124,336**	**233,961**	**41,797**	**26,260**	**426,354**
Increases		**4,360**	**6,015**	**1,413**	**17,240**	**29,028**
Disposals		**(1,204)**	**(8,329)**	**(1,040)**	**(2)**	**(10,576)**
Change in scope of consolidation		**614**	**-**	**2,426**	**-**	**3,040**
Other changes		**5,002**	**10,641**	**(13,166)**	**(10,247)**	**(7,769)**
Balance as at	**31/12/2008**	**133,108**	**242,288**	**31,430**	**33,251**	**440,078**
ACCUMULATED AMORTISATION						
Balance as at	**31/12/2007**	**67,560**	**115,199**	**24,290**	**-**	**207,049**
Amortisation for the year		**22,822**	**15,166**	**3,060**	**-**	**41,048**
Disposals		**(996)**	**(2,621)**	**(345)**	**-**	**(3,963)**
Change in scope of consolidation		**504**	**0**	**843**	**-**	**1,347**
Other changes		**1,050**	**3,295**	**(6,940)**	**-**	**(2,595)**
Balance as at	**31/12/2008**	**90,941**	**131,039**	**20,908**	**-**	**242,887**
Net value						
Balance as at	**31/12/2007**	**56,776**	**118,762**	**17,507**	**26,260**	**219,305**
Balance as at	**31/12/2008**	**42,168**	**111,249**	**10,522**	**33,251**	**197,190**

"Patents and know-how" for Euro 42,168 thousand at 31 December 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.

“Licences, trademarks and similar rights” equal Euro 111,249 thousand as at 31 December 2008 and mainly comprise:

- Euro 102,944 thousand for concessions held by the Parent Company, Hera SpA, for gas, water and purification service 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 assets pertaining to the gas service of the municipalities of Casalecchio di Reno, Minerbio, Loiano and Budrio. Provision for this on expiry of the concessions was made in the related contracts;
- Euro 6,964 thousand from licences, trademarks and similar rights; The increase over the previous year is due to the acquisition of IRU rights;
- Euro 1,106 thousand from the value of the concessions held by the subsidiary Fea Srl resulting from the agreement with the GRTN for the purchase of the 20MW CIP 6/92. This amount was amortised according to the incentive period established in the agreement.

“Other intangible fixed assets” for Euro 10,522 thousand as at 31 December 2008 mostly relate to:

- Euro 7,651 thousand in costs incurred for map-making, the territorial information system (Sit) and various other charges of multi-year use;
- Euro 2,500 thousand from rights of passage for gas pipelines in Austrian territory.

The decrease of this item regards the reclassification of several assets (ongoing costs for maintenance of third-party assets) amongst the plant and machinery of tangible fixed assets.

“Work in progress and prepayments” for Euro 33,251 thousand at 31 December 2008 mainly comprises costs sustained for uncompleted IT projects. The increase compared to the previous year concerns the upgrade of the SAP R/3 and ISU platform, completion of implementation of the SAP ISU IT system following data migration regarding the Modena territory and the project of recovering revenues lost in the waste management hygiene rate area.

The net book value of the “change in scope of consolidation”, Euro 1,693 thousand, refers to expansion of the consolidation perimeter, attributable to the extraordinary transactions of integrating Megas Spa and Hera Comm Marche Srl.

17 Goodwill and consolidation differences

	31-Dec-08	31-Dec-07	Change
Goodwill	318,175	262,488	55,687
Consolidation differences	54,521	54,133	388
Total	**372,696**	**316,621**	**56,075**

As at 31 December 2008, "goodwill" and "consolidation differences" total Euro 372,696 thousand. The main amounts break down as follows:

- residual goodwill from the 2002 integration resulting in the creation of Hera SpA of Euro 86,516 thousand;
- goodwill relating to the integration of Agea SpA in 2004, Euro 41,658 thousand. This goodwill represents the excess purchase cost over and above the fair value of assets and liabilities recognised for the group. In particular, with regard to the fair value of Hera SpA shares issued following the increase in capital for the merger by incorporation of Agea, in accordance with IFRS 3 the share value was calculated as at the effective date control was taken of Agea SpA (1 January 2004);
- goodwill and consolidation differences relating to the Meta Group merger of Euro 118,064 thousand. Said goodwill, recorded as an asset and initially valued at cost, represents the additional value of the purchase cost compared to Group's share of the fair values of the assets and liabilities recorded. Specifically, with regard to the fair value of Hera SpA shares issued following the increase in capital from the merger by incorporation of Meta SpA, this value was calculated as at the end of 2005, accepted as the effective date that control was taken of Meta SpA;
- goodwill relating to the merger of Geat Distribuzione Gas SpA into Hera SpA. This goodwill of Euro 11,670 thousand represents the excess purchase cost over and above the fair value of assets and liabilities recognised for the Group as at 1 January 2006 (the date at which effective control was taken by Hera SpA);

- goodwill relating to the integration of Sat Spa. This goodwill, equal to Euro 54,883 thousand, represents the additional value of the purchase cost compared to Group's share of the fair values of the assets and liabilities recorded. 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.
- Hera Comm Marche Srl, Euro 4,565 thousand.

The Euro 388 thousand change with respect to the previous year is due to the summation of a Euro 4,177 thousand decrease concerning:

- deconsolidation of Ares after liquidation of the company on 26 June 2008, for Euro 209 thousand;
- Change of the consolidation difference regarding Marche Multiservizi (Euro 3,968 thousand) due to recalculation of the shareholding percentage, from 49.86% to 41.87%, relating to third-party dealings as a consequence of its merger with Megas Spa;
- Euro 4,565 increase generated following the acquisition of Megas Trade Srl by Marche Multiservizi Spa and the subsequent acquisition of another 30% of the same company by Hera Comm Srl on 28 July 2008. At the same time Megas Trade Srl was renamed Hera Comm Marche S.r.l. Said goodwill was determined on the basis of fair value at the date the Group exercised control (1 January 2008), equal to Euro 4,667 thousand.

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

As required by the accounting standards of reference (IAS 36) goodwill – which is no longer amortised – undergoes impairment testing. The following table shows the allocation of this item to the cash generating unit or group of units in accordance with the maximum aggregation limits that may not exceed the business segment identified in accordance with IAS 14.

(in millions of €)	31-Dec-08
Gas	99.1
Electricity	42.6
Integrated Water Cycle	52.8
Waste Management	161.4
Other services	14.5
Structure	2.3
Total goodwill	**372.7**

Impairment therefore concerned the gas, electricity, integrated water cycle, waste management, and other services business segments. The recoverable value of the cash generating units, to which the separate goodwills were attributed, was verified by determining the value in use, meant as the current value of the discounted cash flows taken from the plan prepared for the 2009-2011 three-year period, approved by the Board of Directors of the Parent company Hera S.p.A.

Based on this, the values were then calculated for the following years, bearing in mind the remaining lifetimes of the concessions of reference, on the basis of medium/long term growth rates differentiated by single asset, which take into account the expected growth in the respective generating unit sectors (2% on the average). Group management made the estimates on the basis of past experience. The rate used to discount back the flows is 6.76% after taxes.

The test results are positive, so it was unnecessary to adjust the recorded values provided above.

18 Equity investments

	31-Dec-08	31-Dec-07	Change
Non-consolidated subsidiaries			
Attivabologna Srl in liquidation		1,411	-1411
Calor Più Italia Scrl	7	6	1
Calor Più Modena Scrl		7	-7
Consorzio Energia Servizi	5	5	0
Consorzio Frullo	4	4	0
Seas Srl in liquidation		3	-3
Total	**16**	**1,436**	**-1,420**
Associated companies			
Acantho Spa	6,658	5,928	730
Agea reti Srl	7,665	7,797	-132
Feronia Srl	927		927
Dyna Green Srl	140	271	-131
FlamEnergy Trading Gmbh	1,786	1,626	160
Modena Network Spa	694	736	-42
Refri Srl	2,518	2,516	2
Sat SpA		35,310	-35,310
Set Spa	30,018	30,269	-251
Sgr Servizi Spa	10,147	8,986	1,161
Satcom Spa	1,992		1,992
Sei Spa	702		702
So.Sel Spa	408		408
Tamarete Energia Srl	4,330	0	4,330
Other minor associates	494	418	76
Total	**68,479**	**93,857**	**-25,378**
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	6,981	2,889	4,092
Other minor companies	442	941	-499
Total	**30,029**	**26,436**	**3,593**
Total equity investments	**98,524**	**121,729**	**-23,205**

Equity investments in non-consolidated subsidiaries

Illustrated below are the changes with respect to 31 December 2007.

On 3 December 2008, the closing report on Attivabologna Srl following the company's liquidation was approved. The company was deleted from the Register of Companies on 22 December 2008.
On 26 June 2008, the closing report on Seas Lavori e Servizi Scarl, following the company's liquidation was approved, thereby discontinuing all operations. The company had been in liquidation since 4 July 2006.

On 26 June 2008, the closing report on Calorpiù Modena Scarl following the company's liquidation was approved, thereby discontinuing all operations.

Equity investments in associated companies

Illustrated below are the main changes with respect to 31 December 2007.

On 24 January 2008, Acantho SpA passed a resolution to increase the share capital from Euro 15,875,781 to Euro 17,375,781, which was fully subscribed and paid in by the shareholders.

With effect as 1 January 2008, Sat SpA, valued at equity until the end of 2007, was merged by incorporation into Hera SpA. As a result of the merger, the following associated companies fall within the scope of consolidation of the Hera Group:

- So.Sel. SpA, 26% owned, this company is involved in water, gas and electrical energy consumption reading or recording, or in any case other services supplied to public and private service operators and the billing of services these operators carry out;
- Prigeas Srl, 49% owned this company is involved in gas distribution and management of the entire cycle of energy resources predominantly in the Municipality of Frignano;
- Feronia Srl, 40% owned this company is involved in the construction and management of storage treatment and non-hazardous waste disposal plants in the Municipality of Finale Emilia;
- Satcom SpA, initially 100% owned, on 18 March 2008, Hera SpA sold 47.5% of the share capital to Infracom Italia SpA and 5% to Con.Ami., thus lowering its equity investment to 47.5%, this company is involved in the design, construction, development, installation, maintenance, management and supply of public and private telecommunications networks and fixed and/or mobile telecommunications services, also using radio frequencies;
- Modena Network SpA: following the merger of Sat SpA, the equity investment rose from 30% to 62% of the share capital. On 19 February 2008, Hera SpA sold 30% of the equity investment to Acantho SpA, which operates as a subcontractor in Italy and abroad for the design, construction, development, installation, maintenance, management and supply of public or private telecommunications networks and telecommunications services..

On 9 May 2008, the parent company acquired 20% of the company Sei SpA from Ratia Energie AG. Sei SpA is engaged in the engineering, development of authorisation processes, funding, construction, management and maintenance of electricity plants powered by any kind of fuel.

On 16 December 2008, Hera SpA acquired a 32% holding in Tamarete Energia Srl from Odoardo Zecca Srl. Tamarete Energia Srl is engaged in the design, construction, installation, management and installation of systems, plants and generation and cogeneration energy devices for the procurement, production, transformation, transfer and sale of electrical energy in Italy.

Equity investments in other companies

Galsi SpA passed a resolution to increase the share capital by Euro 20,000,000, for subscription and payment in one or more tranches. In February 2008, the shareholder Wintershall A.G. sold off its entire shareholding in the company, proportionately to the remaining shareholders. In May 2008, the first tranche of Euro 10 million (including the share premium) was paid in, with a second tranche of Euro 10 million paid-in in July 2008. On 25 September 2008, resolution was passed for a further share capital increase of maximum Euro 20 million, for subscription and payment in one or more tranches. On 28 November 2008, the first tranche of Euro 10 million (including the share premium) was issued on the basis of the resolution dated 25 September 2008.

19 Financial assets

Financial assets break down as follows:

	31-Dec-08	31-Dec-07	Change
Receivables for loans to associated companies and others	8,466	6,620	1,847
Receivables for mortgages to be collected	109	161	-52
Fixed-income securities	22	21	1
Total	**8,597**	**6,802**	**1,795**

The item “Receivables for loans to associated companies” consists of interest-bearing loans to the following companies:

- Set SpA, Euro 4,815 thousand;
- Oikothen Scarl, Euro 1,805 thousand;
- Sei Spa, Euro 1,846 thousand.

The Euro 1,846 thousand increase when compared to the 31 December 2007 figure was due to the loan granted on 29 May 2008 to the associate company Sei SpA.
The items record loans granted by the Parent company to unprofitable associated companies, or those regulated at arm’s length rates.

Receivables for mortgages to be collected of Euro 109 thousand concern the parent company.

20 Deferred tax assets

	31-Dec-08	31-Dec-07	Change
Receivables for prepaid taxes	48,571	41,236	7,335
Receivables for prepaid taxes IAS/IFRS	11,758	3,844	7,914
Total	**60,329**	**45,080**	**15,249**

As at 31 December 2008, they amount to Euro 60,329 thousand (Euro 45,080 thousand as at 31 December 2007). Prepaid taxes 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, and taxed provisions for risks and charges.

Prepaid taxes generated by the application of IAS/IFRS have been recorded separately. Of note we report:

	31-Dec-08	31-Dec-07	Change
IAS 38 Intangible Assets	911	1,268	-357
IAS 37 Restoration of third-party assets and post-closure of landfills	1,201	822	379
IAS 16 Fixed Assets	186	153	33
IAS 17 Financial leasing	16	55	-39
IAS 19 Employee leaving indemnity and other employee benefits	1,125	1,429	-304
IAS 39 Derivatives	8,319	117	8,202
Total	**11,758**	**3,844**	**7,914**

21 Financial instruments – derivatives

Non-current assets/liabilities €/000	Hedged underlying	No. of active contracts	Notional amount	Fair value Assets	Fair value Liabilities
Interest rate derivatives					
- *Interest rate Swap*	Loans	6	73.4 M	241	
- *Interest rate Swap*	Loans	20	704.3 M		23,571
Total				**241**	**23,571**

Current assets/liabilities €/000	Hedged underlying	No. of active contracts	Notional amount	Fair value Assets	Fair value Liabilities
Commodity derivatives					
- *Swap*	Energy price	230	15,223,277 MWh	208,904	
- *Swap*	Fuel formula	8	874,315 MWh	25,408	
- *Swap*	Crude oil	5	129,500 BBL	5,093	
- *Swap*	Commodities	14	133,200 TON	12,442	
- *Swap*	EUR/USD exchange rate	4	40,800,000 USD	2,193	
- *Swap*	Energy price	1,084	27,447,648 MWh		213,569
- *Swap*	Fuel formula	14	844,414 MWh		18,429
- *Swap*	Foreign gas hubs	2	317,496 MWh		4,874
- *Swap*	Crude oil	23	694,900 BBL		7,994
- *Swap*	Commodities	44	514,950 TON		42,830
- *Swap*	EUR/USD exchange rate	22	138,900,000 USD		6,897
- *Physical*	Electricity formulas	345	3,425,596 MWh	42,572	
- *Physical*	Gas formulas	35	55,861,645 SMC	3,775	
- *Physical*	Electricity formulas	2	6,207 MWh		129
- *Physical*	Gas formulas	11	16,405 SMC		587
Total				**300,387**	**295,309**

The derivative financial instruments classified under non-current assets total Euro 241 thousand, (Euro 9,685 thousand as at 31 December 2007), and all refer to interest rate derivatives. The derivative financial instruments classified under non-current liabilities total Euro 23,571 thousand, (Euro 1,836 thousand as at 31 December 2007), and, also in this case, all refer to interest rate derivatives.
The reduction in fair value when compared to the previous year was due to unfavourable fluctuations in interest rates (within the context of hedges held), caused by the crisis on financial markets.

The derivative financial instruments classified under current assets total Euro 300,387 thousand (Euro 8,309 thousand as at 31 December 2007), and refer to commodity derivatives held at year end with positive fair values, and fair value adjustments to the physical contracts correlated with said derivative contracts.

The derivative financial instruments classified under current liabilities total Euro 295,309 thousand (Euro 8,508 thousand as at 31 December 2007), and refer to the negative fair values deriving from measurement of the derivative contracts on commodities in force on the date under review and to fair value adjustments to the physical contracts correlated with said derivative contracts.

The significant increase in asset and liability items connected with commodity derivatives when compared to 31 December 2007 can be explained by:

- the increase in electricity trading due to the progressive growth of markets of reference;
- greater activity in the concentrated risk portfolio. The portfolio, recorded at fair value, was created to manage hedging activities for commodity and foreign exchange risk via the destructuring of formulas, the netting of positions and macrohedging.
- customer demand for fixed-price contracts, which led to new hedging activities. As a consequence, the need arose to measure the fair value of the risk component of these contracts.

The fair value used as the basis for the interest rate swap valuations derives from market prices. If there are no market prices, the discounting back of future cash flows valuation method is used which takes the interest rate curve as a reference. The fair value of commodity derivative contracts is calculated in accordance with market prices. All Group derivative contracts have been stipulated with highly-rated institutional counterparts.

The interest rate derivative instruments held as at 31 December 2008 can be classed into the following two categories (figures in thousands of €):

Interest rate derivatives	Underlying	Notional amount	Fair value Assets	Fair value Liabilities	Income	Charges
- *Hedge Accounting*	Loans	618.6 M	2	22,573	4,611	1,341
- *Non Hedge Accounting*	Loans	159.1 M	239	998	3,369	3,235
Total			**241**	**23,571**	**7,980**	**4,576**

The interest rate derivatives in the form of interest rate swaps recorded under hedge accounting have a residual notional amount of Euro 618.6 million against variable rate mortgage loans of a similar amount. Income and charges in hedge accounting associated with interest rate derivatives predominantly refer to cash flow effects and the renegotiation of contracts. In 2008, following the early repayment of a loan, as disclosed in the notes to the financial statements as at 31 December 2007, the hedging derivative tied to the loan in question was renegotiated so as to guarantee full hedging cover with the new loan.

The degree of ineffectiveness of this class of interest rate derivative led to the recording of net charges totalling Euro 1,235 thousand in the income statement. All the hedges of the aforementioned derivative contracts and related underlying liabilities are classed as “cash flow hedges”, with a specific cash flow hedge reserve recorded in shareholders’ equity, totalling a negative Euro 16.1 million. The remaining interest rate derivatives not recorded under hedge accounting have a residual notional amount of Euro 159.1 million. Almost all of these contracts come from mirroring transactions carried out during 2006 with a view to restructuring the derivatives portfolio.

Please refer to the explanations in note 29 with regard to the incorporated derivatives.

The commodity derivative instruments held as at 31 December 2008 can be classed into the following two categories (figures in thousands of €):

Commodity derivatives	Fair value Assets	Fair value Liabilities	Income	Charges
- *Hedge Accounting*	0	0	528	0
- *Non Hedge Accounting*	300,387	295,309	329,831	317,213
Total	**300,387**	**295,309**	**330,359**	**317,213**

The derivatives on commodities recorded in the hedge accounting are all concluded at the date of 31 December 2008. The derivatives on commodities recorded as non-hedge accounting also include contracts initiated for the purpose of substantial hedging. These contracts, which based on the strict criteria set forth in the international standards can not be managed in hedge accounting, in any case generate income and charges referring to higher/lower costs for purchasing raw materials and as such, are classified as operating costs.

On the whole, in 2008, these derivatives generated profit of Euro 330,359 thousand, and the losses generated were Euro 317,213 thousand, with a net gain to the net income statement of Euro 13,146 thousand.

Interest rate risk

The financial requirements of the Group are also met by using external resources in the form of debt. The cost of the various types of financing can be influenced by variations in market interest rates thereby influencing the amount of the net financial charges.

In order to lessen the risk of interest rate fluctuations the Group has agreed interest rate derivative instruments against part of its loan liabilities.

Sensitivity Analysis

In conjecturing an instant 1% reduction in interest rates, the potential fair value loss of the financial derivative instruments as at 31 December 2008 would amount to roughly Euro 17.8 million.

Likewise, conjecturing an instant 1% increase, there would be a potential fair value increase of about Euro 16.0 million.

These fair value changes would have no effect on the income statement if it were not for the potential amount of ineffectiveness, since they totally refer to financial derivative instruments in hedge accounting. The effects on the income statement of the fair value changes of the instruments not in hedge accounting, as they almost entirely undergo mirror transactions, would be insignificant.

Market risk

In relation to the wholesale activities carried out by the subsidiary Hera Trading Srl, the Group must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas linked to the sale of said commodities, including the fixed-price contracts entered into in 2008.

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

Even though these transactions are basically put in place as hedges, they often do not comply with the strict requirements of IAS 37 and cannot be accounted for in the hedge accounting.

Sensitivity Analysis

In conjecturing an instant 10 dollar-per-barrel rise in the Brent price, with no change in the Euro/Dollar exchange rate, the potential increase in the fair value of derivative financial instruments held as at 31 December 2008 would amount to approximately Euro 1.3 million. On the other hand, a 10 dollar-per-barrel fall in the price would leave the fair value of the instruments largely unchanged.

In conjecturing an instant rise in the exchange rate of 0.05 dollars to the euro, with no change in the Brent price, the potential increase in the fair value of derivative financial instruments held as at 31 December 2008 would amount to approximately Euro 0.5 million. Likewise, an instant fall in the exchange rate of 0.05 dollars to the euro would bring about a potential increase in the fair value of the instruments of around Euro 1.0 million.

22 Inventories

	31-Dec-08	31-Dec-07	Change
Raw materials and stock	54,195	48,761	5,434
Intermediate goods	247	808	-561
Finished products	218	403	-185
Advance payments	6,076	20	6,056
Total	**60,735**	**49,992**	**10,744**

Inventories as at 31 December 2008 are stated net of the obsolescence allowance amounting to Euro 702 thousand (Euro 938 thousand as at 31 December 2007). Inventories of raw materials and consumables mainly comprise spares and equipment destined primarily for maintenance and operation of existing systems and gas stocks. The change when compared to the 31 December 2007 figure consisted of:

- Euro 3,548 thousand increase in gas stocks;
- Euro 3,083 thousand increase in spares;
- Euro 1,198 thousand decrease due to the reclassification of grey certificates and green certificates compared to 31 December 2007.

“Advance payments”, totalling Euro 6,076 thousand, referred to advance payments of gas supplies by the subsidiary Hera Trading Srl.

23 Trade receivables

	31-Dec-08	31-Dec-07	Change
Trade receivables	506,534	405,689	100,845
Trade receivables for invoices to be issued	616,201	564,957	51,244
Receivables from associated companies	38,561	35,046	3,515
Total	**1,161,295**	**1,005,692**	**155,603**

Trade receivables as at 31 December 2008 total Euro 1,161,295 thousand (Euro 1,005,692 thousand as at 31 December 2007) and include estimated consumption, for the portion pertaining to the period, relating to bills and invoices to be issued after 31 December 2008. The balances are stated net of provisions for doubtful receivables amounting to Euro 52,010 thousand (Euro 44,142 thousand as at 31 December 2007) which is considered to be fair and prudent in relation to the estimated realizable value of said receivables.

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

31-Dec-07	Change in the scope of consolidation	Provisions	Drawdowns and other movements	31-Dec-08
44,142	1,772	22,404	-16,308.00	52,010

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

The Euro 1,772 thousand change in the scope of consolidation included:

- Euro 1,077 thousand, from the merger of Sat SpA;
- Euro 596 thousand, from the merger of Megas SpA;
- Euro 99 thousand, from Hera Comm Marche Srl, following the merger of Megas SpA.

“Receivables from associated companies” rose by Euro 3,514 thousand compared to 31 December 2007, mainly due to an intensification in commercial dealings with the following associates:

- Acantho SpA, Euro 1,522 thousand;
- Set SpA, Euro 835 thousand;
- Sgr Servizi SpA, Euro 3,190 thousand.

In contrast, receivables due from the associate Energy dropped to Euro 660 thousand.

In addition to this, the integration of Sat SpA resulted in:

- an increase in receivables due from the associates Satcom SpA and Prigeas Srl, of Euro 1,653 thousand and Euro 914 thousand respectively;
- a decrease in receivables due from Sat SpA itself, of Euro 4,055 thousand.

Credit risk

The book value of the trade receivables shown in the financial statements is the maximum theoretical exposure to credit risk for the Group as at 31 December 2008. Even if not standardised, there is a procedure for providing credit to customers that provides for individual evaluations to be made. This modus operandi makes it possible to reduce the concentration and exposure to credit risk posed by both “business” and “private” customers.

Analyses are periodically made of the credit standings still open so as to single out any critical issues. If the single positions are fully or partially non-recoverable, they will be written down. With regard to the receivables that do not undergo individual writedowns, allocations are made on the basis of historic analysis for the receivables regarding the general body of the customers (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the creditor).

With regard to customers as at 31 December 2008, the trade receivables can be broken down into the following classes:

	Institutions	Business	Mass Market	Total
Amount	107,436	202,664	196,434	**506,534**
Incidence	21%	40%	39%	**100%**

With regard to customers as at 31 December 2007, the trade receivables can be broken down into the following classes:

	Institutions	Business	Mass Market	Total
Amount	72,253	162,317	171,119	**405,689**
Incidence	18%	40%	42%	**100%**

24 Contract work in progress

	31-Dec-08	31-Dec-07	Change
Contract work in progress	21,704	18,407	3,297
Total	**21,704**	**18,407**	**3,297**

As at 31 December 2008, contract work in progress records a balance of Euro 21,704 thousand and concern plant works and other long-term contracts at third-party premises.

The increase in the figure compared to 31 December 2007 was mainly due to environmental reclamation works by the subsidiary Akron SpA.

25 Financial assets

Financial assets break down as follows:

	31-Dec-08	31-Dec-07	Change
Receivables for mortgages to be collected	407	4,528	-4,121
Portfolio securities and financial policies	6,794	8,828	-2,034
Receivables for loans given to others	454	1,859	-1,405
Total	**7,655**	**15,214**	**-7,559**

"Receivables for mortgages" as at 31 December 2007 were all collected during 2008, while the sale of other portfolio securities was also arranged.

The decrease recorded in "Receivables for loans given to others" was due to:

- the full repayment of the loan to the Municipality of Cattolica, totalling Euro 1,159 thousand;
- the recognition of accrued income on interest payments accruing to later periods.

26 Other current assets

	31-Dec-08	31-Dec-07	Change
Guarantee deposits	20,960	16,688	4,272
VAT, excise and additional taxes	10,723	106,470	-95,747
Equalisation fund for the electricity sector	11,715	11,336	379
Advances for direct taxes	3,271	6,728	-3,457
Withholdings on interest income	115	129	-14
Sundry tax receivables	5,180	1,230	3,950
Contributions	8,233	6,202	2,031
Advances to suppliers/employees	5,856	3,734	2,122
Receivables due from Social Security	986	745	241
Insurance reimbursements	144	787	-643
Other receivables	66,442	46,313	20,129
Total	**133,625**	**200,362**	**-66,737**

Guarantee deposits include:

- deposit in favour of Acosea Impianti s.r.l., Euro 12,000 thousand;
- other minor deposits in favour of public institutions and companies, Euro 2,177 thousand;
- deposits in favour of the tax authority (*Ufficio Tecnico Erariale*), Euro 2,100 thousand;
- deposits in favour of GSE, Euro 4,294 thousand.

As concerns receivables for VAT, excise and additional taxes, the item recorded a sharp drop as at 31 December 2008 when compared to 31 December 2007. In particular, excise taxes on gas and electricity recorded the greatest decrease, due to the manner in which financial relations with the tax authority are managed. More specifically, advance payments made during the year are calculated on the basis of gas and electricity supplies invoiced the previous year, which means that any differences in supplies invoiced in the current year and the previous year will generate a credit or liability position with the tax authority. Differences from one year to the next can be significant. In 2008, also due to more favourable climatic conditions, greater supplies of gas and electricity were invoiced than in 2007, which resulted in the utilisation of the considerable tax credits held as at 31 December 2007 and a tax liability being established with the tax authority. As concerns VAT and receivables due from the Equalisation Fund for the Electricity Sector, although changes were smaller, the overall trend was much the same. For the purpose of a more detailed comparison, below we report reclassifications made with respect to 31 December 2007.

	31-Dec-07	31-Dec-07 *reclassified*	*Change*
Direct/indirect taxes	117,806	-	117,806
VAT, excise and additional taxes	-	106,470	-106,470
Equalisation fund for electricity services	-	11,336	-11,336
Total	**117,806**	**117,806**	**-**

The decrease in “Advances for direct taxes” was driven solely by IRES receivables for 2007, which exceeded the overall IRES liability for that year.

“Sundry tax receivables” total Euro 5,180 thousand and consist mainly of tax receivables for district heating. The increase compared to the 31 December 2007 figure was due to the reform introduced by Article 1(53) of Law No. 244 dated 24 December 2007, under which as of 1 January 2008 the utilisation of such receivables is limited to an annual Euro 250,000, with any surplus amounts available for offsetting only three years after the year in which the surplus was generated.

“Receivables for contributions” total Euro 8,233 thousand and consist mainly of grants disbursed by various entities.

The increase in “advances to suppliers” compared to 31 December 2007 included a Euro 1,869 thousand down payment on the purchase of land by the parent company.

"Other receivables" total Euro 66,442 thousand and include the following positions:

Other	31-Dec-08	31-Dec-07	Change
Energy efficiency bonds and emission trading	21,091	2,747	18,344
Costs advanced for substitute taxes	7,228	9,024	(1,796)
Equalisation Fund for electricity standardisation	3,593	4,294	(701)
Insurance costs	2,885	2,895	(10)
Consorzio Ami	2,318	1,529	789
Costs advanced for charges, bank commissions, and guarantee expenses	1,951	1,655	296
Receivables due from municipalities for tax moratorium	1,783	-	1,783
Asset companies	1,731	1,733	(2)
Costs advanced for the purchase of raw materials	172	926	(754)
Receivables from the sale of equity investments	1,123	105	1,018
Rental expenses and network services fees	1,095	758	337
Costs advanced for maintenance of computer systems	513	1,020	(507)
Credit institutions for interest income on swaps	507	-	507
Equalisation Fund for electricity service continuity income	470	822	(352)
Costs advanced for leases and rentals	456	370	86
Costs advanced for waste disposal	1,244	661	583
Acosea Impianti	-	2,628	(2,628)
Costs advanced for energy efficiency bonds	1,261	1,325	(64)
Cassa Depositi for the purchase of motor vehicles	-	451	(451)
Other receivables	7,011	5,449	1,562
Total	**56,432**	**38,392**	**18,040**

The item Energy efficiency bonds and emission trading is made up of green and grey certificates totalling Euro 12,091 thousand. The remainder regards white certificates.

27 Cash and cash equivalents

As at 31 December 2008 cash and cash equivalents total Euro 193,635 thousand (Euro 211,014 thousand as at 31 December 2007), of which Euro 161 thousand includes cash, cash equivalents, and bank cheques and drafts held in centralised and decentralised accounts; and Euro 193,474 thousand includes bank deposits available for current transactions and post office accounts. The decrease with respect to the previous year is due to rationalisation of financial operations.

Classification of financial assets and liabilities pursuant to IFRS 7

The following table illustrates the composition of Group assets by measurement class. The fair value of the derivatives is instead itemized in Note 21.
The liabilities are all measured on the basis of “amortised cost”.

31-Dec-08	Fair value in income statement	Receivables and loans	Held to maturity	Held for sale	Total
Non-current assets		**8,575**		**22**	**8,597**
Financial assets measured at fair value				22	22
Non-current receivables due from related parties		8,466			8,466
Receivables		109			109
Current assets	**21091**	**1,274,690**		**6794**	**1,302,575**
Trade receivables		1,161,295			1,161,295
Financial assets measured at fair value				6,794	6,794
Loans		861			861
Other assets	21,091	112,534			133,625

31-Dec-07	Fair value in income statement	Receivables and loans	Held to maturity	Held for sale	Total
Non-current assets		**6,781**		**21**	**6,802**
Financial assets measured at fair value				21	21
Non-current receivables due from related parties		6,620			6,620
Receivables		161			161
Current assets		**1,212,440**		**8828**	**1,221,268**
Trade receivables		1,005,692			1,005,692
Financial assets measured at fair value				8,828	8,828
Loans		6,386			6,386
Other assets		200,362			200,362

With regard to Non-current Assets, please see the itemization in Note 19.
With regard to Current Assets, please see the itemization in Notes 23, 25 and 26.

28 Share capital and reserves

Share capital

The share capital as at 31 December 2008 amounts to Euro 1,032,737,702, is fully paid in and is represented by 1,032,737,702 ordinary shares with a par value of Euro 1 each.

Reserves for treasury shares

The item "reserve for treasury shares at par value" has a negative value of Euro 2,300; it reflects the number of treasury shares in the portfolio as at 31 December 2008 and is considered a reduction of share capital. "Reserve for gains/losses on sale of treasury shares" and "reserve for treasury shares exceeding par value" are recorded among the shareholders' equity reserves for a negative value of Euro 805 thousand and a positive value of Euro 2,334 thousand, respectively. These reserves, established in compliance with the accounting standards of reference, reflect the treasury transactions carried out as at 31 December 2008. The change during the year generated gains amounting to Euro 204 thousand, attributed directly to shareholders' equity reserves.

Reserves

The item Reserves equal to Euro 413,301 thousand includes the following reserves:

- legal for Euro 18,702 thousand
- extraordinary for Euro 13,593 thousand
- revaluation for Euro 2,885 thousand
- share premium reserve for Euro 15,269 thousand
- capital account payments for Euro 5,400 thousand
- retained earnings for Euro 47,130 thousand
- share swap surplus for Euro 42,408 thousand
- IFRS3 reserve for Euro 180,076 thousand, deriving from integration operations of Agea Spa, Meta Spa and Geat Distribuzione Gas Spa;
- IAS/IFRS reserve for Euro 87,709 thousand, generated after adoption of international accounting standards;
- reserve for dividends received on treasury shares for Euro 129 thousand

Cash Flow-Hedge Reserve

As at 31 December 2008 this reserve had a negative balance of Euro 16,125 thousand following changes determined by fair value valuation of reference derivatives.

The statement of **changes in shareholders' equity** is shown in paragraph 2.04 of these consolidated financial statements.

29 Banks and medium/long and short-term loans

As at 31 December 2008, medium/long term loans totalled Euro 1,560,658 thousand (Euro 1,396,693 thousand as at 31 December 2007), and mainly relate to mortgages and loans of Euro 560,912 thousand and the bond issues of Euro 999,746 thousand.

Medium/long-term amounts due to banks also include loans subscribed by the subsidiary Fea Srl for a total of Euro 73,706 thousand. These loans are guaranteed by mortgages and special liens in favour of the pool of banks which subscribed the project financing without recourse. Repayment, expiring on 30 June 2019, is established under contract in half-yearly floating rate instalments indexed to the 6m Euribor rate.

A list of the main mortgages existing as at 31 December 2008 is provided on the following page, expressed in thousands of Euro.

Provider Institution	Residual Amount 31-Dec-2008	Instalment in current period	Instalment within 5th year	Instalment after 5th year
Unicredit Banca	43,850,000	5,600,000	15,300,000	22,950,000
Banca Intesa	17,540,000	2,240,000	6,120,000	9,180,000
Banca Opi	8,770,000	1,120,000	3,060,000	4,590,000
Banca Popolare di Milano	17,540,000	2,240,000	6,120,000	9,180,000
Actelios	4,116,000	-	4,116,000	-
Banca Opi	6,531,250	1,187,500	2,375,000	2,968,750
Efibanca	6,713,939	1,032,914	4,131,655	1,549,371
Cassa di Risparmio di Cento	5,758,250	503,247	2,327,745	2,927,258
Banca di Romagna	755,234	451,242	303,992	-
Banca di Imola	1,822,273	369,419	1,452,853	-
Cassa di Risparmio di Cesena	779,133	79,841	331,178	368,114
Banco di Sardegna	10,311,214	903,098	5,084,724	4,323,393
Cassa depositi e Prestiti	179,637	13,903	82,042	83,692
Banca Opi	3,620,725	231,890	1,257,203	2,131,631
Unicredit Banca	351,245	351,245	-	-
Carim Spa	4,055,978	376,277	2,147,855	1,531,846
Banca delle Marche	17,082,840	817,516	4,074,332	12,190,993
Istituto San Paolo	833,085	157,411	327,077	348,597
Carifano Spa	1,012,526	162,305	770,417	79,803
Banca delle Marche	4,529	4,529	-	-
Banca Credito Cooperativo	448,918	80,095	368,823	-
Banca Nazionale del Lavoro	12,750,000	1,500,000	6,000,000	5,250,000
Banca Credito Cooperativo	4,420,211	1,379,711	3,040,499	-
Banca delle Marche	508,512	195,477	313,035	-
Banca Intesa	50,539,580	15,649,820	34,889,760	-
Banca Opi	38,766,518	13,594,752	16,426,088	8,745,678
Banca Popolare di Ravenna	88,270	88,270	-	-
Banca Popolare di Verona	1,598,333	799,167	799,167	-
Banca Popolare E.Romagna	221,429	221,429	-	-
Bei	180,000,000	-	-	180,000,000
Carisbo	4,629,750	868,213	3,761,537	-
Cassa Depositi e Prestiti	23,005,784	3,822,622	10,758,814	8,424,347
Cassa di Risparmio di Cento	218,653	218,653	-	-
Cassa di Risparmio di Cesena	2,237,368	257,772	1,151,201	828,395
Cassa di Risparmio di Ravenna	1,798,370	96,628	437,018	1,264,724
Dexia Crediop	39,285,714	7,142,857	28,571,429	3,571,429
Enti Vari	698,475	58,518	248,501	391,457
Fon Spa	4,019,184	593,125	2,674,457	751,602
Istituto San Paolo	1,663,993	267,196	550,612	846,185
Monte dei Paschi di Siena	6,824,461	2,205,433	4,619,028	-
Unicredit Banca	4,329,157	1,888,723	2,440,434	-
	529,680,538	**68,770,798**	**176,432,475**	**284,477,265**

On 16 February 2006, parent company Hera Spa issued a Euro 500 million 10-year Eurobond repayable in full on maturity. The loan is regulated by 4.125% fixed rate annual warrants.
Additionally the parent company has issued or subscribed the following bond issues and loans:

- 17 May 2007, a put bond for Euro 100 million entirely subscribed by Deutsche Bank AG London;
- 2 August 2007, an extendable put bond for Euro 200 million entirely subscribed by BNP Paribas;
- 13 November 2007, an extendable step-up put loan for Euro 50 million with Royal Bank of Scotland Plc;
- 28 November 2007, similar to previous point, with Barclays Bank Plc.

In 2008, Hera Spa issued an additional bond loan defined as “puttable, callable, resettable bond” organised with Banca Imi, Bnp Paribas and The Royal Bank of Scotland for Euro 200 million, that can be increased to Euro 250 million, expiring in 2031. For a full description of this transaction, please refer to the “Financial Policy and Rating” section of the Interim Directors’ Report.
The terms for exercising the call and put envisaged in the structure and transferred to third parties point out that the transaction as a whole is basically a fixed-rate loan, both during the first three years and during the years that follow should the call be exercised, without prejudice to the possibility of early repayment if bondholders exercise the put. The contractual terms of this loan are therefore similar to the other "put bonds" stipulated by the Group. It is therefore thought to calculate this loan at amortised cost according to the same procedures adopted for the above-mentioned loans which are basically similar.
The above-mentioned bond loans and loans incorporate put options having requisites in order to not be valued independently according to the instructions given in IAS 39, paragraph AG30, letter q. That being stated, the valuation according to the amortised cost of these operations entailed entering interest expense equal to Euro 1,956 thousand.
As at 31 December 2008, short term loans totalled Euro 204,818 thousand (Euro 248.481 thousand as at 31 December 2007) and include payables to banks and other lenders.

Liquidity risk

Liquidity risk consists of the impossibility to cope with the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs.
Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done with the centralised management of incoming and outgoing flows (centralised treasury service); in the perspective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.
Current cash and cash equivalents and credit facilities, in addition to the resources generated by the operating and financing activities, are deemed sufficient to meet future financial needs. As at the balance sheet day, there are unused credit lines totalling Euro 1,030,148 thousand.

30 Provision for employee leaving indemnities and other similar benefits

Includes provision for employee leaving indemnities and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations.
The calculation is made using actuarial techniques and discounting future liabilities to the balance sheet date. These liabilities consist of the credit which the employees will accrue as of the date they will presumably leave the company.

The item “gas discount” represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. Premungas is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed from January 1997, and its quarterly movements regard settlement of payments made to assigned retirees. For both cases, recalculations have been made, using the same actuarial techniques applied for employee leaving indemnities.

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

thousands of €	31-Dec-2007	Provisions		Uses and Other Movements	Changes in scope of consolidation	31-Dec-2008
		Provisions	Financial charges			
Empl. Leaving Indemnity Prov.	97,700	1,286	4,609	-8,107	1,418	96,905
Gas Discount	3,801	-7	126	-1,230	-	2,690
Premugas Fund	1,375	1,757	160	-505	-	2,788
Tariff Reduction Provision	-	145	199	3,061	-	3,405
Total	**102,876**	**3,181**	**5,094**	**-6,781**	**1,418**	**105,788**

“Changes in area of consolidation” includes the value of the employee leaving indemnity provision as at 1 January 2009 for Megas Spa, merged by incorporation in Marche Multiservizi Spa.

"Uses and other movements" includes:

- Euro (11,525) thousand for amounts paid to employees;
- Euro 3,398 thousand for reclassification of the tariff reduction provision that, as at 31 December 2007, was reclassified to the provision for risks and charges-.

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

	31-Dec-2008	31-Dec-2007
Average discount rate	4.68%	4.88%
Average increase rate in labour costs	3.50%	3.04%

31 Provisions for risks and charges

	31-Dec-2007	Provisions		Uses and Other Movements	Changes in the Area of Consolidation	31-Dec-2008
		Provisions for the period	Financial charges			
Provision for staff disputes and legal costs	13,983	1,804	-	-1,485	554	14,856
Landfill closure and post-closure cost provision	68,282	3,108	409	4,994	-	76,793
Provision for the restoration of third party assets	65,999	14,555	3,753	-3,832		80,476
Other provisions for risks and charges	30,386	8,841	-	-18,354	791	21,664
Tariff reduction provision	3,398	-	-	-3,398	-	-
Total	**182,048**	**28,309**	**4,162**	**-22,075**	**1,345**	**193,789**

The **provision for staff disputes and legal costs** amounting to Euro 14,856 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees.

The provisions also include Euro 5,750 thousand relating to the dispute pending with INPS with regard to the demand for payment of contributions on social security benefits (CIG, CIGS, mobility) and on the reduction of contribution rates for family allowances (CUAF) and for the maternity contribution with regard to employees governed by the electricity sector collective labour agreement in the Modena area**.**

The developments of the INPS dispute are provided hereunder.

As regards **involuntary unemployment**, the Employment Ministry used a decree on 7 March 2008 confirming exoneration from payment of this contribution; for Hera Spa and all subsidiaries, effective from Hera's incorporation date (1 November 2002). In accordance with the decree, the INPS offices in Forlì and Ferrara provided for relief from the tax assessment notices in suspension for the part related to the unemployment contributions therein, for a total of Euro 750 thousand. Therefore, the risk for the unemployment contribution payment to INPS is extinguished, at least through 2008. As a result it was decided to reduce the provision set aside as at 31 December 2007 by Euro 515 thousand. Effective 1 January 2009, Legislative Decree 112/2008 cancels all exemptions granted and Hera Group will therefore be required to make this contribution.

With regard to the contributions **for blue-collar workers' sick leave**, the aforementioned Legislative Decree 112/2008 gives an authentic interpretation of Law 138/1943, art. 6, based on which, the prior dispute must be considered rectified. Thus, all INPS claims are forfeited, given that Hera Group began paying the sick leave from 1 January 2005. As a result, the provision set aside as at 31 December 2007 was reduced by Euro 327.5 thousand.

In relation to the contributions on **CIG, CIGS and Mobility**, the exclusion is supported not only by specific legal norms but by the fundamental consideration that the social security benefits are effectively unusable since the Hera Group runs essential services which must be constantly ensured. By contrast, INPS believes that the transformation into a joint-stock company and the transfer to private parties of even just a portion of the share capital, support the belief that the contributory obligation is enforceable. 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 the contributions for involuntary unemployment, CIG, CIGS and mobility to be not due, unlike what INPS claimed.

The claim before the Court of Cassation is pending for Hera following an inspection Amir Spa promoted in 2000.

With its message no. 18089 of 10 July 2007, INPS ordered that, according to the principles stated in circular no. 63/2005, the contribution obligation for CIG, CIGS and mobility was to go into effect on the very date the circular was issued, i.e. May 2005. This is in compliance with the orientation the Council of State expressed (opinion no. 65 of 8 February 2006 referring to Enel Spa) regarding the non-retroactivity of the contribution obligations referred to in the circular. Actually, despite the fact that the literal tone of the message seems to undoubtedly regard the industrial companies of the public institutions (former municipal enterprises) as well, INPS - in latching on to circular 63/2005 – maintained that the message takes on its area of application, thereby referring only to Enel Spa, and asserts this in court.

Afterwards, on 5 February 2008, the Employment Ministry intervened with a message addressed to the INPS General Management. It stated that the conclusions the Council of State reached regarding the non-retroactivity prior to May 2005 of the contribution obligation for CIG, CIGS and mobility by necessity are general and unequivocal in order to protect the unavoidable principle of “par condicio” amongst market operators. Therefore, they also apply to the industrial companies of the public institutions (which the Hera Group also is part of).

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

This higher rate is a serious penalisation for the “former municipal enterprises” with respect to other market operators. Confservizi has brought this failed contribution harmonisation consequent to Law 335/1995 to the attention of the Employment Ministry several times, which in turn has consulted the Council of State. The Council deemed a special legislative initiative necessary (circular no. 88 of 31 May 2004), which rules out the possibility of an administrative solution. In spite of Confservizi’s efforts to push through this legislative initiative, as of today no result is yet to be seen.

With regard to only the INPDAP personnel regulated by the electricity sector collective labour agreement, litigation consequent to interpretation of art. 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 Modena INPS Positions Management Office, the former Meta Spa applied reduced rates starting in 2001, at the same time it requested reimbursement of the greater contributions it had paid in, but which were not due, regarding financial year 2000 (reimbursement that then was actually made between 2001 and 2002).

As from November 2003, however, INPS served the notices by means of which it requested the payments of the contributions at the full rate, completely amending the interpretative position previously adopted, deeming that the reduction of the CUAF and maternity rates owed by the electricity sector was not applicable for the workers enrolled with INPDAP. On the other hand, this reduction is peaceably applied for the Enel Spa Group companies.

Considering the information reported above, and in particular the positive developments regarding involuntary unemployment and the temporary lay-off scheme, prudential allocation of Euro 5,750 thousand was made to the provision set forth above, which takes into account the files already paid and any liabilities deriving from the files currently suspended, amounting to approximately Euro 16.48 million. This fund is deemed to be suitable, taking into account both the likely development of the litigation, as well as the opinions of the appointed legal advisors.

The **landfill closure and post-closure costs provision**, equal to Euro 76,793 thousand, represents the amount set aside by the Group to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently in use. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted back in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component inferred from the discounting back procedure, while the uses represent the effective outlays which came about during the year.
"Uses and other movements" decreased by Euro 4,181 thousand related to the use of the provision for closed landfills and an increase of Euro 9,175 thousand due to:

- Euro 2,042 thousand for Sat integration;
- Euro 7,133 thousand for new lots and supplementary expert appraisals for existing lots, from the parent company and Sotris Srl.

The **provision for the restoration of third party assets** equal to Euro 80,475 thousand includes the provisions made in relation to the legal and contractual restrictions encumbering the parent company and the subsidiary Marche Multiservizi Spa, in their capacity as leaseholders of the distribution networks owned by the asset companies. These provisions have been made on the basis of the normal depreciation rates envisaged for the assets in question; rates established contractually for the purpose of compensating the lessor companies for the wear and tear of the assets used for the business activities, applied to the value of the assets received under lease.
In observance of the matters laid down by IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (as a rule on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The other provisions for risks and charges, amounting to Euro 21,664 thousand, comprise provisions made against sundry risks. The main items are summarised below:

- Euro 7,297 thousand: Euro 1,797 thousand refer to the Mis share, continuity charges and standardisation of the electric service; Euro 4,302 thousand for costs for restoration of freely transferable assets of the Rosola aqueduct system under concession, the “Valle Savio” provision, and other provisions for sundry risks related to environmental issues totalling Euro 1,198, all of a basically modest amount;
- Euro 2,788 thousand for future outlays related to “self-certification of electricity tariffs”; This provision was calculated in compliance with the provisions of Resolution no. 204/99 and thereafter of the Authority for Electricity and Gas, which states that each operator, with regard to each type of user, must submit self-certification of the amount of the “surplus” revenues pertaining to the year, using a calculation procedure that will be determined by 31 July of the subsequent year. These “surplus” revenues must be returned to the customers;
- Euro 4,812 thousand refer in full to the provision made regarding the possible effects of AEEG resolution 89/08 (previously 79/07), which requires the gas sales company to economically recognise former BTO (basic tariff option) customers in the period pertaining to the first half of 2006. The same companies were recognised a portion part of that charge by the wholesalers, in addition to what was renegotiated with the shippers regarding pre-existing raw material supply conditions. The amount set aside at 31 December 2008 corresponds to the mostly prudential scenario;
- Euro 1,133 thousand refer to a provision for disposal of waste stored at two plants, “Forno F3” and “Impianto Disidrat”.

32 Deferred tax liabilities

	31-Dec-2008	31-Dec-2007	Change
Deferred tax liabilities	5,289	5,108	181
Other IAS/IFRS deferred liabilities	116,165	115,942	223
Total	**121,454**	**121,050**	**404**

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

	31-Dec-2007	31-Dec-2007	Change
IAS 37 Restoration of third party assets and landfill post-closure	34,152	35,121	-969
IAS 16 Fixed Assets	69,521	70,708	-1,187
IAS 17 Financial leasing	5,158	4,490	668
IAS 19 Employee leaving indemnity and other employee benefits	5,185	4,848	337
IAS 39 Derivates	2,149	775	1,374
Total	**116,165**	**115,942**	**223**

33 Financial leasing payables

	31-Dec-2008	31-Dec-2007	Change
Financial leasing payables	15,912	19,541	-3,629
Total	**15,912**	**19,541**	**-3,629**

This item comprises the leasing payables following the accounting of leasing transactions using the financial method. The decline in 2008 compared to the prior year is due to payments made during the year, extinction of certain contracts and related purchase of the underlying asset.

The balance as at 31 December 2008 is shown below, broken down between the short-term and long-term portions.

	Residual amount	Short-term portion	Long-term portion
Financial leasing payables	15,912	4,737	11,175
Total	**15,912**	**4,737**	**11,175**

34 Trade payables

	31-Dec-2008	31-Dec-2007	Change
Payables to suppliers	494,966	454.525	40,441
Payables to suppliers for invoices not yet received	542,130	409,607	132,523
Advanced payments liabilities	10,717	4,290	6,427
Payables to non-consolidated subsidiary companies	499	3,097	-2,598
Payables due to associated companies	36,115	17,897	18,218
Total	**1,084,427**	**889,416**	**195,011**

Payables to suppliers, all of a commercial nature and inclusive of sums set aside to cover invoices yet to be received, total Euro 1,037,096 thousand as at 31 December 2008 compared to Euro 863.343 thousand as 31 December 2007. The increase is primarily due to seasonal fluctuations in purchases of the main raw materials.

The increase in "Customer advance payments liabilities" is primarily due to the intensification of trade relations related to environmental reclamation tenders and gas supply contracts.

Payables to non-consolidated subsidiary companies are the following:

- Consorzio Energia Servizi Scarl, Euro 100 thousand;
- Calorpiù Italia Scarl, Euro 33 thousand,
- Anthea Srl, Euro 366 thousand;

The decrease compared to the prior year is due to the discharge of positions in Attivabologna Srl and Calorpiù Modena Scral, both companies having been discontinued.

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

- Acanto Spa, Euro 16,527 thousand;
- Set Spa, Euro 12,239 thousand;
- Estense Global Service Scarl, Euro 780 thousand;
- Service Imola Srl, Euro 643 thousand;
- Agea Reti Srl, Euro 585 thousand;
- SoSel Spa, Euro 1,982 thousand;
- FlamEnergy Trading Gmbh, Euro 3.232 thousand.

The increase compared to 31 December 2007 is mainly due to the fewer debt positions with Acantho Spa, Set Spa , FlameEnergy Trading Gmbh and SoSel Spa.

35 Income tax liabilities

	31-Dec-2008	31-Dec-2007	Change
Income tax due	27,486	2,484	25,002
Excise and additional regional taxes	58,623	25,787	32836
Withholding tax at source	8,423	7,749	674
Equalisation Fund for electricity service	371	-	371
Tax on added value	997	1,739	-742
Substitute tax	17,041	24,550	-7,509
Sewerage fee	565	617	-52
Other tax liabilities	5,667	3,761	1,906
Total	**119,173**	**66,687**	**52,486**

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

Income taxes due as at 31 December 2008 show an increase over 31 December 2007 that includes taxes set aside on the profit earned during the year. For further information, refer to note 14 of the income statement.

For more information on the marked increase in excise and additional regional taxes, please refer to note 26 of the balance sheet assets.

The liability for substitute tax of Euro 17,041 thousand reflects the option established in Article 1, paragraph 48, of Law no. 244 of 24 December 2007 to which several Group companies have already adhered to beginning on 31 December 2007. The decrease compared to the prior year is primarily due to amounts paid during the year according to the instalment plan included in the regulation.

The item “Other tax liabilities” essentially refers to the ecotax amount due for the last quarter of 2008, paid in 2009.

36 Other current liabilities

	31-Dec-2008	31-Dec-2007	Change
Payables due to social security and welfare institutions: INPS, INPDAP, INAIL	11,445	10,178	1,267
Other social security and welfare institutions	6,136	6,168	-32
Personnel	21,152	19,096	2,056
Directors and Statutory Auditors	296	248	48
Guarantee deposits	51,951	46,949	5,002
Customers	1,531	890	641
Other liabilities	109,212	114,983	-5,771
Total	**201,723**	**198,512**	**3,211**

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

Payables to other social security and welfare institutions relate to contributions due to these institutions for the month of December. The increase over 31 December 2007 is mainly related to the Sat and Megas mergers.

Liabilities to personnel takes into account holidays accrued and not taken as at 31 December 2008, the productivity bonus and salaries. This increase in this item compared to the prior year is also primarily related to extraordinary transactions related to Sat Spa e Megas Spa.

Liabilities for guarantee deposits reflect deposits customers paid for gas, electricity and water administration agreements. The increase compared to 31 December 2007 is almost exclusively due to taking on contracts already in place at SAT and Megas Trade.

The item “Other payables”, amounting to Euro 109,212 thousand as at 31 December 2008, is mainly made up of positions with:

- Municipalities, mainly due to “environmental inconvenience” and establishment of guarantees;
- Capital grants;
- Equalisation Fund (electricity standardisation);
- Shareholder dividends.

The decrease compared to the prior year consists of Euro 17,052 thousand for payment of tax assessment notices related to the tax moratorium in the first half of 2008, Euro 2,897 thousand for reduction in the debtor position with an associated company (Torricelli Srl) and Euro 3,477 thousand to payables for provisional plans that proved to be active as at 31 December 2007, due to the municipalities listed hereunder for application of the specific wastewater treatment/sewerage tariffs. This item is no longer active as at 31 December 2008 because the investments in the wastewater treatment and sewerage areas were completed. At the same time, there were increases in liabilities for capital grants (Euro 14,761 thousand), for insurance exclusion institutions (Euro 1,132 thousand) and for shareholder dividends (Euro 1,288 thousand).

IAS 14: Information by business area

Income statement for 2008

	Gas	El En	Water Cycle	Waste Management	Other Service	Structure	Total	Consolidated Financial Statements
Direct revenues	1.083,8	1.483,1	437,4	586,3	155,7	45,6	3.792,0	
Infra-cycle revenues	36,7	64,8	8,2	28,6	6,7	3,5	148,5	
Total direct revenues	**1.120,5**	**1.547,9**	**445,6**	**614,9**	**162,4**	**49,1**	**3.940,5**	**3.940,5**
Indirect revenues	9,7	7,1	13,4	17,2	1,7	-49,1	0,0	
Total revenues	**1.130,3**	**1.555,0**	**459,0**	**632,1**	**164,2**	**0,0**	**3.940,5**	**3.940,5**
EBITDA	**127,8**	**51,4**	**130,2**	**186,3**	**32,6**	**0,0**	**528,3**	**528,3**
Direct Amort., Depr. and Prov.	45,0	26,6	47,7	74,7	17,0	36,6	247,6	
Indirect Amort., Depr. and Prov.	6,3	5,2	10,8	11,3	3,0	-36,6		
Total Amort., Depr. and Prov.	**51,3**	**31,8**	**58,5**	**86,0**	**20,0**	**0,0**	**247,6**	**247,6**
EBIT	**76,5**	**19,6**	**71,7**	**100,3**	**12,6**	**0,0**	**280,7**	**280,7**

Income statement for 2007

	Gas	El En	Water Cycle	Waste Management	Other Services	Structure	Total	Consolidated Financial Statements
Direct revenues	891.5	928.4	390.1	514.2	152.8	28.1	2,905.1	
Infra-cycle revenues	23.9	57.8	8.2	26.1	6.1	5.4	127.6	
Total direct revenues	**915.4**	**986.2**	**398.3**	**540.4**	**158.8**	**33.6**	**3,032.7**	**2,905.1**
Indirect revenues	6.6	3.0	9.3	13.2	1.5	-33.6	0.0	
TOTAL REVENUES	**922.0**	**989.2**	**407.6**	**553.6**	**160.4**	**0.0**	**3,032.7**	**2,905.1**
EBITDA	**104.7**	**42.7**	**118.5**	**156.3**	**31.2**	**0.0**	**453.4**	**453.4**
Direct Amort., Depr. and Prov.	37.4	27.7	50.3	62.5	16.8	38.0	232.8	
Indirect Amort., Depr. and Prov.	6.7	5.1	11.0	12.0	3.2	-38.0	0.0	
Total Amort., Depr. and Prov.	**44.1**	**32.9**	**61.4**	**74.5**	**20.0**	**0.0**	**232.8**	**232.8**
EBIT	**60.6**	**9.8**	**57.1**	**81.8**	**11.3**	**0.0**	**220.6**	**220.6**

Balance sheet as at 31 December 2008

	Gas	El. En.	Water Cycle	Waste Management	Other Services	Structure	Consolidated Financial Statements
Net Working Capital	-70,5	-24,6	13,4	53,3	5,5	0,0	-22,9
Net Fixed Assets	571,2	469,9	987,7	1.029,4	268,9	267,5	3.594,5
Provisions	-108,2	-70,3	-71,3	-155,4	-12,9	-2,9	-421,0
Hera Net Capital Invested	**392,5**	**374,9**	**929,7**	**927,3**	**261,6**	**264,6**	**3.150,6**
Shareholders' Equity							**1.579,1**
Net Financial Position							**1.571,5**

Reclassified balance sheet as at 31 December 2007

	Gas	El. En.	Water Cycle	Waste Management	Other Services	Structure	Consolidated Financial Statements
Net Working Capital	39.1	62.2	-12.4	24.7	6.1	0.0	119.6
Net Fixed Assets	511.1	425.2	863.1	931.4	247.8	278.0	3,256.6
Provisions	-97.9	-71.5	-76.1	-141.1	-17.4	-2.1	-406.0
Hera Net Capital Invested	**452.3**	**416.0**	**774.6**	**814.9**	**236.6**	**275.9**	**2,970.3**
Shareholders' Equity							**1,538.6**
Net Financial Position							**1,431.7**

2.03.02 Explanatory Notes related parties

Management of the services

Hera Group, through the parent company Hera Spa, holds concessions of local public services of economic interest (distribution of natural gas via local gas pipelines, integrated water service and waste management services, including sweeping, collection, transport and waste recovery and disposal) in a large amount of its territory of competence and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini). The electricity distribution service has been carried out in the Imola district, in the municipality of Modena and in some municipalities of the province of Modena acquired from the previous operator (Enel Distribuzione) since 1 July 2006.

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

Regional and national legislation assign the responsibilities for appointment, control and tariff regulation concerning integrated water and municipal hygiene to the ATOs. These responsibilities formerly were of the granting municipalities which are, nevertheless, represented at the Shareholders' Meetings of the ATOs. In observance of the provisions of said regional law and national legislation on the subject (specifically article 113 of the Consolidated Local Authority Act and the sectorial regulations regarding appointing services on an exclusive basis), the Hera Group entered into special agreements with the ATOs, which establish the coming into effect of the technical and tariff planning.

It should be noted that during the year, the line of business related to managing water production plants in the Forlì-Cesena, Ravenna, Rimini ATO areas was sold to Romagna Acque. This transaction was made possible based on art. 14 of Regional Law 6 July 1999 no. 25 that establishes that if a company, whose majority shareholders are the local agencies, and that owns collection, primary supply and distribution plants, and is a wholesale supplier of integrated water service of more than one environmental agency (Aato), the latter can assume direct management of said plants and networks.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, implementing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report accompanying the financial statements. Hera benefits from the increases in residual durations given to the operators that have promoted partial privatisations and aggregations. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing.

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

In relation to the electricity area, the contracts (with thirty-year duration and renewable pursuant to the legislation in force) relate to the distribution of energy, including management of the distribution network, operation of the plants, carrying out of ordinary and extraordinary maintenance and planning and identification of the development interventions. Interruption, or cancellation, of the license may occur according to the judgement of the sector's authorities, should non-fulfilments and breaches attributable to the company awarded the concession that seriously and on a wide scale jeopardise the electricity distribution service occur.

The company awarded the concession is obliged to apply the tariffs set by regulations in force and resolutions adopted by the Authority for Electrical Energy and Gas to the consumers. The tariff regulation in force when the Financial Statements for the year were approved (to which this report is attached) was deliberation no. 348/2007 ("Integrated provisions for carrying out electrical energy transmission, distribution and measurement for the regulatory period 2008-2011 and provisions regarding the economic conditions regulating the provision of the connection service"), which superseded the previous tariff option system and established a single national distribution tariff.

Water sector

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

The agreements also provide for execution of new network design and construction activities and the building of new plants to be used in managing the service.

The management of the service is awarded exclusively to HERA for the municipal territory involving the obligation of the Municipality not to grant to third parties usage of the subsoil of its property and of the state aqueducts without the prior consent of HERA.

The agreements regulate, in addition, other aspects such as the methods of managing the services as well as reciprocal obligations between the parties relating to, principally, the charges for ordinary and extraordinary maintenance work on the networks and plants necessary for the functioning of the services. The agreements are accompanied by technical and economic disciplinary measures regulating the service, the compulsory quality and operating standards and the tariff framework. The tariffs, which are fixed annually (on the basis of multiannual economic agreements) in accordance with the law, in particular regional regulations, (DPGR no. 49 of 13 March 2006), are determined by the Aato agencies.

The local authorities grant rights of use, even free of charge, to the management company for the integrated water service network and systems operations. In the majority of the cases concerning the areas managed by HERA, the local authorities have conferred the ownership of networks and plants to special purpose asset companies.

On termination of the concession, HERA is obliged to return any assets used in provision of the service to the asset companies or local authorities. Any works carried out for the innovation or improvement of the networks must be returned, against payment of the residual value of those assets.

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

Waste management sector

Hera performs the service of municipal waste management. The purpose of agreements with the Environmental Agencies is the exclusive management of municipal waste services (waste collection, waste transport, road cleaning and waste recovery and disposal, etc.).
The duration of the agreements is fixed by the regional regulations as ten years. The agreements regulate aspects of the relationship such as the methods of managing the services as well as reciprocal obligations between the parties. The agreements are accompanied by technical and economic disciplinary measures regulating, in detail, the technical component of services provided and quality standards.
The amount payable to the operator for the services performed is defined annually (on the basis of multiannual economic agreements) in accordance with Italian Presidential Decree No. 158/1999, where the tariff is instituted.
For operation of waste treatment plants, Hera Group must obtain provincial authorisations.

Management of the networks, plants and equipment

The infrastructures required to carry out the services assigned, including the local gas pipelines and the water and sewerage networks are in part owned by Hera and in part by third parties (municipalities, consortia of municipalities, asset companies owned by local authorities). The dealings between the service operators and the owners of the operating assets are disciplined by specific agreements concluded between them and by regional laws; the regulation of the economic elements is, in some cases, covered by rental agreements, which fix the fee payable by the operator to the owners for the use of the networks and plants.
These contracts oblige Hera to carry out routine and extraordinary maintenance and network extensions at it own expense and under its management, as required in the investments plan agreed to with the asset companies and, if significant, by the ATO area plans.

Upon expiry of the contract, Hera SpA will return the business unit and, at the same time, pay the difference between the initial value of the assets on stipulation of the rental contract (value equal to that resulting from the net book values recorded in the asset company minus the relevant depreciation and the final value equal to the initial value minus depreciation accrued until the expiry of the contract plus the value of the investments made by Hera net of the amortisation accrued.

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

The values shown in the **table for 2008** regard the related parties listed below:

Related parties non-consolidated subsidiaries (column A):

Attivabologna Srl
Calorpiù Italia Scarl.
Calorpiù Modena Scarl
Cgs Trasf. Idea Metropoli cgs Srl in liquidation
Consorzio energia servizi Bologna
Seas Lavori e Servizi Scarl
Anthea Srl
Consorzio Frullo
Ares Spa consortile

Related parties associated companies (column B):

Acantho Spa.
Adriatica Acque Srl
Agea reti Srl
Agess Scarl
Dyna Green Srl
Estense global service S.con Srl
Flameenergy Trading Gmbh
Italcic Srl
Modena Network Spa
Oikothen Scarl
Refri Srl
Satcom Spa
Service Imola Srl (AMI)
Set Spa
Sgr Servizi Spa
Natura Srl
Tamarete Energia Srl
So.S.el Spa
Pri.Ge.A.S.Srl
Feronia Srl
Sei Spa

Related parties with significant influence (column C):

Municipal authorities of Bologna
Municipal authorities of Modena

Other related parties (column D):

Acosea Impianti Srl
Amf - assets
Amir - assets
Area - assets
Calenia Energia Spa
Con.ami
Energia italiana Spa
Galsi Spa
Romagna Acque Spa
Società Italiana Servizi Spa Sis Spa Asset
Team - assets
Unica reti – assets
Aspes Spa
MegasNet Spa
Sat Patrimonio Srl
Sassuolo Gestioni Patrimoniali Srl
Formigine Patrimonio Srl
Serramazzoni Patrimonio Srl
Maranello Patrimonio Srl
Fiorano Patrimonio Srl

Surname and name	Office held	Period for which the office was held	Expiration of office	Remuneration for the office	Non-monetary benefits	Bonuses and other incentives	Other fees
Sergio Santi *	Chairman	01.01.2008 - 31.12.2008	Approval of the Financial Statements as at 31.12.2008	138.604	1.306		
Antonio Venturini **	Standing Auditor	01.01.2008 - 31.12.2008	Approval of the Financial Statements as at 31.12.2008	149.096			
Fernando Lolli	Standing Auditor	01.01.2008 - 31.12.2008	Approval of the Financial Statements as at 31.12.2008	168.828	3.213		
				456.528	4.519		

* Standing auditor until 28 April 2008 and Chairman of the Board of Statutory Auditors since 29 April 2008
** Chairman of the Board of Statutory Auditors until 28 April 2008 and standing auditor since 29 April 2008

With regards to the Executives with strategic functions (Management Committee), the total gross annual salary paid during 2008 amount to Euro 2,288,674 while non-monetary benefits amount to Euro 95,443.

As for the information pertaining to the members of the Board of Directors, please refer to the similar paragraph 3.03.02 of the Financial Statements of Hera SpA.

2.04 Net Financial Indebtedness

2.04.01 Consolidated net financial indebtedness

In accordance with the requirements set forth in the CONSOB Communication of 28 July 2006 and pursuant to the CERS recommendation of 10 February 2005, "recommendations for the uniform implementation of the EC Regulation on financial reporting", the Group's net financial position is as follows:

	(figures in millions of €)	31-Dec-2008	31-Dec-2007
a	**Cash**	**193.6**	**211.0**
b	**Other current financial receivables**	**6.8**	**10.0**
	Current bank liabilities	-109.7	-149.6
	Current portion of bank indebtedness	-79.3	-86.1
	Other current financial payables	-15.0	-7.6
	Financial leasing payables expiring next year	**-4.7**	**-5.6**
c	**Current financial indebtedness**	**-208.7**	**-248.9**
d=a+b+c	**Net current financial indebtedness**	**-8.3**	**-27.9**
e	**Non current financial receivables**	**8.5**	**6.6**
	Non-current bank liabilities	-439.4	-475.9
	Bonds issued	-999.7	-798.2
	Other non-current financial payables	-121.4	-122.4
	Financial leasing payables expiring after next year	-11.2	-13.9
f	**Non-current financial indebtedness**	**-1,571.7**	**-1,410.4**
g=e+f	**Net non-current financial indebtedness**	**-1,563.2**	**-1,403.8**
h=d+g	**Net financial indebtedness**	**-1,571.5**	**-1,431.7**

The table does not consider the effects of the hedging derivative instruments; for this reason the net financial position was also changed as at 31 December 2007.

2.04.02 Net financial indebtedness – Consob resolution no. 15519 of 27 July 2006

	figures in millions of €	31-Dec-2008	of which related parties A	B	C	D	31-Dec-2007	of which related parties A	B	C	D
a	**Cash**	**193.6**					**211.0**				
b	**Other current financial receivables**	**6.8**					**10.0**				
							0.0				
	Current bank liabilities	-109.7					-149.6				
	Current portion of bank indebtedness	-79.3					-86.1				
	Other current financial liabilities	-15.0					-7.6				
	Financial leasing payables expiring next year	-4.7					-5.6				
c	**Current financial indebtedness**	**-208.7**					**-248.9**				
d=a+b+c	**Net current financial indebtedness**	**-8.3**					**-27.9**				
e	**Non-current financial indebtedness**	**8.5**					**6.6**				
	of which related parties			***8.5***					***6.6***		
	Non-current bank liabilities	-439.4					-475.9				
	Bonds issued	-999.7					-798.2				
	Other non-current financial liabilities	-121.4					-122.4				
	Financial leasing payables expiring after next year	-11.2					-13.9				
f	**Non-current financial indebtedness**	**-1,571.7**					**-1,410.4**				
g=e+f	**Net non-current financial indebtedness**	**-1,563.2**					**-1,403.8**				
	of which related parties			***8.5***					***6.6***		
h=d+g	**Net financial indebtedness**	**-1,571.5**					**-1,431.7**				
	of which related parties			***8.5***					***6.6***		

	Changes in related parties			
	Hera Spa granted a loan to Oikothen Scrl	1840110	1.8	1.8
	Hera Spa granted a loan to Set Spa	1840040	4.8	4.8
	Hera Spa granted a loan to Sei Spa	1840070	1.9	0.0
			8.5	6.6

Key of headings of related parties columns:
A: subsidiary companies
B: associated companies
C: related companies with considerable influence
D: other related parties

2.05 Equity Investments

2.05.01 List of consolidated companies

Subsidiary companies

Company Name	Registered Office	Share Capital	Percentage held			Total Equity Investment
			Direct	Indirect	Total	
Capogruppo: Hera Spa	Bologna	1,032,737,702				
Acque Srl	Pesaro	102,700		100.00%	41.87%	41.87%
Akron Spa	Imola (Bo)	1,152,940	57.50%		57.50%	57.50%
Asa Spa	Castelmaggiore (Bo)	1,820,000	51.00%		51.00%	51.00%
Aspes Gas Srl	Pesaro	1,000,000			41.87%	41.87%
Ecologia Ambiente Srl	Ravenna	23,780,000	100.00%		100.00%	100.00%
Ecosfera Spa	Ferrara	1,000,000	100.00%		100.00%	100.00%
Eris Scrl	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 Srl	Imola (Bo)	53,136,987	100.00%		100.00%	100.00%
Hera Comm Marche Srl	Urbino (Pu)	100,000			100.00%	100.00%
Hera Comm Mediterranea Srl	Carinaro (Ce)	250,000		50.01%	50.01%	50.01%
Hera Energie Bologna Srl	Bologna	926,000		51.00%	51.00%	51.00%
Hera Energie Rinnovabili Spa (già Hera Gas Tre Spa)	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	1,150,000	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 Socrem Spa	Bologna	2,218,368	51.00%		51.00%	51.00%
Hera Trading Srl	Imola (Bo)	2,600,000	100.00%		100.00%	100.00%
Ingenia Srl	Imola (Bo)	52,000	74.00%		74.00%	74.00%
Marche Multiservizi Spa	Pesaro	13,055,799	41.87%		41.87%	41.87%
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%
Società Intercomunale di Servizi Spa	Montecalvo in Foglia (Pu)	103,300		41.75%	41.75%	17.48%
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

Company Name	Registered Office	Share Capital	Percentage held Direct	Indirect	Total	Total Equity Investment
Acantho Spa	Imola (Bo)	17,375,781	47.46%		47.46%	47.46%
Adriatica Acque Srl	Rimini	89,033		25.54%	25.54%	25.54%
Agea Reti Srl	Ferrara	19,000,000	39.72%		39.72%	39.72%
Agess Scarl	Forlì (Fc)	79,750	21.44%		21.44%	21.44%
Dyna Green Srl	Milano	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 (Austria)	3,000,000		50.00%	50.00%	50.00%
Modena Network Spa	Modena	3,000,000	32.00%		32.00%	32.00%
Oikothen Scarl	Siracusa	1,101,730	46.10%		46.10%	46.10%
Pri.Ge.A.S Srl	Sassuolo (Mo)	15,600	49.00%		49.00%	49.00%
Refri Srl	Reggio Emilia	6,800,000	20.00%		20.00%	20.00%
Satcom Spa	Sassuolo (Mo)	2,000,000	47.50%		47.50%	47.50%
SGR Servizi Spa	Rimini	5,982,262		29.61%	29.61%	29.61%
Service Imola Srl	Borgo Tossignano (Bo)	10,000	40.00%		40.00%	40.00%
Set Spa	Milano	120,000	39.00%		39.00%	39.00%
So.Sel Spa	Modena	240,240	26.00%		26.00%	26.00%
Tamarete Energia Srl	Contrada Tamarete (CH)	3,600,000	32.00%		32.00%	32.00%

2.05.02 List of significant investments

Direct investments as at 31 December 2008

ACANTHO Spa Share capital Euro 17,375,781 fully paid-in Held by HERA Spa since 2000		
REGISTERED OFFICE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**8,246,058**	**47.457%**

AGEA RETI Srl Share capital Euro 19,000,000 fully paid-in Held by HERA Spa since 31-Dec-2004		
REGISTERED OFFICE: Piazza Municipale n. 2 - 44100 FERRARA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**7,546,800**	**39.720%**

AGESS Scarl Share capital Euro 79,750 fully paid-in Held by HERA Spa since 1-Nov-2002		
REGISTERED OFFICE: Via Lombardini n. 2 - 47100 FORLI' (FC)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**17,100**	**21.442%**

AKRON Spa Share capital Euro 1,152,940 fully paid-in Held by HERA Spa since 1-Nov-2002		
REGISTERED OFFICE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**662,940**	**57.500%**

AMBIENTE MARE Spa Share capital Euro 2,000,000 fully paid-in Held by HERA Spa since 1-Nov-2002		
REGISTERED OFFICE: Via del Marchesato n. 35 - 48023 MARINA DI RAVENNA (RA)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**300,000**	**15.000%**

A.S.A. Spa Share capital Euro 1,820,000 fully paid-in Held by HERA Spa since 1994		
REGISTERED OFFICE: Via Saliceto n. 43/A - 40013 CASTEL MAGGIORE (BO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**928,200**	**51.000%**

CALENIA ENERGIA Spa Share capital Euro 100,000 fully paid-in Held by HERA Spa since 23-Sep-2004		
REGISTERED OFFICE: Via Antica Fiumara n. 6 - GENOVA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**15,000**	**15.000%**

ECOLOGIA AMBIENTE Srl Share capital Euro 23,780,000 fully paid-in Held by HERA Spa since 2004		
REGISTERED OFFICE: Via Baiona n. 182 - 48100 RAVENNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**23,780,000**	**100.000%**

ECOSFERA Spa Share capital Euro 1.000.000 fully paid-in Held by HERA Spa since 31-Dec-2004		
REGISTERED OFFICE: Via Stefano Trenti n. 32 - 44100 FERRARA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,000,000**	**100.000%**

ENERGIA ITALIANA SpaShare capital Euro 26,050,000 fully paid-in Held by HERA Spa since 2001		
REGISTERED OFFICE: Via V. Viviani n. 12 - 20124 MILANO		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**2,865,500**	**11.000%**

FAMULA ON-LINE Spa Share capital Euro 4,364,030 fully paid-in Held by HERA Spa since 2001		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**2,618,418**	**60.000%**

FERONIA Srl Share capital Euro 2,430,000 fully paid-in Held by HERA Spa since 1-Jan-2008		
REGISTERED OFFICE: Piazza Verdi n. 6 - 41034 Finale Emilia (MO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**972,000**	**40.000%**

FRULLO ENERGIA AMBIENTE Srl Share capital Euro 17,139,100 fully paid-in Held by HERA Spa since 2000		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**8,740,941**	**51.000%**

GAL.A Spa Share capital Euro 300,000 fully paid-in Held by HERA Spa since 1997		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**180,000**	**60.000%**

GASTECNICA GALLIERA Srl Share capital Euro 312,000 fully paid-in Held by HERA Spa since 23-Oct-2007		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**312,000**	**100.000%**

HERA IMOLA-FAENZA Srl Share capital Euro 750,000 fully paid-in Held by HERA Spa since 21-Oct-2002		
REGISTERED OFFICE: Via Casalegno 1 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**750,000**	**100.000%**

HERA BOLOGNA Srl Share capital Euro 1,250,000 fully paid-in Held by HERA Spa since 21-Oct-2002		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,250,000**	**100.000%**

HERA COMM Srl Share capital Euro 53,136,987.42 fully paid-in Held by HERA Spa since 2001		
REGISTERED OFFICE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**53,136,987**	**100.000%**

HERA FERRARA Srl Share capital Euro 810,000 fully paid-in Held by HERA Spa since 23-Nov-2004		
REGISTERED OFFICE: Via Diana n. 40 - 44044 Cassana (FE)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**810,000**	**100.000%**

HERA FORLI'-CESENA Srl Share capital Euro 650,000 fully paid-in Held by HERA Spa since 21-Oct-2002		
REGISTERED OFFICE: Via Spinelli 60 - 47023 CESENA (FC)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**650,000**	**100.000%**

HERA ENERGIE RINNOVABILI Spa Share capital Euro 120,000 fully paid-in Held by HERA Spa since 27-Apr-2005		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**120,000**	**100.000%**

HERA LUCE Srl Share capital Euro 264,012 fully paid-in Held by HERA Spa since 2000		
REGISTERED OFFICE: Via Due Martiri n. 2 - 47030 S. MAURO PASCOLI (FC)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**236,504**	**89.581%**

HERA MODENA Srl Share capital Euro 1,150,000 fully paid-in Held by HERA Spa since 24-Nov-2005		
REGISTERED OFFICE: Via Razzaboni n. 80 - 41100 MODENA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,150,000**	**100.000%**

HERA RAVENNA Srl Share capital Euro 850,000 fully paid-in Held by HERA Spa since 21-Oct-2002		
REGISTERED OFFICE: Via Romea Nord 180/182 - 48100 RAVENNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**850,000**	**100.000%**

HERA RETE MODENA Srl Share capital Euro 22,221,850 fully paid-in Held by HERA Spa since 30-Jun-2006		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**22,221,850**	**100.000%**

HERA RIMINI Srl Share capital Euro 1,050,000 fully paid-in Held by HERA Spa since 21-Oct-2002		
REGISTERED OFFICE: Via del Terrapieno 25 - 47900 RIMINI		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,050,000**	**100.000%**

HERA SERVIZI FUNERARI Srl Share capital Euro 10,000 fully paid-in Held by HERA Spa since 22-Dec-2005		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**10,000**	**100.000%**

HERASOCREM Spa Share capital Euro 2,218,368 fully paid-in Held by HERA Spa since 10-Jul-2003		
REGISTERED OFFICE: Viale Carlo Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,131,368**	**51.000%**

HERA TRADING Srl Share capital Euro 2,600,000 fully paid-in Held by HERA Spa since 2001		
REGISTERED OFFICE: Via Molino Rosso n. 8 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**2,600,000**	**100.000%**

INGENIA Srl Share capital Euro 52,000 fully paid-in Held by HERA Spa since 1-Nov-2002		
REGISTERED OFFICE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**38,480**	**74.000%**

ITALCIC Scarl Share capital Euro 90,000 fully paid-in Held by HERA Spa since 31-Dec-2005		
REGISTERED OFFICE: Via Razzaboni n. 80 - 41100 MODENA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**30,000**	**33.333%**

MARCHE MULTISERVIZI Spa Share capital Euro 13,055,799 fully paid-in Held by HERA Spa since 2002		
REGISTERED OFFICE: Via dei Canonici n. 144 - 61100 PESARO (PU)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**5,466,565**	**41.871%**

MEDEA Spa Share capital Euro 4,500,000 fully paid-in Held by HERA Spa since 1-Jul-2003		
REGISTERED OFFICE: Via Torres n. 4 - 07100 SASSARI (SS)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**4,500,000**	**100.000%**

MODENA NETWORK Spa Share capital Euro 3,000,000 fully paid-in Held by HERA Spa since 31-Dec-2005		
REGISTERED OFFICE: Via Razzaboni n. 80 - 41100 MODENA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**960,000**	**32.000%**
Acantho Spa	**900,000**	**30.000%**

NUOVA GEOVIS Spa Share capital Euro 2,205,000 fully paid-in Held by HERA Spa since 2001		
REGISTERED OFFICE: Via Romita n. 1 - 40019 Sant'Agata Bolognese (BO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,124,550**	**51.000%**

OIKOTHEN Scarl Share capital Euro 1,101,730 fully paid-in Held by HERA Spa since 9-Nov-2007		
REGISTERED OFFICE: Via Augusta n. 17 - 96100 SIRACUSA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**507,892**	**46.099%**

PRI.GE.A.S. Srl Share capital Euro 15,600 fully paid-in, Held by HERA Spa since 1-Jan-2008		
REGISTERED OFFICE: Via Brigata Folgore n. 26 - 41049 Sassuolo (MO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**7,644**	**49.000%**

RECUPERA Srl Share capital Euro 1,673,290 fully paid-in Held by HERA Spa since 1-Nov-2002		
REGISTERED OFFICE: Via Traversagno n. 30 - 48028 VOLTANA DI LUGO (RA)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,673,290**	**100.000%**

REFRI Srl Share capital Euro 6,800,000 fully paid-in Held by HERA Spa since 27-Dec-2005		
REGISTERED OFFICE: Via Meuccio Ruini n. 10 - 42100 REGGIO EMILIA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,360,000**	**20.000%**

ROMAGNA COMPOST Srl Share capital Euro 3,560,002 fully paid-in Held by HERA Spa since 1-Nov-2002		
REGISTERED OFFICE: Via Cesare Spinelli n. 60 - 47023 CESENA (FC)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**2,136,004**	**60.000%**

SATCOM Spa Share capital Euro 2,000,000 fully paid-in, Held by HERA Spa since 1-Jan-2008		
REGISTERED OFFICE: Via Brigata Folgore n. 26 - 41049 Sassuolo (MO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**950,000**	**47.500%**

SEI Spa Share capital Euro 120,000 fully paid-in Held by HERA Spa since 9-May-2008		
REGISTERED OFFICE: Via Uberti n. 37 - 20129 MILANO		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**24,000**	**20.000%**

SERVICE IMOLA Srl Share capital Euro 10,000 fully paid-in Held by HERA Spa since 1-Nov-2002		
REGISTERED OFFICE: Via Allende n. 39 - 40021 BORGO TOSSIGNANO (BO)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**4,000**	**40.000%**

SET Spa Share capital Euro 120,000 fully paid-in Held by HERA Spa since 15-Dec-2004		
REGISTERED OFFICE: Viale Bianca Maria n. 15 - 20122 MILANO		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**46,800**	**39.000%**

SO.SEL Spa Share capital Euro 240,240 fully paid-in, Held by HERA Spa since 1-Jan-2008		
REGISTERED OFFICE: Via Bellinzona n. 37/F - 41100 MODENA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**62,462**	**26.000%**

SOTRIS Spa Share capital Euro 2,340,000 fully paid-in Held by HERA Spa since 1-Nov-2002		
REGISTERED OFFICE: S.S. 309 Romea Km. 2,6 n. 272 - 48100 RAVENNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,638,000**	**70.000%**

TAMARETE ENERGIA Srl Share capital Euro 3,600,000 fully paid-in Held by HERA Spa since 16-Dec-2008		
REGISTERED OFFICE: Contrada Tamarete s.n.c. - ORTONA (CH)		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**1,152,000**	**32.000%**

UNIFLOTTE Srl Share capital Euro 2,254,177 fully paid-in Held by HERA Spa since 2001		
REGISTERED OFFICE: Viale Masini n. 42 - 40126 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA Spa	**2,186,551**	**97.000%**

Indirect investments as at 31 December 2008

Equity investment by Acantho Spa:

WIMAXER Spa Share capital Euro 500,000 fully paid-in Held by ACANTHO Spa since 6-May-2008		
REGISTERED OFFICE: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Equity investment in %
Acantho Spa	**125,000**	**25.000%**

Equity investments by Hera Trading Srl

GALSI Spa Share capital resolved for Euro 52,838,000, Subscribed and paid-in for Euro 33,838,000 fully paid-in Held by Hera Trading Srl since 2003		
REGISTERED OFFICE: Foro Buonaparte n. 31 - 20100 MILANO		
Shareholder	Equity investment in €	Equity investment in %
Hera Trading Srl	**3,520,716**	**10.405%**
DYNA GREEN Srl Share capital Euro 30,000 fully paid-in Held by Hera Trading Srl since 22-Nov-2005		
REGISTERED OFFICE: Viale Bianca Maria n. 24 - 20100 MILANO		
Shareholder	Equity investment in €	Equity investment in %
Hera Trading Srl	**10,000**	**33.333%**
FlameEnergy Trading Gmbh Share capital Euro 3,000,000 fully paid-in Held by Hera Trading Srl since 19-Apr-2006		
REGISTERED OFFICE: VIENNA (Austria)		
Shareholder	Equity investment in €	Equity investment in %
Hera Trading Srl	**1,500,000**	**50.000%**

Equity investments of Marche Multiservizi Spa:

ACQUE Srl Share capital Euro 102,700 fully paid-in Held by MARCHE MULTISERVIZI Spa since 1996		
REGISTERED OFFICE: Via dei Canonici n. 144 - 61100 PESARO (PU)		
Shareholder	Equity investment in €	Equity investment in %
MARCHE MULTISERVIZI Spa	**102,700**	**100.000%**

ASPES GAS Srl Share capital Euro 1,000,000 fully paid-in Held by MARCHE MULTISERVIZI Spa since 2002		
REGISTERED OFFICE: Via dei Canonici n. 144 - 61100 PESARO (PU)		
Shareholder	Equity investment in €	Equity investment in %
MARCHE MULTISERVIZI Spa	**1,000,000**	**100.000%**

SIS Società Intercomunale di Servizi Spa Share capital Euro 103,300 fully paid-in Held by MARCHE MULTISERVIZI Spa since 1-Nov-2002		
REGISTERED OFFICE: Piazza Municipio n. 1 - 61020 Montecalvo in Foglia (PU)		
Shareholder	Equity investment in €	Equity investment in %
MARCHE MULTISERVIZI Spa	**43,128**	**41.750%**

NATURA Srl Share capital Euro 10,000 fully paid-in Held by MARCHE MULTISERVIZI Spa since 1-Jan-2008		
REGISTERED OFFICE: Via Don Minzoni n. 44 - Cagli (PU)		
Shareholder	Equity investment in €	Equity investment in %
MARCHE MULTISERVIZI Spa	**4,600**	**46.000%**

Provincia Fiorita Srl Share capital Euro 25,000 Held by MARCHE MULTISERVIZI Spa since since 1-Jan-2008		
REGISTERED OFFICE: Via Sasso n. 120 - 61043 Cagli (PU)		
Shareholder	Equity investment in €	Equity investment in %
MARCHE MULTISERVIZI Spa	**7,500**	**30.000%**

Consorzio Montefeltro Energia Srl Share capital Euro 2,500 Held by MARCHE MULTISERVIZI Spa since 1-Jan-2008		
REGISTERED OFFICE: Piazza della Repubblica - 61029 URBINO (PU)		
Shareholder	Equity investment in €	Equity investment in %
Marche Multiservizi Spa	**500**	**20.000%**

Equity investments by Hera Comm Srl

ADRIATICA ACQUE Srl Share capital Euro 89,033 fully paid-in Held by HERA COMM Srl since 23-Nov-2005		
REGISTERED OFFICE: Via Circonvallazione Meridionale n. 56 - 47900 RIMINI		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Srl	**19,872**	**22.320%**
Marche Multiservizi Spa	**6,838**	**7.680%**

CALORPIU' ITALIA Scarl Share capital Euro 10,000 fully paid-in Held by HERA COMM Srl since 26-Sep-2006		
REGISTERED OFFICE: Via Razzaboni n. 80 - 41100 MODENA		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Srl	**5,100**	**51.000%**

CONSORZIO ENERGIA SERVIZI BOLOGNA Consortium fund Euro 10,400 fully paid-in Held by HERA COMM Srl since 12-Sep-2006		
REGISTERED OFFICE: Viale Masini n. 14 - 40126 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Srl	**5,356**	**51.500%**

ERIS Scarl Share capital Euro 300.000 - paid-in Euro 187,500 - Held by HERA COMM Srl since 28-Sep-2004		
REGISTERED OFFICE: Via Romea Nord 180/182 - 48100 RAVENNA		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Srl	**153,000**	**51.000%**

ESTENSE GLOBAL SERVICE Scarl Share capital Euro 10,000 fully paid-in Held by HERA COMM Srl since 27-Sep-2007		
REGISTERED OFFICE: Via M.N. Plattis n. 5/c - 44100 FERRARA		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Spa	**2,300**	**23.000%**

HERA COMM MEDITERRANEA Srl (già CALES Srl) Share capital Euro 250,000 fully paid-in Held by HERA COMM Srl since 5-Feb-2007		
REGISTERED OFFICE: Zona Industriale ASI Nord - 81032 Carinaro (CE)		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Srl	**125,025**	**50.010%**

HERA ENERGIE BOLOGNA Srl Share capital Euro 926,000 fully paid-in Held by HERA COMM Srl since 30-Jun-2005		
REGISTERED OFFICE: Via dell'Elettricista 2 - 40138 BOLOGNA		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Srl	**472,260**	**51.000%**

HERA COMM MARCHE Srl Share capital Euro 100,000 fully paid-in Held by Hera Comm since 28-Jul-2008		
REGISTERED OFFICE: Via Sasso n. 120 - 61029 Urbino (PU)		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Srl	**100,000**	**100.000%**

SGR Servizi Spa Share capital Euro 5,982,262 fully paid-in Held by HERA COMM Srl since 17-May-2005		
REGISTERED OFFICE: Via Chiabrera n. 34/b - 47900 RIMINI		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Srl	**1,771,062**	**29.605%**

SINERGIA Srl Share capital Euro 579,600 fully paid-in Held by HERA COMM Srl since 19-Dec-2005		
REGISTERED OFFICE: Via Righi n. 1 - 47100 FORLI' (FC)		
Shareholder	Equity investment in €	Equity investment in %
HERA COMM Srl	**341,964**	**59.000%**

Direct and indirect equity investments in liquidation as at 31 December 2008

Equity investments of Marche Multiservizi Spa:

ASPES ENERGY Srl Share capital Euro 50,000 fully paid-in Held by MARCHE MULTISERVIZI Spa since 2002		
REGISTERED OFFICE: Via dei Canonici n. 144 - 61100 PESARO (PU)		
Shareholder	Equity investment in €	Equity investment in %
Marche multiservizi Spa	**50000**	**1**

MARKANET Srl Share capital Euro 335,449.50 fully paid-in Held by MARCHE MULTISERVIZI Spa since 2000		
REGISTERED OFFICE: Via Mameli n. 15 - 61100 PESARO (PU)		
Shareholder	Equity investment in €	Equity investment in %
Marche multiservizi Spa	**171079.755**	**0.51**

Acquagest Srl Share capital Euro 51,480 fully paid-in Held by MARCHE MULTISERVIZI Spa since 1-Jan-2008		
REGISTERED OFFICE: Via degli Abeti n. 120 - 61100 PESARO (PU)		
Shareholder	Equity investment in €	Equity investment in %
Marche multiservizi Spa	**10296**	**0.2**

2.05.03 Financial statement highlights of subsidiaries and associated companies

Subsidiaries

Subsidiaries	Amounts due to shareholders	Fixed assets	Current assets	Share capital	Reserves	Profit+ Loss -	Provisions	Employee leaving indemnity	Payables	Value of production	Costs of production	Income(+) and charges(-)	Value adjustments to financial assets	Income(+) and charges(-)	Tax for the year
Akron Spa	0	7,123	27,714	1,153	2,879	4,357	0	413	26,035	42,796	-36,381	14	0	34	-2,106
ASA Spa	0	6,710	9,635	1,820	595	268	11,918	98	1,646	6,464	-6,597	247	0	275	-121
Ecologia Ambiente Srl	0	68,758	81,095	23,780	29,366	14,540	1,133	1,177	79,857	106,146	-90,735	-674	0	-191	-6
Ecosfera Spa	0	574	1,983	1,000	328	107	234	36	852	3,351	-3,202	29	0	0	-71
Eris Scrl	0	2,269	2,638	300	123	219	7	0	4,258	3,765	-3,306	10	0	-104	-146
Famula On-line Spa	0	11,537	22,693	4,364	7,896	395	77	1,771	19,727	37,836	-37,270	130	0	279	-580
Frullo Energia Ambiente Srl	0	125,858	26,528	17,139	3,028	13,149	6	1,140	117,924	54,137	-28,426	-4,641	0	-5	-7,916
Gal.A. Spa	0	10,413	4,062	300	60	74	1,154	0	12,887	4,418	-3,843	-409	0	0	-92
Gastecnica Galliera Srl	0	408	278	312	52	76	0	15	231	453	-331	-1	0	0	-45
Hera Bologna Srl	0	1,263	225,927	1,250	615	18,799	913	21,844	183,769	361,513	-330,469	58	0	-263	-12,040
Hera Comm Srl	0	51,593	741,874	53,137	0	-91	5,179	2,281	732,961	1,561,948	-1,567,346	4,186	0	-34	1,155
Hera comm Marche srl	0	977	13,281	100	61	142	345	0	13,610	28,447	-28,202	51	0	-51	-103
Hera Comm Mediterranea Srl	0	21	48,267	250	10	3,876	120	17	44,015	48,661	-42,538	127	0	0	-2,374
HERA Enegie Rinnovabili Spa	0	66	106	120	-3	-21	0	0	76	0	-29	0	0	0	8
Hera Energie Bologna Srl	0	5,723	4,500	926	841	292	0	3	8,161	6,652	-6,113	-37	0	0	-210
Hera Ferrara Srl	0	547	52,865	810	169	8,722	470	9,227	34,014	109,080	-95,296	66	0	29	-5,157
Hera Forlì-Cesena Srl	0	1,828	75,353	650	170	587	450	6,678	68,646	147,886	-145,964	21	0	-26	-1,330
Hera Imola-Faenza Srl	0	942	68,815	750	770	543	437	6,461	60,796	116,415	-114,575	20	0	-62	-1,255
Hera Luce Srl	0	10,084	29,691	264	5,669	4,759	4,529	1,062	23,492	47,044	-40,437	249	0	-151	-1,946
Hera Modena Srl	0	1,157	132,514	1,150	230	7,831	1,390	17,577	105,493	239,415	-224,938	10	0	-189	-6,467
Hera Ravenna Srl	0	812	71,802	850	389	5,759	134	7,146	58,336	136,809	-127,053	24	0	-176	-3,845
Hera Rete Modena Srl	0	26,949	218	22,222	207	539	227	0	3,972	1,000	-147	-56	0	0	-258
Hera Rimini Srl	0	1,977	54,728	1,050	210	1,311	503	8,138	45,493	146,003	-142,726	72	0	7	-2,045
Hera Servizi Funerari Srl	0	0	1,303	10	2	201	0	0	1,090	1,563	-1,307	32	0	4	-91
Herasocrem Spa	0	201	2,128	2,218	33	-208	0	83	203	633	-995	90	0	2	62
Hera trading srl	0	11,448	594,186	2,600	688	5,143	153	152	596,898	2,060,720	-2,052,394	-85	0	-7	-3,091
Ingenia Srl	0	127	534	52	72	35	83	4	415	1,542	-1,469	3	0	-12	-29
Marche Multiservizi Spa	0	76,013	44,691	13,056	1,196	4,683	11,415	7,644	82,710	74,664	-71,274	-1,480	-499	5,721	-2,449
Medea Spa	0	16,007	5,192	4,500	-1,191	-309	867	131	17,201	5,911	-5,665	-602	0	9	38
Nuova Geovis Spa	0	15,202	8,266	2,205	1,302	1,082	619	295	17,965	12,298	-10,440	-174	0	5	-607
Recupera Srl	0	25,096	8,355	1,673	10,544	1,226	63	240	19,705	21,284	-19,392	-32	0	10	-644
Romagna Compost Srl	0	5,536	737	3,560	384	70	0	0	2,259	932	-843	25	0	-1	-43
Sinergia Srl	0	2,296	5,403	580	2,469	1,489	0	158	3,003	9,195	-7,059	66	0	0	-713
Sotris Spa	0	12,870	11,043	2,340	3,610	959	9,353	69	7,582	11,100	-9,682	3	0	0	-462
Uniflotte Srl	0	1,932	14,258	2,254	294	1,102	394	3,756	8,390	26,296	-24,670	115	0	133	-772
figures in thousands of Euro															

Associated companies

Essential date of the Financial Statements of the Associated companies

Summary of the highlights of the approved financial statements of the associated companies

Associated companies	Amounts due to shareholders	Fixed assets	Current assets	Share capital	Reserves	Profit+ Loss -	Provisions	Employee leaving indemnity	Payables	Value of production	Cost of production	Financial income and charges	Value adjustments to financial assets	Extraordinary income and charges	Tax for the year	Net profit
*Acantho Spa	0	32,693	48,166	15,876	-3,384	38	62	393	67,874	28,416	-27,370	-676	0	-110	-222	38
Adriatica Acque Srl	0	304	595	89	-64	7	0	24	844	649	-689	-39	0	90	-5	7
Agea reti Srl	0	22,940	800	19,000	131	167	0	0	4,442	1,950	-1,483	-208	0	0	-92	167
Agess Scrl	0	21	258	81	2	7	0	60	129	367	-337	2	0	-10	-15	7
DYNA Green Srl	0	0	166	30	327	-316	0	0	125	0	-317	0	0	1	0	-316
Estense global service Cons.a r.l.	0	93	5,555	10	0	0	0	0	5,638	6,608	-6,741	30	0	108	-5	0
Feronia Srl	0	2,333	426	2,430	-19	-114	0	0	462	0	-104	-16	0	0	6	-114
FlamEnergy Trading Gmbh	0	0	5,302	3,000	147	319	160	0	1,676	13,545	-13,200	80	0	0	-106	319
Modena Network Spa	0	8,698	3,037	3,000	-547	-319	0	0	9,601	2,460	-2,395	-375	0	0	-9	-319
Oikothen Scrl	0	6,256	1,951	1,102	-339	-123	0	0	7,567	0	-198	29	0	0	46	-123
Pri.Ge.A.S. Srl	0	773	458	16	63	14	0	0	1,138	444	-425	2	0	0	-7	14
* Refri Srl	0	5,303	2,024	6,800	-547	10	0	25	1,039	1,197	-1,148	-26	19	-1	-31	10
Satcom srl	0	7,524	4,831	2,000	-348	944	100	245	9,414	10,552	-9,217	-215	0	-59	-117	944
Service imola Spa	0	25	782	10	14	279	0	8	496	1,484	-1,058	-1	0	0	-146	279
SET Spa	0	215,465	105,064	120	57,492	1,323	0	54	261,541	194,793	-181,671	-9,640	0	-518	-1,642	1,323
So. Sel Spa	0	1,334	4,761	240	1,008	321	357	821	3,348	9,011	-8,329	-33	0	17	-345	321
SGR Servizi Spa	0	10,004	69,301	5,982	10,248	4,003	610	455	58,007	144,411	-138,028	249	-60	-5	-2,564	4,003

2.06 Art. 149 duodecies of the Issuers' Regulations

2.06 Art. 149 duodecies of the Issuers' Regulations

	2008
Services provided to certify the financial statements	**631**
Other services provided in issuing certification (unbundling)	**45**
Others services provided	**87**
Total	**763**

2.07 Declaration in accordance with Art. 154 bis of Legislative Decree 58/98

Declaration for the consolidated financial statements in accordance with Art. 154 bis of Legislative Decree 58/98

1 – The undersigned Mr Maurizio Chiarini in his capacity as Managing Director, and Mr Giovanni Barberis in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154-*bis*, paragraphs 3 and 4, of the legislative decree no. 58 dated 24 February 1998

- the adequacy with reference to the nature of the company and
- the actual application

of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements over 2008.

2 – We further declare that:

2.1 – the consolidated financial statements:

a. were drawn up in accordance with the applicable International Accounting Principles approved by the European Community pursuant to Regulation 1606/2002 (EC) of the European Parliament and the Council of 19 July 2002, as well as the provisions issued for implementing article 9 of Legislative Decree 38/2005;
b. are consistent with the data contained in the accounting books and entries;
c. provide a true and accurate representation of the capital, economic and financial situation of the issuer and of all its consolidated companies;

2.2 – the Directors' Report includes a reliable analysis of the trend and of the operating profit, and of the situation of the issuer and of all of the companies included in the consolidation, together with the description of the major risks and uncertainties to which they are exposed.

The Managing Director
Maurizio Chiarini

The Manager in Charge
Giovanni Barberis

26 March 2009

2.08 Report

2.08.01 Report of the Board of Auditors

Shareholders,

The Hera Group has drawn up the consolidated financial statements, in accordance with EU Regulation No. 1606/2002 dated 19 July 2002, as per the International Accounting Standards (IAS/IFRS), ratified by the European Commission, supplemented by the related interpretations (Standard Interpretations Committee – SIC and International Financial Reporting Interpretation Committee – IFRIC) issued by the International Accounting Standard Board (IASB), as well as by the instructions issued by way of implementation of Article 9 of Italian Legislative Decree No. 38/2005.

The accounting period ended as at 31 December 2008, presents the following summary results (expressed in thousands):

BALANCE SHEET	
Non-current assets	
Tangible fixed assets	2,889,134
Intangible assets	197,190
Goodwill and consolidation differences	372,696
Equity investments and securities	98,524
Financial assets	8,597
Deferred tax assets	60,329
Financial instruments – derivatives	241
TOTAL NON-CURRENT ASSETS	3,626,711
Current assets	
Inventories	60,735
Trade receivables	1,161,295
Contract work in progress	21,704
Financial assets	7,655
Financial instruments – derivatives	300,387
Other current assets	133,625
Cash and cash equivalents	193,635
TOTAL CURRENT ASSETS	1,879,036
TOTAL ASSETS	5,505,747
Liabilities and shareholders' equity	
Group shareholders' equity	1,525,233
Shareholders' equity pertaining to minority shareholders	53,892
TOTAL SHAREHOLDERS' EQUITY	1,579,125

Loans falling due beyond 12 months	1,560,658
Employee leaving indemnity	105,788
Provisions for risks and charges	193,789
Deferred tax liabilities	121,454
Financial leasing payables	11,175
Financial instruments	23,571
TOTAL NON-CURRENT LIABILITIES	20,016,435
Banks and loans	204,818
Financial leasing payables	4,737
Trade payables	1,084,427
Tax payables	119,173
Other current liabilities	201,723
Financial instruments	295,309
TOTAL CURRENT LIABILITIES	1,910,187
Total liabilities	3,926,622
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,505,747
INCOME STATEMENT	
Revenues	3,716,336
Changes in inventories of finished products and work in progress	2,604
Other operating revenues	73,081
Consumption of raw materials and consumables	(2,421,439)
Costs for services	(716,045)
Payroll and related costs	(331,078)
Amortisation, depreciation and provisions	(247,556)
Other operating costs	(43,688)
Capitalized costs	248,530
Operating profit	280,745
Portion of profits (losses) of associated companies	2,123
Financial income	22,162
Financial charges	(116,169)
Pre-tax profit	188,861

Income taxes for the year	(78,597)
Net profit for the year	110,264

In the Report to the consolidated financial statements and the related explanatory notes, the Board of Directors illustrated the Group's consolidated operations and the summary of the overall income performances.

The independent auditing firm, with whom the Board of Statutory Auditors has had contact, confirmed that it had ascertained the regularity and correspondence of the balance sheet and income statement deriving from the consolidation with the accounting records of the Company and with the information forwarded by the subsidiary companies, included in said scope of consolidation, and that it had also established that full compliance exists between the contents of the consolidated financial statements and the information and clarification which can be obtained from the explanatory notes and the report on operations.

In as far as we are responsible, we can confirm the following:

- The consolidated financial statements of the Hera Group include the financial statements as at 31 December 2008 of the Parent Company Hera S.p.A. and those of the subsidiary companies. Control is obtained when the Parent Company has the power to determine the financial and operating policies of a company in such as way as to obtain benefits from its activities.
- Subsidiary companies whose entity is irrelevant and those in which the effective exercise of the voting rights is subject to serious and long-lasting restrictions, are excluded from line-by-line consolidation, along with the subsidiary companies held exclusively for the purpose of subsequent disposal.
- Equity investments representing fixed assets in associated companies whose entity is significant are carried at equity. Dormant companies, or those of an insignificant entity, are by contrast maintained at cost.
- Companies held exclusively for the purpose of subsequent disposal are excluded from the scope of consolidation and valued at the lower between cost and fair value. These equity investments are classified in their own items.
- There are no companies consolidated on a proportional basis.
- The consolidated balance sheet and income statement schedules have been drawn up on the basis of the accounting schedules which the companies included within the scope of consolidation have appropriately reclassified and adjusted (on the basis of specific instructions issued by the Parent Company) so as to render them consistent with the accounting standards and policies of the Hera Group. With regard to the associated companies, the adjustments to the shareholders' equity balances have been considered to adjust it to the IAS/IFRS standards.
- When drawing up the consolidated balance sheet and income statement schedules, the asset and liability elements, as well as the income and costs of the companies included in the scope of consolidation were adopted on a line-by-line basis. Receivables and payables, income and expense, gains and losses deriving from transactions carried out between consolidated companies have by contrast been eliminated. The book value of the equity investments is also eliminated against the corresponding portions of shareholders' equity of the investee companies.

- The positive difference between the book value of the equity investments and the fair value of the assets and liabilities acquired is allocated to the asset and liability elements and then residually to goodwill; the negative difference is immediately recorded in the income statement, as illustrated in the following section “business combinations”. This negative difference is recorded in a consolidation reserve only if it relates to acquisitions prior to 31 March 2004. The amount of the capital and the reserves of the subsidiary companies corresponding to the minority interest is recorded in an equity item entitled “minority interests in capital and reserves”; the portion of the consolidated economic result corresponding to the minority interests is recorded in the item “profit (loss) for the year pertaining to minority shareholders”.

- Dividends recorded under financial income of the consolidated companies are eliminated within the sphere of the consolidation process of the respective companies, against the reserves for retained earnings under shareholders’ equity. Dividends received by companies carried at equity are booked against the book value of the investment. Dividends resolved by companies carried at cost are maintained under financial income.

- The valuation of the financial statement items is carried out, aspiring to the general principles of prudence and accruals, with a view to the Company as a going concern. For the purposes of the accounting entries, the economic substance of the transactions is given priority over their legal form.

- All the information contained in the consolidated financial statements and the related accompanying documents relates to the 2008 calendar year.

- With regard to the accounting standards, they comply with statutory regulations and in any event are fully illustrated in the explanatory notes.

- The consolidated financial statements also disclose the amount of the guarantees, commitments and risks.

- The consolidated financial statements closed with profit of Euro 110,264 thousand and shareholders’ equity of Euro 1,525,233 thousand.

The shareholders’ meeting must only take into account the consolidated financial statements and accompanying documents for disclosure purposes, since they are documents not subject to approval.

In our opinion, therefore, these financial statements correctly represent the equity and financial situation and the economic result of the Group for the year ended 31 December 2008 in compliance with the provisions which discipline the drawing up of consolidated financial statements.

Bologna, Italy, 10 April 2009

Sergio Santi (signed)
Antonio Venturini (signed)
Fernando Lolli (signed)

2.08.02 Report of the Independent Auditing Firm

PRICEWATERHOUSECOOPERS

HERA SPA

CONSOLIDATED FINANCIAL STATEMENTS AS OF
31 DECEMBER 2008

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156
OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998

To the Shareholders of
Hera SpA

1. We have audited the consolidated financial statements of Hera SpA and its subsidiaries (Hera Group) as of 31 December 2008, which comprise the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and related notes. The directors of Hera SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our audit opinion.

   For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 11 April 2008.

3. In our opinion, the consolidated financial statements of Hera SpA as of 31 December 2008 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in equity and cash flows of Hera Group for the year then ended.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35138 Via Vicenza 4 Tel. 049873481 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel.0458002561

4. The directors of Hera SpA are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the consolidated financial statements, as required by article 156, paragraph 4-bis, letter d), of the Legislative Decree no. 58/98. For this purpose, we have performed the procedures required under Auditing Standard no. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations is consistent with the consolidated financial statements of Hera SpA as of 31 December 2008.

Rome, 10 April 2009

PricewaterhouseCoopers SpA

Signed by

Aurelio Fedele
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation.

Reference in this report to the consolidated financial statements refer to the consolidated financial statements in original Italian and not to their translation. We have not examined the translation of the consolidated financial statements referred to in this report.



FINANCIAL STATEMENTS OF HERA Spa

3

3.01 Financial Statements

3.01.01 Income Statement

	Notes	2008	2007
Revenues	3	1,811,656,629	1,777,704,496
Change in inventories of finished products and work in progress	4	-	-117,656
Other operating income	5	70,093,834	43,895,690
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	6	-120,625,968	-146,666,198
Costs for services	7	-1,401,954,949	-1,364,925,395
Personnel costs	8	-65,286,856	-61,836,097
of which non-recurring			-1,671,429
Amortisation, depreciation and allocations	9	-172,263,141	-170,762,960
Other operating costs	10	-35,238,779	-30,123,795
Capitalised costs	11	16,680,105	11,054,415
Operating profit		**103,060,875**	**58,222,500**
Portion of profit (loss) pertaining to investee companies	12	83,604,784	72,810,479
Financial income	13	10,167,423	19,577,214
Financial charges	13	-96,923,039	-91,611,645
Pre-tax profit		**99,910,043**	**58,998,548**
Taxes for the period	14	-15,386,983	32,582,243
of which non-recurring			30,035,676
Net profit for the year		**84,523,060**	**91,580,791**

Pursuant to Consob Resolution no.15519 of 27 July 2006, the impacts of transactions with related parties on the income statement are shown in a specific income statement schedule provided under paragraph 3.02.01 herein.

3.01.02 Balance Sheet

	Notes	31-Dec-2008	31-Dec-2007
ASSETS			
Non-current assets			
Tangible fixed assets	15	2,122,098,841	1,833,738,668
Intangible fixed assets	16	176,956,691	186,884,444
Goodwill	17	299,686,343	245,590,102
Equity investments	18	447,596,834	471,125,392
Financial assets	19	15,696,266	11,617,965
Deferred tax assets	20	38,638,856	29,363,603
Financial instruments - derivatives	21	240,859	9,676,722
		3,100,914,690	**2,787,996,896**
Current assets			
Inventories	22	4,289,859	2,265,417
Trade receivables	23	1,185,409,598	1,143,006,467
Long-term contracts	24	1,604,339	1,604,339
Financial assets	25	3,495,452	13,237,112
Other current assets	26	96,611,952	97,000,215
Cash and cash equivalents	27	117,138,954	127,240,850
		1,408,550,154	**1,384,354,400**
TOTAL ASSETS		**4,509,464,844**	**4,172,351,296**

Cont.d

Pursuant to Consob Resolution no.15519 of 27 July 2006, the impacts of transactions with related parties on the income statement are shown in a specific income statement schedule provided under paragraph 3.02.02 herein.

	Note	31-Dec-2008	31-Dec-2007
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	28		
Share capital		1,032,737,702	1,016,752,029
- Reserve for treasury shares at par value		-2,299,643	-617,000
Reserves		364,744,700	326,557,984
- Reserve for treasury shares value exceeding par value		-2,334,627	-1,210,629
Reserves for derivative instruments measured at fair value		-16,125,386	4,365,357
Retained profit		4,382,735	-
Profit (loss) for the period		84,523,060	91,580,791
Total shareholders' equity		**1,465,628,541**	**1,437,428,532**
Non-current liabilities			
Loans - maturing beyond the next year	29	1,412,426,361	1,251,997,613
Employee leaving indemnity and other employee benefits	30	21,568,746	19,210,416
Provisions for risks and charges	31	140,664,421	138,041,892
Deferred tax liabilities	32	70,085,420	72,004,778
Financial leasing payables - maturing beyond the next year	33	5,267,321	5,637,324
Financial instruments – derivatives	21	21,022,855	1,415,521
		1,671,035,124	**1,488,307,544**
Current liabilities			
Banks and other borrowings – maturing within the next year	29	182,357,896	227,260,629
Financial leasing payables - maturing within the next year	33	2,709,489	2,996,568
Trade payables	34	1,024,456,637	870,887,803
Tax liabilities	35	47,821,414	31,401,031
Other current liabilities	36	115,455,743	114,069,189
		1,372,801,179	**1,246,615,220**
TOTAL LIABILITIES		**3,043,836,303**	**2,734,922,764**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**4,509,464,844**	**4,172,351,296**

Pursuant to Consob Resolution no.15519 of 27 July 2006, the impacts of transactions with related parties on the income statement are shown in a specific income statement schedule provided under paragraph 3.02.02 herein.

3.01.03 Cash Flow Statement

	31-Dec-08			31-Dec-07		
Operating activities						
Cash flow						
Profit for the year	84,523,060			91,580,791		
Depreciation and writedowns of tangible fixed assets	111,045,536			99,737,895		
Amortisation and writedowns of intangible fixed assets	34,236,118			33,001,449		
Total cash flow	**229,804,714**			**224,320,135**		
Change in prepaid and deferred taxes	-10,820,663			-44,803,613		
Employee leaving indemnity and other employee benefits:						
Allocations / (use)	-682,393			309,981		
Provisions for risks and charges:						
Allocations / (use)	-11,760,464			21,206,716		
Total cash flow before changes in net working capital	**206,541,194**			**201,033,220**		
Working capital						
Change in trade receivables	-12,303,157			49,834,258		
Change in inventories	-1,654,309			336,645		
Change in other current assets	2,273,460			-8,737,841		
Change in trade payables	130,523,475			-88,036,354		
Change in tax liabilities	15,754,874			3,084,401		
Change in other current liabilities	-1,555,384			21,975,659		
Change in working capital	**133,038,959**			**-21,543,232**		
Liquidity generated by operating activities		**339,580,153**			**179,489,987**	
Investment activities						
Disposal/(investment) in tangible fixed assets						
net of net investments/disinvestments	-343,596,966			-318,987,834		
Disposal/(investment) in intangible fixed assets						
net of net investments/disinvestments	-17,713,386			-14,861,034		
Goodwill	0			0		
Investments in equity holdings, net of disposals	-5,705,338			-4,625,118		
(Increase) / decrease of other investment activities	5,663,359			13,352,156		
Changes in financial instruments - derivatives	29,043,197			-5,179,738		
Liquidity generated/(absorbed) by financing activities		**-332,309,134**			**-330,301,567**	
Financing activities						
Medium/long term loans	153,772,467			435,292,854		
Change in shareholders' equity items	-19,093,437			2,459,493		
Change in short term bank indebtedness	-65,646,615			-194,092,749		
Dividends distributed	-82,517,848			-81,340,162		
Change in financial leasing payables	-3,887,482			-4,320,122		
Liquidity generated/(absorbed) by financing activities		**-17,372,915**			**157,999,314**	
			-10,101,896			**7,187,734**
Change in net financial position						
Cash and cash equivalents at the beginning of the year	127,240,850			120,053,116		
Cash and cash equivalents at the end of the year	117,138,954			127,240,850		
	-10,101,896			**7,187,734**		

(*) Pursuant to Consob Resolution no.15519 of 27 July 2006, the impacts of transactions with related parties on the income statement are shown in a specific income statement schedule provided under paragraph 3.02.02 herein.

The table reflects the approach related to the hedge derivative instruments already adopt in the preparation of the net financial position. To that purpose the financial statements as at 2007 were reclassified as well.

3.01.04 Statement of changes in Shareholders' equity

	Share capital	Reserves	Reserves for derivative instruments measured at fair value	Profit for the year	Shareholders' equity
Balance as at 1 January 2007	**1.016.637**	**339.375**	**648**	**68.068**	**1.424.728**
treasury shares in portfolio	-502	-784	-	-	**-1.286**
fair value derivatives - changes over the year	-	-	3.718	-	**3.718**
Distribution of profit 2006:					
- dividends distributed	-	-78.148	-	-3.164	**-81.312**
- allocation to reserve	-	64.904	-	-64.904	**-**
Profit for the year	**-**	**-**	**-**	**91.581**	**91.581**
Balance as at 31 December 2007	**1.016.135**	**325.347**	**4.366**	**91.581**	**1.437.429**

	Share capital	Reserves	Reserves for derivative instruments measured at fair value	Profit for the year	Shareholders' equity
Balance as at 1 January 2008	**1,016,135**	**325,347**	**4,366**	**91,581**	**1,437,429**
treasury shares in portfolio	-1,683	-920	-	-	**-2,603**
increase in capital by merger of Sat - shareholder's meeting of 16.10.2007	14,540	30,288	-	-	**44,828**
increase in capital by contribution in kind - shareholder's meeting of 16.10.2007	1,446	3,015	-	-	**4,461**
fair value derivatives - changes over the period	-	-	-20,491	-	**-20,491**
Distribution of profit 2007:					
- dividends distributed	-	-	-	-82,518	**-82,518**
- allocation to reserve	-	9,063	-	-9,063	**-**
Profit for the year	**-**	**-**	**-**	**84,523**	**84,523**
Balance as at 31 December 2008	**1,030,438**	**366,793**	**-16,125**	**84,523**	**1,465,629**

3.02 Financial Statements

Consob Resolution no.15519 - 27 July 2006

3.02.01 Income Statement - Consob Resolution no.15519 of 2006

		of which related parties					
	31-Dec-2008	A	B	C	D	Total related parties	Influence on the balance sheet items
Income statement							
Revenues	**1,811,656,629**	839,489,653	2,550,568	73,220,177	4,833,434	920,093,831	50.79%
Change in inventories of finished products and work in progress	**0**						
Other operating revenue	**70,093,834**	16,740,492	2,072,816	10,013	346,950	19,170,270	27.35%
Consumption of raw materials and consumables (net of changes in the inventories of raw material and material in stock)	**-120,625,968**	-90,857,242	-6,477		-463,611	-91,327,330	75.71%
Costs for services	**-1,401,954,949**	-1,183,747,006	-9,225,328	-11,879,126	-49,535,306	-1,254,386,766	89.47%
Personnel costs	**-65,286,856**	-23,059			-2,521,669	-2,544,728	3.90%
Depreciation, amortisation and allocations	**-172,263,141**						
Other operating expenses	**-35,238,779**	-1,972,926	-5,819,987	-826,309	-551,670	-9,170,891	26.02%
Capitalised costs	**16,680,105**						
Operating profit	**103,060,875**	**-420,370,088**	**-10,428,408**	**60,524,754**	**-47,891,872**	**-418,165,613**	
Portion of profit (loss) pertaining to investee companies	**83,604,784**	78,542,416	724,967		4,292,659	83,560,043	99.95%
Financial income	**10,167,423**	383,843	497,892		125,859	1,007,594	9.91%
Financial charges	**-96,923,039**	-546,555		-666,348	-144,476	-1,357,379	1.40%
Pre-tax profit	**99,910,043**	**-341,990,384**	**-9,205,548**	**59,858,406**	**-43,617,829**	**-334,955,355**	
Taxes for the period	**-15,386,983**						
Net profit for the year	**84,523,060**						

	31-Dec-2007	A	B	C	D	Total related parties	Influence on the balance sheet items
Income statement							
Revenues	**1,777,704,496**	824,817,619	4,244,133	74,974,769	7,782,679	911,819,200	51.29%
Change in inventories of finished products and work in progress	**-117,656**						
Other operating revenue	**43,895,690**	11,584,864	2,497,503	111,597	325,722	14,519,685	33.08%
Consumption of raw materials and consumables (net of changes in the inventories of raw material and material in stock)	**-146,666,198**	-69,815,150	-17,266	-233,125	-243,281	-70,308,821	47.94%
Costs for services	**-1,364,925,395**	-1,152,803,320	-8,937,965	-10,940,708	-42,534,748	-1,215,216,741	89.03%
Personnel costs	**-61,836,097**	-23,312				-23,312	0.04%
Depreciation, amortisation and allocations	**-170,762,960**						
Other operating expenses	**-30,123,795**	-230,724	-5,501,943	-892,393	-529,551	-7,154,610	23.75%
Capitalised costs	**11,054,415**						
Operating profit	**58,222,500**	**-386,470,022**	**-7,715,538**	**63,020,140**	**-35,199,179**	**-366,364,599**	
Portion of profit (loss) pertaining to investee companies	**72,810,479**	71,046,109	-17,108		1,781,478	72,810,479	100.00%
Financial income	**19,577,214**	241,693	774,695		16,641	1,033,030	5.28%
Financial charges	**-91,611,645**	-1,720,832		-354,987	-120	-2,075,939	2.27%
Pre-tax profit	**58,998,548**	**-316,903,053**	**-6,957,950**	**62,665,153**	**-33,401,179**	**-294,597,030**	
Taxes for the period	**32,582,243**						
Net profit for the year	**91,580,791**						

Key of headings of associated parties columns:
A subsidiaries
B associated companies
C related companies with significant influence
D other related parties

3.02.02 Balance Sheet - Consob Resolution no.15519 of 2006

	31-Dec-2008	A	B	C	D	Total related parties	Influence on the balance sheet items
		of which related parties					
Balance sheet							
ASSETS							
Non-current assets							
Tangible fixed assets	**2,122,098,841**						
Intangible fixed assets	**176,956,691**						
Goodwill	**299,686,343**						
Equity investments	**447,596,834**	366,512,422	58,289,636		22,306,157	447,108,215	99.89%
Financial assets	**15,696,266**	7,120,440	8,466,223			15,586,663	99.30%
Deferred tax assets	**38,638,856**						
Financial assets - derivatives	**240,859**						
Total non-current assets	**3,100,914,690**	**373,632,862**	**66,755,859**	**0**	**22,306,157**	**462,694,878**	
Current assets							
Inventories	**4,289,859**						
Trade receivables	**1,185,409,598**	753,626,808	26,496,669	13,509,487	16,141,772	809,774,737	68.31%
Work in progress	**1,604,339**						
Financial assets	**3,495,452**	2,951,769	96,506			3,048,275	87.21%
Other current assets	**96,611,952**	11,827,675			16,792,132	28,619,807	29.62%
Cash and cash equivalents	**117,138,954**						
Total current assets	**1,408,550,154**	**768,406,253**	**26,593,175**	**13,509,487**	**32,933,904**	**841,442,819**	
TOTAL ASSETS	**4,509,464,844**	**1,142,039,115**	**93,349,034**	**13,509,487**	**55,240,061**	**1,304,137,697**	

	31-Dec-2007	A	B	C	D	Total related parties	Influence on the balance sheet items
Balance sheet							
ASSETS							
Non-current assets							
Tangible fixed assets	**1,833,738,668**						
Intangible fixed assets	**186,884,444**						
Goodwill	**245,590,102**						
Equity investments	**471,125,392**	363,597,640	84,576,530		22,951,221	471,125,392	100.00%
Financial assets	**11,617,965**	4,835,884	6,619,694			11,455,577	98.60%
Deferred tax assets	**29,363,603**						
Financial assets - derivatives	**9,676,722**						
Total non-current assets	**2,787,996,896**	**368,433,524**	**91,196,224**	**0**	**22,951,221**	**482,580,969**	
Current assets							
Inventories	**2,265,417**						
Trade receivables	**1,143,006,467**	727,938,246	26,825,816	20,470,293	9,340,835	784,575,192	68.64%
Work in progress	**1,604,339**						
Financial assets	**13,237,112**	11,029,377				11,029,377	83.32%
Other current assets	**97,000,215**	11,068,653			14,763,099	25,831,752	26.63%
Cash and cash equivalents	**127,240,850**						
Total current assets	**1,384,354,400**	**750,036,277**	**26,825,816**	**20,470,293**	**24,103,934**	**821,436,321**	
TOTAL ASSETS	**4,172,351,296**	**1,118,469,800**	**118,022,041**	**20,470,293**	**47,055,155**	**1,304,017,290**	

Cont.d

Key of headings of associated parties columns:
A subsidiaries
B associated companies
C related companies with significant influence
D other related parties

	31-Dec-2008	A	B	C	D	Total related parties	Influence on the balance sheet items
		of which related parties					
Shareholders' equity and liabilities							
Share capital and reserves							
Share capital and reserves	1,032,737,702						
- Reserve for treasury shares at par value	-2,299,643						
Reserves	364,744,700						
- Reserve for treasury share exceeding par value	-2,334,627						
Reserves for derivative instruments measured at fair value	-16,125,386						
Retained profit	4,382,735						
Profit/loss for the year	84,523,060						
Total shareholders' equity	1,465,628,541	0	0	0	0	0	
Non-current liabilities							
Loans - maturing beyond the next year	1,412,426,361						
Employee leaving indemnity and other employee benefits	21,568,746						
Provisions for risks and charges	140,664,421						
Deferred tax liabilities	70,085,420						
Financial leasing payables - maturing beyond the next year	5,267,321						
Financial instruments - derivatives	21,022,855						
Total non-current liabilities	1,671,035,124	0	0	0	0	0	
Current liabilities							
Banks and other borrowings - maturing within the next year	182,357,896	4,180,000				4,180,000	2.29%
Finance leasing payables - maturing within the next year	2,709,489						
Trade payables	1,024,456,637	833,175,378	13,165,769	8,465,964	11,855,954	866,663,064	84.60%
Tax liabilities	47,821,414						
Other current liabilities	115,455,743			3,234,086	611,856	3,845,942	3.33%
Total current liabilities	1,372,801,179	837,355,378	13,165,769	11,700,050	12,467,810	874,689,007	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,509,464,844	837,355,378	13,165,769	11,700,050	12,467,810	874,689,007	

	31-Dec-2007	A	B	C	D	Total related parties	Influence on the balance sheet items
Shareholders' equity and liabilities							
Share capital and reserves							
Share capital and reserves	1,016,752,029						
- Reserve for treasury shares at par value	-617,000						
Reserves	326,557,984						
- Reserve for treasury share exceeding par value	-1,210,629						
Reserves for derivative instruments measured at fair value	4,365,357						
Profit/loss for the year	91,580,791						
Total shareholders' equity	1,437,428,532	0	0	0	0	0	
Non-current liabilities							
Loans - maturing beyond the next year	1,251,997,613						
Employee leaving indemnity and other employee benefits	19,210,416						
Provisions for risks and charges	138,041,892						
Deferred tax liabilities	72,004,778						
Financial leasing payables - maturing beyond the next year	5,637,324						
Financial instruments - derivatives	1,415,521						
Total non-current liabilities	1,488,307,544	0	0	0	0	0	
Current liabilities							
Banks and other borrowings - maturing within the next year	227,260,629						
Financial leasing payables - maturing within the next year	2,996,568						
Trade payables	870,887,803	671,415,964	8,099,075	5,113,494	13,662,467	698,290,999	80.18%
Tax liabilities	31,401,031						
Other current liabilities	114,069,189	40,672		16,744,661	641,349	17,426,682	15.28%
Total current liabilities	1,246,615,220	671,456,636	8,099,075	21,858,155	14,303,816	715,717,681	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,172,351,296	671,456,636	8,099,075	21,858,155	14,303,816	715,717,681	

Key of headings of associated parties columns:
A subsidiaries
B associated companies
C related companies with significant influence
D other related parties

3.02.03 Cash Flow Statement - Consob Resolution no.15519 of 2006

	31-Dec-2008			of which related parties
Operating activities				
Cash flow				
Profit for the year	84,523,060			
Depreciation and writedowns of tangible fixed assets	111,045,536			
Amortisation and writedowns of intangible fixed assets	34,236,118			
Total cash flow	**229,804,714**			
Change in prepaid and deferred taxes	-10,820,663			
Employee leaving indemnity and other employee benefits:				
Allocations / (use)	-682,393			
Provisions for risks and charges:				
Allocations / (use)	-11,760,464			
Total cash flow before changes in net working capital	**206,541,194**			
Working capital				
Change in trade receivables	-12,303,157			-25,199,545
Change in inventories	-1,654,309			
Change in other current assets	2,273,460			-2,788,055
Change in trade payables	130,523,475			168,372,065
Change in tax liabilities	15,754,874			
Change in other current liabilities	-1,555,384			-13,580,740
Change in working capital	**133,038,959**			
Liquidity generated by operating activities		**339,580,153**		
Investment activities				
Disposal/(investment) in tangible fixed assets				
net of net investments/disinvestments	-343,596,966			
Disposals/(investments) in intangible fixed assets				
net of net investments/disinvestments	-17,713,386			
Goodwill				
Investments in equity holdings net of disposals	-5,705,338			-5,216,719
(Increase) / decrease of other investment activities	5,663,359			3,850,016
Changes in financial instruments - derivatives	29,043,197			
Liquidity generated/(absorbed) by investment activities		**-332,309,134**		
Financing activities				
Medium/long term loans	153,772,467			
Change in shareholders' equity items	-19,093,437			
Changes in short term bank indebtedness	-65,646,615			4,180,000
Dividends distributed	-82,517,848			-21,314,746
Change in financial leasing payables	-3,887,482			
Liquidity generated/(absorbed) by financing activities		**-17,372,915**		
			-10,101,896	
Change in net financial position				
Cash and cash equivalents at the beginning of the year	127,240,850			
Cash and cash equivalents at the end of the year	117,138,954			
	-10,101,896			

3.03 Explanatory Notes

3.03.01 Explanatory Notes of Hera Spa

Introduction

HERA S.p.A. is a joint-stock company established in Italy and enrolled in the Bologna Companies' Register. The addresses of the registered offices and the locations where its main activities are carried out are indicated in the introduction to the financial statement dossier. The Company's main activities are described in the report on operations.

The 2008 consolidated financial statements, comprised of the income statement, balance sheet, cash flow statement, changes in shareholders' equity and explanatory notes, have been prepared, in application of the Regulations (CE) no. 1606/2002 of 19 July 2002, in compliance with the International Accounting Standards IAS/IFRS (hereinafter IFRS), approved by the European Union, and added with the related interpretations Standing Interpretations Committee – SIC e International Financial Reporting Interpretations Committee – IFRIC) issued by the International Accounting Standard Board (IASB), as well as provisions set out while implementing Art. 9 of the Law Decree no. 38/2005.

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

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

The data of these financial statements are comparable with the same data of the previous financial year. In reclassifications are made, the explanatory notes to the single items will show all information required. The non recurrent cost, income items have been highlighted. Specifically, while comparing balances between the balance sheet as at 31 December 2007 and 31 December 2008, it should be noted that the 2007 balances do not include the contribution of Sat Spa, the merger of which in Hera Spa was concluded on 1 January 2008. Similarly, as regards the Income Statement, it is worth noting that values regarding year 2007 do not take account of the Sat Spa contribution.

The formats used for the Income Statement is "scaled down" with single items analysed in kind. This disclosure, which has been adopted by the principal competitors as well, is deemed to be in line with the international practice and better represents corporate results. Sub-totals have been included to highlight the intermediate aggregates (operating result) used also in the reports on the balance sheet data provided to third parties.

The Balance Sheet is presented with the distinction between current and non-current assets and liabilities. The changes in shareholders' equity table were prepared according to provisions set out by IAS 1. The Cash Flow Statement has been drawn up using the indirect method, as permitted by IAS 7.

The general principle adopted in the preparation of these Financial Statements is cost, except for financial assets and liabilities (including derivative instruments), which are measured at fair value. Changes set out by IAS 39 amendment, approved in October 2008, which allows for a reclassification to another category of financial assets different from derivative instruments measured at fair value to Income Statement, cannot be applicable.

The preparation of these Financial Statements required the management to use estimates. The main areas which have been subject to particularly significant valuations and assumptions, together with areas which show a relevant impact on situations described, are included in paragraph “Significant estimates and valuations”.
The figures in the Balance Sheet and Income Statement are all expressed in units of Euro, whereas the figures in the explanatory notes are expressed in thousands of Euro, data shown in the Explanatory Notes are expressed in thousands of Euro, except when otherwise indicated.

These Financial Statements, drawn up in compliance with IFRS principles, is audited by PricewaterhouseCoopers Spa.

These Financial Statements as at 31 December 2008 were prepared by the Board of Directors on 26 March 2009. The Board approved the diffusion thereof.

Accounting standards and policies

The valuation of the financial statement items has been carried out on the basis of the general criteria of prudence and accruals, with a view to the business as a going-concern. For the purposes of the accounting entries, priority is given to the economic substance of the transactions rather than their legal form.

The same standards and policies applied to the previous financial year were followed in preparing these Financial Statements. As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have balancing entry in the balance sheet. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

The following criteria and principles have been adopted.

Tangible fixed assets – Tangible fixed assets are recorded at acquisition or production cost, including accessory costs, or at the value based on expert appraisals of the business assets, if relating to purchased companies, net of the related accumulated depreciation and any impairment. The production cost includes the portion of the direct and indirect costs reasonably attributable to the asset (such as: personnel costs, transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notary fees, land registry expenses). Cost includes any professional fees and, for certain assets, capitalised financial charges up to the moment the asset enters into service. Cost also comprises the costs for reclamation of the site on which the tangible fixed asset exists, if complying with the provisions of IAS 37.

Ordinary maintenance costs are charged in full to the income statement. Improvement, modernisation and transformation costs that increase the value of the assets are charged to the balance sheet assets concerned.

The book value of tangible fixed assets is subject to assessment so as to identify any losses in value, and on any occasion that events or changes in circumstances indicate that the book value cannot be recovered (for details, see the section “losses in value – impairment”).

Depreciation starts to be applied when the assets are ready for use. Item work in progress includes costs relating to tangible fixed assets for which the process of economic use has not yet commenced. The tangible fixed assets are systematically depreciated in each accounting period using the economic-technical rates considered representative of the residual possible usefulness of the assets. The following tables contain the depreciation rates taken into account for the depreciation of the assets.

General services	min %	max %
Land	0	0
Buildings	1.5	3
Property complex - Via Razzaboni Mo		
- land	0	0
- buildings	1 – 1.25	2 – 2.5
- external building works	1.66	3.33
Light construction	5	10
General plant	7.5	15
Equipment	5	10
Office furniture and machines	6	12
EDP machines	10	20
Vehicles and internal means of transport	10	20
Automobiles	12.5	25
Measurement and laboratory equipment	5	10
Remote control	10	20
- remote control apparatus (RTU)	5	10
- supervision centres	4.16	8.33
- data transmission network (telephone cable)	2.5	5
- data transmission network (fibre optics)	3.33	6.67
Public Lighting	4	8
- type 1 centre	2	4
- type 2 centre	1.25	2.5
- lighting unit (multiple points)	1.25	2.5
- lighting unit (single points/columns)	2	4
- flux controllers	1.25	2.5
- distribution network	1.43	2.86
- votive lighting	1.66	3.33
Electricity substations	3.5	7

Purification service	min %	max %
Land	-	-
Buildings/Civil works	1.5	3
Buildings IDAR construction section	1.5	3
General and specific plants	7.5	15
Specific IDAR plants	5	10
Specific ITFI plants	5	10
Specific plants	5	10
- Purification plants/Civil works	1.66	3.33
- Purification plants/Installations	3.33	6.67
Lifting plants	6	12
Laboratory equipment	5	10
Network	2.5	5
Electricity substations	3.5	7
Equipment	5	10
Furniture	6	12

District heating and gas service	min %	max %
Land	0	0
1st stage pressure reducer stations - Abstraction		
- Buildings	2.5	5.5
- General plant	7.5	15
- Specific plant	4	10
2nd stage pressure reducer stations - district - specific plant-user stations	5	10
User transformers - Specific plant	4	8
Distribution network in steel	2.22	8
Distribution network in cast iron or spheroidal cast iron	2	8
Distribution network in PE or PVC	2.86	8
Outlets/Intakes	2.5	8
Meters	4	10
Cathodic protection	4	8
Electricity substations - Specific plant	3.5	7
Cogeneration and district heating		
- Production - Buildings	2.5	5.5
- Production - General plant	4.5	9
- Production - Specific plant	4.5	9
Distribution network	2.86	8
Meters	2.5	5
Heat exchange units	4.5	9
- Boilers	1.43	2.86
- Heat exchangers	2.5	5
- Expansion tanks	1.66	3.33
Pumping stations		
- Electricity substation	2	4
- Generators	2.75	4.55
- Pumps	3.33	6.67
- Electricity substations	3.5	7
Equipment	5	10

Water service	min %	max %
Land	-	-
Buildings/Civil works	1.75	3.5
Wells		
- Buildings/Civil works	1.75	3.5
- General and specific plants	1.25	2.5
- Disinfection plants	2.5	5
- Pumps	5	10
- Building works	1.43	2.86
Abstraction - Buildings/Civil works	1.25	2.5
Lifting and fresh water stations		
- Buildings/Civil works	1.75	3.5
- General plants	7.5	15
- Specific plants	6	12
- Fresh water plants	4	8
- Disinfection plants	2.5	5
- Transformers	2	4
- Pumps	3.34	6.67
- Tanks	1.25	2.5
- Filtration plants and filters	2.78	5.56
- Generators and blowers	2.28	4.55
- Building works	1.43	2.86
Tanks	2	4
- Disinfection plants	2.5	5
- Building works	1.11	2.22
Pipelines and distribution networks	2.5	5
Distribution network in steel, cast iron or spheroidal cast iron	1	2
Distribution network in reinforced cement-PE-PVC	1.43	2.86
Outlets/Intakes and connections	2.22	5
Meters	4	10
Electricity substations - Specific plants	3.5	7
Road vehicles	10	20

Electricity production and distribution service	min %	max %
Land	-	-
Buildings	1.50	3.00
MV underground and overhead distribution network	2.00	4.00
LV underground and overhead distribution network	4.00	8.00
HV/MV - LV/MV transformers	3.50	7.00
- station transformers	2.00	4.00
- pole transformers	2.50	5.00
Connections	3.33	8.00
Meters	4.00	10.00
Tables	1.66	3.33
Limiting devices	1.66	3.33
Masonry and single-pole stations	1.66	3.33
Polyfers	1.25	2.50
Receiver stations	1.66	3.33

Waste management services	min %	max %
Land	-	-
Buildings	1.5	3
Secondary building units (warehouse)	1.5	3
Generic plants	7.5	15
Specific IIR plants	5	10
- land	-	-
- buildings	1.00 - 1.25	2.00 - 2.50
- fixed plants pertaining to real estates	1.66 - 2.00	3.33 - 4.00
- external building works	1.66	3.33
- electricity production plant	2	4
- general plants	2.5	5
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.5	5
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity production	2.5	5
- waste-to-energy line control systems	5	10
Specific BIOGAS plant, storage + IRE	5	10
- land	-	-
- buildings	1.00 - 1.25	2.00 - 2.50
- fixed plants pertaining to real estate	1.66 - 2.00	3.33 - 4.00
- external building works	1.66	3.33
- electricity production plant	2.5	5
- CDR packing	2.5	5
- selection, chopping, feeding and sorting plants	2.50 - 3.33	5.00 - 6.67
- ventilation plant	3.33	6.67
- general plant - stabilisation plant - storage tanks	2.5	5
- control systems	5	10
- containers and bins	5.00 - 10.00	10.00 - 20.00
- internal handling equipment	4.16	8.33
Specific waste composting plant	5	10
- land	-	-
- buildings	1.00 - 1.25	2.00 - 2.50
- fixed plants pertaining to real estate	1.66 - 2.00	3.33 - 4.00
- external building works	1.66	3.33
- general plant and lifting equipment	3.33	6.67
- pre-selection plants	2.5	5
- mixing plants	3.33 - 5.00	6.67-10.0
- palleting plants	5	10
- energy recovery plants	2.5	5
- screening and refining plants	3.33 - 4.16	6.67-8.33
- weighing plants	2.25	5
- dioxidation / organic treatment systems	3.33	6.67
- second maturing	5	10
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10	20
Waste containers and equipment	5	10
General equipment	5	10
Snow service equipment	5	10
Sanitary equipment	5	10
Light construction	5	10
Motor vehicles	12.5	25
Controlled landfills		

Land is not depreciated. Landfills are depreciated on the basis of the percentage filled. In the year in which assets were purchased, depreciation rates were reduced by 50% as it is deemed that this is a reasonably approximation of physical and technological wear and tear of the asset.

Gains and losses deriving from the sale or disposal of assets are determined as the difference between the sales revenues and the net book value of the assets, and are charged to the income statement.

Leasing – Leasing agreements are classified as financial leases when the terms of the agreement are such that they essentially transfer all the risks and benefits of ownership to the lessee. The assets forming the subject matter of financial leasing agreements are recorded among tangible fixed assets and stated as assets at their fair value as at the date of acquisition, or if lower, at the current value of the minimum payments due for the leasing; they are depreciated on the basis of their estimated useful life on a consistent basis with the assets owned. The corresponding liability vis-à-vis the lessor is recorded in the balance sheet. The payments for lease instalments are divided up into the principal portion and the interest portion and the financial charges are booked directly to the income statement for the period. All the other leases are considered to be operating leases and the related costs for the lease instalments are recorded on the basis of the conditions anticipated in the agreement.

Intangible fixed assets – Intangible fixed assets which are identifiable and can be monitored, and whose cost can be reliably determined based on the supposition that said assets will generate future economic benefits, are recorded in the accounts. These assets are stated at cost in accordance with the policies indicated for tangible fixed assets and, if they have a defined useful life, they are amortised systematically over the period of the estimated useful life. The amortisation commences when the asset is available for utilisation or in any case begins to produce economic benefit for the business. Work in progress includes costs relating to intangible fixed assets for which the process of economic use has not yet commenced. If the intangible fixed assets have an undefined useful life, they are not amortised but subject to an annual impairment test, even in the absence of indicators which disclose losses in value.

Research costs are booked to the Income Statement of the year. Development costs for new products and/or processes are booked to the income statement in the period they are incurred if they do not meet the requirements of long-term utility.

Advertising expenses are charged directly to the Income Statement.

Industrial patent rights and know-how are representative of assets that are identifiable and capable of generating future economic benefits under the Company's control; these rights are amortised over the related useful lives.

Concessions and licences mainly comprise rights for the concession under management of local public services and are amortised on a straight-line basis over either the economic-technical life of the assets granted or the duration of the concession involved, whichever period is shorter. The residual value of the intangible fixed assets, which corresponds with the water concessions contributed by the merged companies and/or the spun-off business segments, is by contrast amortised in consideration of the average residual management duration in light of the agreements currently in force with the area agencies. The residual value of the intangible fixed assets that corresponds with the concessions for the management of the methane gas distribution networks contributed by the merged companies and/or the spun-off business segments is amortised in consideration of the residual transitory management duration anticipated by current legislation (Letta Decree and Marzano Law).

The gains and losses deriving from the disposal of an intangible fixed asset are determined as the difference between the disposal value and the book value of the assets; they are recorded in the income statement at the time of disposal.

Business combinations – The business combination transactions are recorded according to the purchase method in which the purchaser buys the shareholders' equity and assets and liabilities of the purchased company are recorded. The cost of the transaction includes the fair value, on the purchase date, of the disposed assets, liabilities undertaken, capital instruments issued and any other accessory costs. Any positive difference between the transaction cost and the fair value of acquired assets and liabilities as at the purchase day is charged to goodwill (subject to impairment test, as indicated in the following paragraph). In the event the allocation process of the purchase price shows a negative differential, the latter will be immediately charged to income statement as at the day of acquisition.

Goodwill deriving from the acquisition of an associated company is included in the book value of the investee company, as specified in section Equity investments in associated companies.

Losses in value - Impairment - As at each balance sheet date and when events or situation changes indicate that the book value cannot be recovered, Hera Spa considers the book value of the tangible and intangible fixed assets in order to assess whether there is any indication that said assets have suffered a reduction in value. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total of the write-down. The recoverable amount is either the net sales price or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, Hera Spa estimates the recoverable value of the unit generating the financial flows to which said assets belong. Future cash flows are discounted back at a discount rate (net of taxation) that reflects the current valuation of the market and takes into account the risks associated with the specific business activities.

If the recoverable amount of an asset (or of a unit generating financial flows) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value that the asset would have had if the write-down had not been made due to impairment. The write-back of the value is charged to the income statement, unless the asset is valued at re-valued value, in which case the value write-back is charged to the revaluation reserve.

Treasury shares - In application of IAS 32, treasury shares are recognised as a reduction in shareholders' equity. Also, any differences generated by future purchase or sale transactions are recorded directly as changes in shareholders' equity, without passing via the Income Statement.

Equity investments and securities - Equity investments and securities entered in this item refer to long-term investments.

Equity investments in subsidiaries - A subsidiary is an enterprise over which the Company is able to exercise control. Control means the power to determine an entity's financial and management policies in order to obtain benefits from its activities.

Investments in associated companies – An associated company is a company over which the Group is able to exercise significant influence, (but not control, or joint control), by means of participation in the decisions on the financial and operating policies of the investee company.

Equity investments in subsidiary and associated companies are recorded at cost adjusted by impairments to reflect the relative recoverable value, in accordance with IAS 36 – Impairment of assets. When the impairment ceases to exist or is reduced, the book value is increased to the estimated recoverable value, which cannot however exceed the original cost. The write-back is charged to the income statement. In this respect it is noted that, in accordance with the Italian accounting standards, Hera Spa valued equity investments in subsidiary and associated companies at cost adjusted by any permanent impairments. In view of the procedures for creation and/or acquisition of the equity investments and of their performance recorded over the last years, upon first-time adoption of IFRS the write-downs and impairment entered in the financial statements drawn up according to the Italian accounting standards were deemed to be in line with those that would have been recorded pursuant to the IFRS.

If the Company's interest in the losses of the investee company exceeds the book value of the equity investment, the value of the investment will be written off and the interest in the further losses will be recorded as liability provision if the Company is to be held liable.

Dividends received are recorded in the Income Statement, at the time the right to receive payment is established, only if they derive from distribution of profit arising after acquisition of the investee. If, instead, they derive from distribution of the investee's reserves existing prior to acquisition or from a distribution of capital reserves, these dividends are entered as a reduction in the cost of said equity investment.

Other equity investments and securities – The other equity investments and securities belong to the category anticipated by IAS 39 "financial assets available for sale" (described in the specific paragraph hereunder). They comprise instruments representative of shareholders' equity and are stated at fair value. When the market price or fair value cannot be calculated, they are assessed at cost and can be adjusted if there are losses of value.

If the reasons for the write-down cease to exist, the investments carried at cost are re-valued within the limits of the write downs made and the effect is booked to the income statement, or to shareholders' equity if the investments are held as assets available for sale. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations towards the investee company or in any event cover its losses.

As better described hereunder, the financial assets that the Company intends or is able to maintain until maturity are stated at cost, represented by the fair value of the initial payment made in exchange, increased by the transaction costs. Following initial recognition, the financial assets are valued on an amortised cost basis using the effective interest rate method.

Receivables and financial assets – financial assets are classified by Hera Spa in the following categories:

- assets at fair value with balancing entry in the Income Statement;
- receivables and loans;
- financial assets held until maturity;
- financial assets held for sale.

The management determines the classification of the above-mentioned items at their first recording.

Assets at fair value with balancing entry in the Income Statement

This category includes financial assets acquired for short-term trade purposes, in addition to derivative instruments that are described in the specific section. Fair value of such instruments is measured by referring to the market value at the closing date of the period under measurement. Changes in fair value of instruments included in the above-mentioned category are immediately recorded in the income statement.
Classification between current and non-current reflects the expectations of the management on their trading: current assets include assets whose trading is expected within one year or those identified as held for trading.

Receivables and loans

This category includes assets that are not derivative instruments and are not listed on the active market and from which fixed and determined payments are expected. These assets are valued at amortised cost, according to the method of the actual interest rate. If impairment indicators can be objectively proven, the value of assets is written down to such an extent to be equal to the discounted value of lows which can be obtained in the future: Impairment calculated through impairment test is recorded in the income statement. If, in the following years, reasons of previous writing-downs no longer exist, the value of assets will be written back until reaching the value that would have been derived if the amortised cost was not impaired. The above-mentioned assets are classified as current assets, except for portions with a maturity term longer than one year, which will be included in non-current assets.

Financial assets held until maturity

These assets, different from derivative instruments, are those having a preset maturity term and which Hera is willing and able to keep in portfolio until their maturity. These assets are not recorded for a relevant amount in the Financial Statements. Current assets include assets whose contract maturity is expected within the following year. If impairment indicators can be objectively proven, the value of assets is written down to such an extent to be equal to the discounted value of lows which can be obtained in the future: impairment calculated through impairment tests is recorded in the income statement. If, in the following years, reasons for previous writing-downs no longer exist, the value of assets will be written back until reaching the value that would have been derived if the amortised cost was not impaired.

Financial assets held for sale

This category include financial assets, not derivative instruments, specially disclosed as included in this item or not classified in any other above-mentioned item. These assets are not recorded for a relevant amount in the Financial Statements. These assets are measured at fair value, which is calculated by referring to market prices at the date of the Financial Statements or infra-annual reports or through techniques or models of financial measurement, while recording the changes in value with balancing entry in a shareholders' equity specific reserve ("reserve for assets available for sale"). This reserve is recorded in the income statement only when the financial asset is actually disposed of or, in the event of negative changes, when it is clear that the impairment already recorded in shareholders' equity will not be recovered. The classification as current or non-current assets depends on the management intentions and actual possible trading of the security: assets whose sale is expected in the following 12 months are included in current assets.

If impairment indicators can be objectively proven, the value of assets is written down to such an extent to be equal to the discounted value of lows which can be obtained in the future: negative changes in value, which have been previously disclosed in the shareholders' equity reserve, are recorded in the income statement. Impairment previously accounted for is written-back if circumstances, which involved measurement, no longer exist.

Environmental Bonds – Hera Spa is subject to the number of environmental regulations issued (Directive 2003/87/EC – Emission Trading; Ministerial Decree 24/05 as amended – Green Certificates; Ministerial Decree 20/7/04 – Energy Efficiency Bonds), which set forth the compliance with preset limitations through the use of certificates or bonds. The Group must therefore meet a demand of emission trading, green certificates and white certificates (energy efficiency bonds).

The market development, in which these bonds / certificates are traded, has also permitted the starting of trading activities.

The securities are measured according to their destination.

Securities owned to meet the corporate needs are recorded at cost in the assets.

Environmental securities that are granted free of charge, are initially recorded at a zero value. If securities in portfolio are not sufficient to meet the needs, a special provision is allocated to ensure adequate hedging when the securities are delivered to the management company.

Securities exceeding needs (assigned target) are recorded as assets and indicated as held for trading.

Within the Group, in fact, physical and financial purchase and sale of commodities occur (described in section "derivative financial instruments"), as well as of environmental securities, like emission quotas, green and white certificate" for the quota exceeding the estimated need. These securities are measured at fair value at year-end, and the related changes are recorded in the income statement.

Other non-current assets – These are recorded at their par value, and possibly adjusted for any losses in value corresponding to "amortised cost".

Trade receivables – Trade receivables are recorded at par value, reduced by an appropriate write-down in order to reflect the expected realisable value. This value corresponds to "amortised cost". Financial assets are recorded and reversed from the financial statements on the basis of the date of transaction. Moreover, these assets are reversed if their disposal transfers all risks and benefits connected with their management to third parties.

Contract work in progress – When the result of a contract can be reliably estimated, contract work in progress is valued on the basis of the contractual payments accrued with reasonable certainty, on a percentage of completion basis (cost-to-cost), so as to allocate the revenues and the economic result of the contract to the pertinent individual accounting periods, in proportion to the stage of completion of the work. The positive or negative difference between the value of the contracts and the advance payments received is recorded respectively among the balance sheet assets or liabilities. Contract revenues, in addition to the contractual payments, include the variations, the price review and the recognition of the incentives up to the extent it is probable that they represent effective revenues which can be determined reliably.

When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred, which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred.

When the total contract costs are likely to be higher than the contractual revenues, the expected loss is immediately stated at cost.

Inventories – Inventories are recorded at purchase cost, including directly chargeable related costs, or net estimated realisable value, whichever is the lower. Cost is determined on the basis of constant average cost. The net realisable value is calculated on the basis of the current costs of the inventories at year-end, less the estimated costs necessary for achieving the sale.

The value of obsolete and slow-moving stock is written down in relation to the possible use or realisation, by means of the provision of a specific materials obsolescence allowance.

Inventories of work in progress and finished products are valued at weighted average manufacturing cost for the period, which comprises the raw materials, the consumables and the direct and indirect production costs excluding general expenses.

Cash and cash equivalents – The item relating to liquid funds and cash equivalents includes cash and bank current accounts and deposits repayable on demand and other short-term financial investments with high liquidity that are readily convertible into cash and are subject to an insignificant risk regarding their change in value.

Financial liabilities – These are initially stated at cost, corresponding to the fair value of the liability net of the transaction costs that are directly attributable to the issue of said liability. Following their initial recognition, financial liabilities, with the exception of derivatives, are valued on the basis of amortised cost, using the original effective interest rate method.

Employee leaving indemnity and other employee benefits – The liabilities relating to the defined-benefits plans (such as employee leaving indemnity - TFR) are calculated net of any assets serving the plan on the basis of actuarial suppositions and on an accruals basis in line with the employment services necessary for obtaining the benefits; the valuation of the liability is checked by independent actuaries. The portion of net cumulative value of the actuarial gains and losses exceeding 10% of the current value of the obligation for benefit plans established at the end of the previous financial year is amortised on the remaining average working life of the employees (corridor method).

Provisions for risks and charges – The provisions for risks and charges comprise the amounts set aside in the financial statements on the basis of current obligations (as emerging from past events) in connection with which Hera Spa believes it probably will have to meet. The provisions are allocated on the basis of the best estimate of the costs required to meet the fulfilment, as at the balance sheet date (based on the assumption that there are enough elements to make such estimate), and are discounted back when the effect is significant and the necessary information is available. In such event, the provisions are determined by discounting back the future cash flows at a pre-taxation discount rate that reflects the current market valuation and takes into account the risk associated with the business activities. When the discounting back is carried out, the increase in the provision due to the passing of time is recorded in item financial charges. If the liability is associated with a tangible asset (such as the recovery of sites), the provision is recorded as a matching entry to the asset to which it refers and the recording of the charge in the income statement takes place by means of the depreciation process of the tangible fixed asset to which the charge refers. The methodologies provided by IFRIC 1 are adopted if liabilities are recalculated.

Trade payables – These refer to commercial supply transactions and are recorded at par value corresponding to amortised cost.

Other current liabilities – These concern sundry transactions and are stated at par value, corresponding to the amortised cost.

Derivative financial instruments – Hera Spa holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate fluctuations.

In line with the chosen strategy, Hera Spa does not enter into derivative transactions for speculative purposes.

The transactions which, in observance of the risk management policies, satisfy the requisites laid down by the international accounting standards for hedge accounting treatment are classified as “hedging” (recognised in the terms indicated hereunder), while those which, despite being entered into for hedging purposes, do not satisfy the requisites required by the standards, are classified as “trading”. In this case, changes in fair value of derivative instruments are recorded in the income statement for the period in which they occur. Fair value is calculated based on the reference market value.

For registration purposes, the hedging transactions are classified as fair value hedges if they cover the risk of fluctuation in the market value of the underlying asset or liability; or as cash flow hedges if they cover the risk of changes in financial flows deriving both from an existing asset or liability, or from a future transaction.

Changes in fair value of derivatives indicated as cash flow hedge and are classed as cash flow hedge, are recorded, for the only “effective” portion, in a specific shareholders’ equity reserve (“reserve for cash flow hedge”), which is subsequently reversed in the income statement when the underlying hedging object is closed. The change in fair value inferable to the ineffective portion is immediately recorded in the income statement for the year. If the occurrence of the underlying transaction is no longer deemed as highly probable, or the hedging connection is no longer provable, the corresponding portion of the reserve for cash flow hedge is immediately reversed to the income statement. Conversely, if the derivative instrument is sold, and therefore is no longer classified as effective hedge of the risk for which the transaction was made, the related portion of reserve for cash flow hedge is maintained until the underlying contract is not closed.

Derivatives included under financial assets/liabilities are taken out and assessed at fair value, except for those cases where, in accordance with the provisions of IAS 39, the exercise price of the derivative instrument as at the starting date is close to the value calculated on the basis of the amortised cost of the reference assets/liabilities. In such case, the assessment of the included derivative instrument is absorbed in the assessment of the financial assets/liabilities.

Grants - Capital grants are recorded in the income statement over the period necessary for correlating them to the related costs. They are represented in the balance sheet by recording the grant as deferred revenue. Operating grants, including those received from users for connection purposes, are considered to be revenues for services carried out during the accounting period and are therefore recognised on an accruals basis.

Revenue recognition - Revenues and income are stated net of returned items, discounts and rebates, and net of taxes directly related to the sales of products and services rendered. They are broken down into revenues deriving from operating activities and financial income which accrues between the sale date and the payment date.

Specifically:

- the revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels),
- revenues from services rendered are recognised on the basis of the services provided and in compliance with the relevant contracts,
- revenues from the sale of goods are recognised at the time Hera Spa transfers the significant risks and benefits associated with ownership of the assets to the purchaser,
- costs are recognised in accordance with the accruals principle.

Financial income and charges – Financial income and charges are recorded in compliance with the accruals principle.

Dividends of “other companies” are charged to the income statement at the time when the right to receive their payment is established, only if deriving from distribution of profit subsequent to the investee company’s acquisition. If, instead, they derive from distribution of the investee’s reserves existing prior to acquisition or from a distribution of capital reserves, these dividends are entered as a reduction in the cost of said equity investment.

Income taxes for the year - Income taxes for the year represent the sum of current and deferred taxes.
Current taxes are based on the taxable income for the year. Taxable income differs from figures recorded in the income statement, as positive and negative components that will be taxable or deductible in other years, as well as items that will never be taxable or deductible, are excluded. Current tax liabilities are calculated using current tax rates in force at the balance sheet date, and are recorded under the item “tax liabilities”. While calculating taxes for the year, the Company kept in duly consideration the effects resulting from the IAS tax reform introduced by Law no. 244 of 24 December 2007, and especially the derivation principle set out by Art. 83 of the Consolidation Act on Income Taxes which now sets out that for entities who apply international accounting standards, also notwithstanding provisions set out by the Consolidation Act on Income Taxes, “criteria regarding definition, time-based recognition and classification in the balance sheet, as set out by the above-mentioned accounting principles” shall apply.

For the purposes of IRES (corporation tax) the Company has opted to use the “domestic tax consolidation” system with the major subsidiary companies. To this end, a special contract has been entered into with each subsidiary by which to regulate the tax items transferred with specific reference to current taxes. Prepaid and deferred taxes calculated when determining the income of the subsidiaries are not transferred to the Parent Company Hera Spa, but remain under the individual subsidiary.

Deferred taxes are calculated with reference to the temporary differences in taxation and are entered in the item “deferred tax liabilities”. Deferred taxes are recorded to the extent that, in the years in which the related temporary differences will be reversed, the existence of a taxable income, at least equal to the differences that will be mutually offset, is deemed probable.

Deferred and prepaid taxes are determined on the basis of the tax rates in force at the time the temporary differences are recorded. Any changes, as a result of amendments to taxes and/or to rates, are recorded in the year in which the new provisions come into force and are effectively applicable. These changes are charged to the income statement, or the shareholders’ equity, depending on how the difference was originally charged.

Translation of foreign currency balances – The functional and reporting currency adopted by Hera Spa is the Euro. Foreign currency transactions are initially recorded using the exchange rate in force as of the transaction date. Foreign currency assets and liabilities, with the exception of fixed assets, are recorded using the exchange rate in force as at the period end date and the related exchange gains and losses are duly charged to the income statement; any net gain that might arise is set aside in a specific restricted reserve until the date of realization.

Transactions with related parties – Transactions with related parties are carried out at normal market conditions.

New accounting principles

New IFRS and interpretations of IFRIC

Up to now, IASB and the International Financial Reporting Interpretations Committee (IFRIC) have issued Principles and Interpretations, which are still not compulsory and not adopted by the Community Legislator. Hera Spa has in any case considered the impact of the above, by applying each single principle, starting from the scheduled terms and highlighting their potential impact on its equity and economic position as follows:

IFRS – IFRIC interpretation		Effects on the Group
IAS 39 Amendments	Financial instruments	No significant effects are expected.
IFRS 8	Operating segments	The application of the principle entails a different information method as to Financial Statements. The Group intends to apply this amendment from 1 January 2009.
IAS 23	Financial Charges	To date, the Group capitalises financial charges only if special conditions occur. Conversely, according to the new principle, which will be applied from 1 January 2009, financial charges for some asset classes must be capitalised.
IAS 1	Presentation of the Financial Statements	The application of the principle entails a different information method as to Financial Statements. The Group intends to apply this amendment from 1 January 2009.
IFRS 2 Amendment	Share-based payments	No significant effects are expected if there are no payments based on shares. The Group intends to apply this amendment from 1 January 2009.
IAS 27	Consolidated and separate Financial Statements	The Group is already applying the Economic Entity approach, the only one provided for in the IAS 27 Amendment. The Group intends to apply this amendment from 1 January 2009.
IFRS 3	Business combinations	According to the new version of IFRS 3, transaction costs must be charged to income statement, the measurement at fair value of each single asset and liability of the subsidiary in more than one subsequent phases (for the multiple-phase acquisitions) is no longer compulsory and the acquisition date of liabilities for payments subject to conditions must be disclosed. The Group intends to apply this amendment from 1 January 2009.
IFRIC 12	Licensed services contracts	The Group plans to apply this modification after approval by the European Union. The Group is assessing the possible impact of its application
IFRIC 13	Customer loyalty building programs	No significant effects are expected.
IFRIC 14	Activities for define benefit plans and minimum	No significant effects are expected. The Group intends to apply this modification

IFRS – IFRIC interpretation		Effects on the Group
	hedging criteria	starting from 1 January 2009.
IFRIC 15	Contracts for building real estate property	No significant effects are expected. In any case, the Group intends to apply this amendment after the approval by the European Union.
IFRIC 16	Hedging an equity investment in a foreign company	No significant effects are expected. In any case, the Group intends to apply this amendment after the approval by the European Union.
IFRIC 17	Distribution of non-monetary assets to shareholders	The Group intends to apply this amendment after the approval by the European Union. Non monetary assets have never been distributed to shareholders.
IFRIC 18	Transfer of assets from customers	The Group intends to apply this amendment after the approval by the European Union. Meanwhile, it is assessing the possible impact of this application.

Risk management

Credit risk

Hera Spa operates in business areas with low levels of credit risk given the nature of its activities and due to the fact that its credit exposure is spread over a large number of customers. The reference market is the Italian market. Assets are recorded in the financial statements net of any write-downs determined on the basis of the default risk of the counterparties, taking into account the information available on solvency and the historical data.

Liquidity risk

Liquidity risk for Hera Spa may arise from difficulties in obtaining financing to support its transactions within good time. Cash flows, financing needs and the liquidity of the Group's companies are centrally monitored or managed, under the control of the Group's Treasury Department, for the purpose of ensuring an efficient and effective management of financial resources.
The financial planning of requirements, focused on medium term borrowings, and the availability margins on credit facilities, allow an efficient management of liquidity risk.

Foreign exchange risk and interest rate risk

Hera Spa is not subject to exchange rate risk as it operates almost exclusively in the Italian market, both in relation to the sale of its services and the procurement of goods and services. As for interest rate risk, Hera Spa regularly assesses its exposure to the risk of interest rate fluctuations and manages this risk by means of derivative financial instruments, in accordance with its risk management guidelines. Under these guidelines, the use of derivative financial instruments is restricted to the management of exposure to interest rate fluctuations related to cash flows and balance sheet assets and liabilities. Under these policies, no speculative activity is allowed.

Significant estimates and valuations

Use of estimates

Arrangement of the financial statements and related notes required the use of estimates and valuations by the directors, with regard to the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. The main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities within the next year are therefore set forth below.

Specific information is provided on the nature of these estimates and the assumption, on which they have been based, with indication of the reference book values.

Impairment of goodwill

Hera Spa carries out an impairment test on goodwill at least once a year. This test is based on the calculation of its value in use, which requires the use of estimates, as described in greater detail in the paragraph on goodwill.

Allocations to provisions for risks

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

3. Revenues

	2008	2007	Change
Revenues for gas distribution to third parties	10,963	6,914	4,049
Revenues for water cycle	356,018	327,881	28,137
Revenues for supply of electricity	47,126	77,915	(30,789)
Revenues for waste collection and disposal	437,672	418,359	19,313
Revenues from district heating	59,940	55,212	4,728
Revenues from public lighting	33,885	31,622	2,263
Revenues from funeral and crematory services	9,400	11,264	(1,864)
Revenues for services on behalf of third parties	84,090	95,929	(11,839)
Revenues from subsidiaries	769,612	740,237	29,375
Revenues for other services provided	2,951	12,371	(9,420)
Total	**1,811,657**	**1,777,704**	**33,953**

The analysis of the sales performance by business sector is presented in the Directors' Report.

The Group structure and following invoicing relations between the various companies are described in section 3.03.02.

Item "Revenue for supply of electricity" shows a negative change, equal to Euro 30,789 thousands, mainly due to a regulatory change by the Authority for Electrical Energy and Gas (AEEG) (resolution 156 of 27 June 2007) according to which, from 1 July 2007, the purchase from the single purchaser of electricity intended for protected categories is carried out by the Hera Group's Sales Company and no longer by its Distribution Company. Reference is made to description in Note 6 "Electricity ready for sale".

"Revenues for other services provided" include the invoicing of sundry services for a negligible amount provided to municipalities and private customers.

4. Change in inventories of finished products and work in progress

	2008	2007	Change
Change in inventories of work in progress	-	(13)	13
Change in contract work in progress	-	(105)	105
Total	**-**	**(118)**	**118**

As regards 2008, this item is no longer present as the corresponding works in progress to third parties were completed and invoiced to the related counterparties.

5 Other operating income

	2008	2007	Change
Insurance reimbursements	2,558	1,724	834
Sale of materials and stock to third parties	134	314	(180)
Portion of capital grants	2,597	2,226	371
Portion of operating grants and grants for separate waste collection	11,412	8,389	3,023
Leases	5,411	5,151	260
Use of provisions	1,740	1,550	190
Gains from sale of assets	3,079	770	2,309
Costs reimbursed	3,314	3,496	(182)
Other	39,849	20,276	19,573
Total	**70,094**	**43,896**	**26,198**

The main changes with respect to 2007 are shown hereunder.

- Insurance reimbursements: this item shows an increase of Euro 834 thousand, mainly due to collections from insurance companies and charges made by customers from the Province of Rimini for the payment of damages suffered by property assets, mainly in the water sector.

- Operating grants and grants from separate waste collection show an increase equal to Euro 3,023 thousand, due as follows:

  - for Euro 830 thousand, due to a higher quantity of packaging (plastic, glass, wood) coming from separate waste collection and sold to Consortiums of the Conai chain;
  - for Euro 2,160 thousand for grants paid to Hera Spa by the Centro di Coordinamento Raee according to provisions set out in the Program Agreement signed on 18 July 2008 with Anci, regarding the new management system of Raee (waste of electrical and electronic appliances).

- Capital gains from sale of assets. It is worth noting the sale of real estate properties in Faenza, Via Boaria, and in Modena, Via del Tirassegno, which generated a capital gain of Euro 1,087 thousand and Euro 1,422 thousand, respectively.

The main changes in item “other revenues” are shown hereunder:

Other revenues	2008	2007	Change
White certificates	8,998	2,747	6,251
Other revenues, refunds and income	6,594	4,505	2,089
Charges to Group companies for costs borne for directors' fees, real estate services, fleet management and other	9,565	5,340	4,225
Assessment of sundry provisions	10,280	737	9,543
Gains from disposal of corporate branches	3,500	644	2,856
Recovery of costs from customers	658	357	301
Excussion of fidejussory policy	254	517	(263)
Revenues for water emergency	-	2,487	(2,487)
Increase in sundry revenues from third party bodies	-	1,952	(1,952)
Revenues generated by the management of meteoric water	-	990	(990)
Total	**39,849**	**20,276**	**19,573**

Assessment of sundry provisions: this item is mainly composed of a provision for doubtful receivables (Euro 8,100 thousand), a provision for disputed taxes (Euro 723 thousand) and a provision for future costs for electrical services provided (Euro 1,173 thousand).

Gains from disposal of corporate branches: the increase is mainly due to the capital gain generated after the disposal to Romagna Acque to the corporate branch regarding the management of water production plants in the ATO territories of Forlì Cesena, Ravenna and Rimini.

Revenues from water emergency: the decrease results from reimbursements against costs incurred for the water crisis in 2007, which did not occur in 2008.

Revenues generated by the management of meteoric water: the decrease, compared to the previous year, is due to the fact that in 2008 there revenues were classified in the tariff pertaining to the integrated water service (revenues for water cycle in note 3 “revenues”).

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

	2008	2007	Change
Methane ready for sale and LPG net of inventory changes	123	34	89
Fuel for heat generation	4,398	3,551	847
Electricity ready for sale	14,278	50,039	(35,761)
Maintenance materials: handling and spare parts net of change in stock	6,559	4,467	2,092
Electricity for industrial use	47,331	47,285	46
Fuels and lubricants	11,019	9,363	1,656
Methane for industrial use	32,632	28,145	4,487
Water for industrial use	8	13	(5)
Chemical products	2,649	2,669	(20)
Consumables and sundry materials	1,629	1,100	529
Total	**120,626**	**146,666**	**(26,040)**

The analysis of the trend in costs for raw materials and consumables is presented in the information contained in the management report.

This item includes also the effect of the valuation of grey and green certificates.

The change in the item “Electricity ready for sale”, compared to 2007, equal to Euro 35,761 thousand, is mainly due to a regulatory change by the Authority for Electrical Energy and Gas (AEEG) (resolution 156 of 27 June 2007) according to which from 1 July 2007 the purchase from the single purchaser of electricity intended for protected categories is carried out by the Hera Group's Sales Company and no longer by its Distribution Company.

7 Costs for services

	2008	2007	Change
Costs for services to associated companies	1,037,957	1,002,123	35,834
Industrial utilities (water, methane, heat and electricity)	3,250	3,079	171
Charges for work and maintenance	89,317	85,863	3,454
Transport and storage	205	330	(125)
Insurance costs	9,476	8,270	1,206
Cleaning and security costs	3,370	3,517	(147)
Waste transportation, disposal and collection services	87,776	105,230	(17,454)
Announcements, advertising and disputes	2,877	3,740	(863)
Technical, organization, legal and tax assistance consultancy	10,943	11,355	(412)
Remuneration of Directors and Statutory Auditors	2,398	2,359	39
Meter reading	16,034	15,945	89
Postal and telephone costs	4,822	5,001	(179)
Recruiting, training and other staff costs	24,425	20,830	3,595
IT and CED services	3,548	2,487	1,061
Laboratory analyses	5,980	4,329	1,651
Bank fees and charges	71,023	65,403	5,620
Fees paid to local authorities	12,731	10,511	2,220
Rents and leases payable	9,506	9,258	248
Other	6,317	5,295	1,022
Total	**1,401,955**	**1,364,925**	**37,030**

Item “Costs for services to associated companies” includes costs generated by service agreements concluded between Hera Spa and subsidiaries (see section 3.03.02 “Relations with related parties”).

Item “Fees paid to local authorities” includes the charges incurred for the use of public networks, fees paid to asset companies for the rent of gas, water and electricity cycle assets and the leasing of the drop-off points.
The changes in the main operating costs with respect to the previous year are discussed in the Directors’ Report.

As regards item “Waste transportation, disposal and collection services”, the decrease compared to 2007, equal to Euro 17,454 thousand, is mainly due to the transfer by Hera of the burs (business unit special waste) business branch, effective from 1 April 2008, in Ecologia Ambiente, a company with a corporate mission of environmental services and actions.

8. Personnel costs

The breakdown of personnel costs in the two financial years is as follows:

	2008	2007	Change
Wages and salaries	46,006	42,633	3,373
Social security contributions	14,740	14,109	631
Employee leaving indemnity	829	1,759	(930)
Other costs	3,712	3,335	377
Total	**65,287**	**61,836**	**3,451**

The increase in personnel costs is due to the trend in the average unit cost, linked to salary increases and increased use of human resources for duties involving customer contact.

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

Category	2008	2007	Change
Executives	66	66	-
Managers	110	99	11
White-collar	571	558	13
Blue-collar	230	229	1
Total	**977**	**952**	**25**

9. Amortisation, depreciation and allocations

	2008	2007	Change
Depreciation of tangible fixed assets	111,045	99,738	11,307
Amortisation of intangible fixed assets	34,236	33,002	1,234
Allocation to provisions for doubtful receivables	11,851	18,108	(6,257)
Allocations to provisions for risks	2,262	8,999	(6,737)
Other provisions	12,869	10,916	1,953
	172,263	**170,763**	**1,500**

A breakdown of these items is provided in the notes to the items "tangible fixed assets", "intangible fixed assets", "trade receivables" and "provisions for risks and charges".

10. Other operating costs

	2008	2007	Change
State rentals	10,292	7,887	2,405
Taxation other than income taxes	3,681	3,369	312
including rent for public spaces and areas	1,550	1,141	409
Membership fees and other fees	1,271	1,200	71
Special landfill levy	11,295	10,772	523
Losses on the sale of assets	420	371	49
Losses on receivables	40	-	40
Other minor charges	8,240	6,525	1,715
including business purpose related expenses	83	114	(31)
including fines, sanctions and penalties	602	435	167
including sundry expenses (mainly contributions to disadvantaged customers)	2,107	2,584	(477)
including other current costs	4,396	2,425	1,971
Total	**35,239**	**30,124**	**5,115**

The significant increase in state rentals, equal to Euro 2,405 thousand, mainly refers to the rental connected with the agreement signed in 2008 for the collection and removal of meteoric water in the Municipalities of Bologna, Casalecchio di Reno and Castel Maggiore.

The increase in the special landfill levy, equal to Euro 523 thousand, is related both to the greater quantity of waste disposed in the landfills managed by Hera Spa, and the re-opening of a landfill.

The increase in item other minor charges is mainly due to costs borne for indemnities and fee adjustments of the water service, invoiced to customers to cover meteoric water services pertaining to the local governments in the Bologna area.

11. Capitalised costs

During the year the following costs were capitalised in the items "Tangible and intangible fixed assets":

	2008	2007	Change
Material withdrawn from inventory	227	87	140
Personnel costs	4,598	3,969	629
Capitalisation of financial charges	11,855	6,998	4,857
Total	**16,680**	**11,054**	**5,626**

This item includes internal costs borne for the realisation of corporate investments. For the analysis of investments, reference is made to the notes to the balance sheet assets (intangible and tangible fixed assets) and to the Directors' Report.

12. Portion of profit (loss) pertaining to investee companies

	2008	2007	Change
Income from equity investments in subsidiaries	79,176	71,174	8,002
Income from equity investments in associated companies	725	13	712
Income from equity investments in other companies	4,343	1,927	2,416
Losses on disposal of equity investments in subsidiaries	(634)	(128)	(505)
Losses on disposal of equity investments in associated companies	-	(30)	30
Losses on disposal of equity investments in other companies	(6)	-	(6)
Write-downs of equity investments	()	(146)	146
of which subsidiaries	-	-	-
of which associated companies	-	-	-
of which others	-	(146)	146
Total	**83,605**	**72,810**	**10,794**

Item "Income from equity investments" in subsidiaries, associated and other companies is mainly composed of dividends resolved during the 2008 financial year.

The increase in item "Income from equity investments in other companies" is mainly due to an advance payment of the 2008 dividend, distributed in December by Energia Italiana Spa and Hera Spa.

13. Financial income and charges

Financial income	2008	2007	Change
Income from long-term receivables due from subsidiaries	380	233	147
Income from long-term receivables due from associated companies	292	774	(482)
Income from long-term receivables due from others		83	(83)
Other income - from subsidiaries	-	7	(7)
Other income - from associated companies	206	-	206
Bank interest income	934	1,212	(278)
Interest income on other short-term receivables	150	121	29
Interest charged to customers		4	(4)
Financial income generated by derivatives on rates	7,814	16,674	(8,860)
Other income - from others	391	469	(78)
Total	**10,167**	**19,577**	**(9,410)**

Financial charges	2008	2007	Change
Interest expense and other charges relating to subsidiaries and associated companies	126	1,621	(1,495)
Interest expense on bank current account overdrafts	20,213	13,399	6,814
Interest expense charged by banks for medium/long-term loans	19,961	23,846	(3,885)
Financial charges generated by derivatives on rates	3,958	13,604	(9,646)
Financial charges as a result of IAS 19	903	867	36
Financial charges generated by the application of "Other international accounting standards"	4,201	9,172	(4,971)
Other	47,561	29,103	18,458
Total	**96,923**	**91,612**	**5,311**

The change in the grand total of financial operations is described in the Directors' Report.

As regards interest expense and other charges relating to subsidiaries and associated companies, the change is mainly due to charges on the cash pooling contract between Hera Spa and Hera Comm, charged until 31 March 2007.

Financial income and charges generated from derivatives on rates include the effects of closing operations previously discussed in the Directors' Report.

Item "Other", equal to Euro 47,561 Euro, includes the following:

- Euro 41,894 thousand related to financial charges on bond issues. With regards to the previous year, an increase of Euro 14,014 thousand is recorded, mainly due to new loans received at half 2007 and over 2008. Charges regarding bond issues include around Euro 1,956 thousand related to the differential between nominal interest and interest arising from the application of amortised cost. As regards interest on amortised costs, it is worth noting that the calculation was made based on the expected maximum term of loans and therefore put options are not exercised upon maturity terms agreed upon.
- Euro 3,024 thousand regarding financial charges paid after the amortisation instalments of mortgage loans with former Cassa Depositi e Prestiti have been recalculated. For further information on taxation, reference is made to Note 14 on income taxes.
- Euro 1,351 thousand, related to assignment of credit;
- Euro 420 thousand, related to factoring charges.

- Item "Financial charges generated by the application of other international standards", for Euro 4,201 thousand, is broken down as follows:

	2008	2007	Change
IAS 37 Restoration of third party assets	3,614	4,939	(1,325)
IAS 37 Landfill post-closure provision	94	3,641	(3,547)
IAS 17 Financial leasing	493	592	(99)
Total	**4,201**	**9,172**	**(4,971)**

14. Income taxes

This item is broken down as follows:

	2008	2007	Change
Current taxes (IRES – corporation tax, IRAP – regional business tax, and substitute tax)	17,799	12,595	5,204
Deferred taxes	(1,085)	(45,153)	44,068
Prepaid taxes	(1,327)	(24)	(1,303)
Total	**15,387**	**(32,582)**	**47,969**

Taxes for the 2008 financial year show a negative amount of Euro 15,387 thousand and do not include non-recurring effects, compared to the amount for 2007 of Euro 32,582 thousand, including recurring effects amounting to Euro 2,547 thousand and non recurring effects equal to total Euro 30,036 thousand.

Current taxes are broken down as follows:

Current taxes	2008	2007	Change
IRES – corporation tax	9,545	(16,195)	25,740
IRAP - regional business tax	6,790	3,421	3,369
Substitute tax law 244/07	-	23,571	(23,571)
Substitute tax law 244/07 - recapture	(333)	-	(333)
Substitute tax due to spin-off	1,797	1,797	-
Total	**17,799**	**12,595**	**5,204**

The theoretical rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 27.50%; reconciliation with the effective rate is provided below (IRAP was not taken into consideration given its specific nature).

RECONCILIATION TABLE BETWEEN THEORETICAL AND ACTUAL RATE	
Current financial year	
Ordinary rate	27.50%
Exempt income	0.00%
Dividends	-25.73%
Other changes	7.12%
Effective rate	8.89%

The prepaid and deferred taxes relating to the year 2008 refer to the following variations between taxable income and profit recorded in the Financial Statements.

	2007			2008	
	amount of the temporary differences	tax effect (rate 27.50% -31.40%)	acquisitions/ disposals	amount of the temporary differences	tax effect (rate 27.50% -31.40%)
Prepaid tax:					
Write-downs for impairment of financial assets	-	-		-	-
Provision for doubtful receivables	21,099	5,802		21,603	5,941
Provisions for risks and charges	28,842	8,735		38,290	8,180
Depreciation	33,612	10,554		46,052	13,949
Other	6,535	1,912		6,942	1,918
IAS/IFRS impacts, including first application	**8,077**	**2,361**		**5,179**	**1,494**
Total	**98,165**	**29,364**	**791**	**118,066**	**31,482**
Amount charged to 2008 Income Statement		**24**			**1,327**
Deferred tax					
Capital allowance	-	-		0	0
Capital gains instalments	8,506	2,666		10,490	3,103
Other	-	-		2,029	101
IAS/IFRS impacts, including first application	**216,613**	**67,889**		**213,475**	**66,881**
Total	**225,119**	**70,555**	**615**	**225,994**	**70,085**
Amount credited to 2008 Income Statement		**45,153**			**1,085**
Net deferred (prepaid) tax					

While calculating taxes for the year, the effects resulting from the IAS tax reform introduced by Law no. 244 of 24 December 2007 were kept in duly consideration, and especially the derivation principle set out by Art. 83 of the Consolidation Act on Income Taxes which now sets out that for entities who apply international accounting standards, also notwithstanding provisions set out by the Consolidation Act on Income Taxes, “criteria regarding definition, time-based recognition and classification in the balance sheet, as set out by the above-mentioned accounting principles” shall apply.

As regards the real entity of the reform, and in particular the interpretation doubts on the area of application of the strengthened derivation principle, it must be noted that, to date, there are no official statements by the financial administration and the law scenario is incomplete: in fact, the implementation provisions on the application of the IAS tax reform, introduced by the 2008 Finance Act, have not been finally approved yet.
It is deemed, however, adequate that taxes had been calculated based on the better interpretation of the current law, although with the limits highlighted above.

In accordance with Law Decree no. 10 of 15 February 2007, subsequently converted into Law no. 46 of 6 April 2007, governing the terms for reimbursement of government aids declared illegitimate by the Ruling of the European Commission no. 2003/193 dated 5 June 2002, Hera Spa was served the notices/orders issued by the Inland Revenue office responsible for the area, demanding the payment of a total amount of Euro 22,312,964 for the four tax periods involved in the recovery. On 31 May 2007, Hera Spa submitted an appeal against these notices/orders to the Bologna Province Tax Commission, also asking for a suspension of the enforcement of the payment orders. On 6 July 2007 the Bologna Province Tax Commission issued the orders whereby the Company's request for suspension was accepted and the hearing regarding the issue was arranged to be held on 13 December 2007. On 19 April 2008, the notification of the ruling was sent which rejects the appeals, except for the 1997 taxable period, for which the Commission acknowledged the legitimacy of the deduction of the withholding taxes suffered and the tax credits retained from previous years.

After the partial relief obtained on 2 May 2008 for taxes related to the 2007 taxable period, following the approval of the above-mentioned withholding taxes and credits, equal to Euro 3,738,074, payment was made for a total amount of Euro 17,399,770. Against the first instance judgement the appeals were proposed and the company is currently waiting for the hearing to be fixed.
It should be further pointed out that, in accordance with the provisions of the agreements between the shareholders entered at the moment of the merger which led to incorporation of Hera Spa and disclosed in the listing Prospectus, the local authorities pledged to indemnify Hera Spa of any costs, losses or damages incurred by the latter with reference to binding regulatory measures which may annul the tax concessions from which the companies and the other participants to the merger have already benefited.

As a consequence, no cost to this purpose was recognised. As regards the above, it is worth noting that on 31 December 2007, some Municipality Shareholders set up suited guarantees in favour of the Company through the prepayments of amounts due to Hera Spa. Following the negative outcome of the first instance judgement and following payment of the tax assessments, debit/credit positions were therefore defined with respect to each Municipality. On 31 December 2008, the remaining receivables to be collected amounted to Euro 2,174,291.

As regards the former Meta Modena, for which the above-mentioned indemnity is not provided, it should be noted that the Inland Revenue office of Modena notified to Hera Spa, on 11 May 2007, under the provisions of, and in compliance with, the legislative decree dated 15 February 2007, the notices-injunctions for the recovery of the State aids related to the 1998 and 1999 tax periods. On 6 June 2007, Hera Spa filed applications for the amendment ("*istanze di autotutela*") of such notices-injunctions.
On 11 June 2007, the Inland Revenue office of Modena issued partial self-defence measures relating to the communicated notices/orders, requesting the Company, as a way of settling the issue, the payment of a minimal amount resulting from the failure to acknowledge withholding taxes suffered.

Moreover, it is noted that in the period from June 2007 to February2008, the authority in charge of collection, ordered Hera Spa to pay some tax assessments in order to recover the government aids referred to mortgage loans granted by Cassa Depositi e Prestiti to some companies/consortiums then transferred to Hera Spa. Total tax assessments amounted to Euro 3,023,781. Hera Spa contested the above-mentioned tax assessments before the Bologna Province Tax Commission, which deferred the parties before the Ordinary Court where the proceedings will be discussed. Hera also objected before the Lazio Regional Administrative Court a previous notice/order sent by the Treasury Department, in which the Minister legitimated its order upon the decision of the European Community dated 5 June 2002. As it is known, this decision declared that loans granted at low-interest rates by the bank Cassa Depositi e Prestiti to joint-stock companies established pursuant to 142/90 were incompatible with the common market. The above-mentioned amount, paid in various instalments over the period between January and April 2008 was recognised in financial charges.

It should be also noted that, Art. 24 of the Leg. Decree no. 185 of 29 November 2008, converted with amendments into Law no. 2 of 28 January 2009, charged the Inland Revenue office to recover, within 31 March 2009, the aids equal to unpaid taxes and related interest permitted based on the tax moratorium, "in order to entirely implement" the aforementioned decision of the Commission of 5 June 2002. Due to the amendment submitted by the Government as regards the above law, it seems that term still available for the Inland Revenue office to possibly recover unpaid taxes with the proceeding previously in force might be extended for three months, and therefore until end of June 2008.

To date, due to the number of uncertainties in interpreting the rules governing the above proceeding, the Company is not able to quantify the possible liability which might arise from the reopening of the recovery proceeding. The management, however, does not expect that significant liabilities will derive from the above mentioned proceeding.

15. Tangible fixed assets

Tangible fixed assets comprise:

	31-Dec-08	31-Dec-07	Change
Land and buildings	250,605	226,895	23,710
Plant and machinery	1,420,967	1,251,223	169,744
Other moveable assets	75,544	74,900	643
Work in progress and accounts	374,984	280,721	94,263
Total	**2,122,099**	**1,833,739**	**288,360**

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

Statement of changes in tangible fixed assets

Thousands of €	Land and buildings	Plant and machinery	Other moveable assets	Works in progress	Total tangible fixed assets
ACQUISITION COST					
Balance as at 31.12.2007	**27,136,727,709**	**1,664,676**	**193,979**	**280,721**	**2,410,742**
Increases	26,111	264,578	26,033	120,370	437,093
Disposals	-5,156	-20,826	-11,972	-4,048	-42,002
Reclassifications and other changes	10,877	16,755	541	-22,059	6,115
Balance as at 31.12.2008	**303,199**	**1,925,183**	**208,581**	**374,984**	**2,811,948**
ACCUMULATED DEPRECIATION					
Balance as at 31.12.2007	**-44,472**	**-413,453**	**-119,078**	**- -**	**577,004**
Depreciation for the year	-6,066	-89,732	-15,248	-	-111,046
Disposals	854	9,807	10,299	-	20,960
Reclassifications and other changes	-2,910	-10,838	-9,011	-	-22,759
Balance as at 31.12.[illegible]	[illegible]	[illegible]	[illegible]	**-**	**-689,849**
Net value	[illegible]	[illegible]	[illegible]	**[illegible]4,984**	**2,122,099**
As at 31 December 2007	**[illegible]95**	**1,251,223**	**74,900**	**[illegible]80,721**	**1,833,739**
As at 31 December 2008	**[illegible]05**	**1,420,967**	**75,544**	**74,984**	**2,122,099**

Prospetto di movimentazione delle immobilizzazioni materiali

euro migliaia	Terreni e fabbricati	Impianti e macchinari	Altri beni mobili	Investimenti in corso	Totale imm.ni materiali
Costo di acquisizione					
Saldo al 31.12.2007	**271.367**	**1.664.676**	**193.979**	**280.720,52**	**2.410.742**
Incrementi	26.111	264.578	26.033	120.370	437.093
Disinvestimenti	-5.156	-20.826	-11.972	-4.048	-42.002
Riclassifiche e altre variazioni	10.877	16.755	541	-22.059	6.115

Items “Land and buildings”, amounting to Euro 72,413 and 178,192 thousand, respectively, as at 31 December 2008, mainly relate to company-owned properties. Increases are mainly due to acquisitions resulting from the incorporation of Sat - Sassuolo and extraordinary maintenance works on corporate headquarters, such as the offices of Bologna-Viale Berti, the offices of Rimini-Strada Consolare and masonry works regarding a number of purification plants, such as Bazzano and Sala Bolognese.

Significant decreases over the year it is worth noting the disposal of real estate properties in Faenza, Via Boaria and Modena, Via del Tirassegno.

Item “Plant and machinery”, amounting to Euro 24,060 thousand, and item “Specific plants”, equal to Euro 1,245,863 thousand mainly relate to the water, gas and electricity distribution networks of the areas managed by Hera. This item, in addition the costs for improvement to third party assets, also includes expenses incurred for the road system outside the plants and amounts due from Asset Companies. The increase for the year is due, in addition to the acquisition of Sat – Sassuolo, to assets which started to operate over the year, as well as to the reclassification of values from item “Franchises” included under intangible fixed assets, as a result of the expiry of some concessions relating to gas and purification services in some municipalities of the Bologna area (reference is made to description of intangible fixed assets).

The significant decreases that are worth noting are manly the plants regarding burs, funerals and public green corporate branches, which were transferred to Ecologia Ambiente and Anthea Rimini, respectively.

Item “Other moveable assets” includes the equipment, furniture, electronic machines, cars and motor vehicles.

Namely, equipment, equal to Euro 39,218 thousand, mainly includes casings for waste disposal.

Furniture and electronic machines, equal to Euro 4,018 thousand and 1,557 thousand, respectively, do not show any remarkable changes compared to the previous year.

Motor cars and motor vehicles amount to Euro 805 thousand and 29,944 thousand, respectively.

Item “Work in progress and accounts”, equal to Euro 374,984 thousand, is mainly composed of costs borne to date for the design of the cogeneration power plant in Imola and the construction of new networks and enlargement of waste to energy plants in Forlì, Ravenna and Ferrara.
The above-mentioned plants will undergo final tests in 2009 and their depreciation will start from that year. With regard to WTE, it should be noted that a partial reconversion plan of the same is being approved to use biomass as fuel. This change in destination, as highlighted by special survey of third parties, will not involve reductions in usage value of these plants.

16. Intangible fixed assets

Intangible fixed assets comprise:

	31-Dec-08	31-Dec-07	Change
Patents and know-how	32,892	46,067	(13,175)
Franchises	102,944	112,512	(9,568)
Licenses, trademarks and similar rights	6,964	4,473	2,491
Works in progress and advances	30,421	20,591	9,830
Other	3,736	3,241	495
Total	**176,957**	**186,884**	**(9,927)**

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

Statement of changes in intangible fixed assets

Thousands of €	Patents	Franchises, licenses, trademarks and similar rights	Other	Work in progress and advances	Total intangible fixed assets
Acquisition cost					
Balance as at 31.12.2007	**100,284**	**228,466**	**9,792**	**20,591**	**359,133**
Increases	3,266	19,000	740	15,744	38,749
Disposals	-1,019	-8,308	-15	0	-9,341
Reclassifications and other changes	3,525	-3,132	1,339	-5,913	-4,182
Balance as at 31.12.2008	**106,056**	**236,026**	**11,856**	**30,421**	**384,359**
ACCUMULATED AMORTISATION					
Balance as at 31.12.2007	**-54,217**	**-111,481**	**-6,551**	**-**	**-172,249**
Increases	-18,348	-14,434	-1,454	-	-34,236
Disposals	939	5,341	7	-	6,287
Reclassifications and other changes	-1,538	-5,544	-122	-	-7,204
Balance as at 31.12.2008	**-73,164**	**-126,118**	**-8,120**	**-**	**-207,402**
Net value	**32,892**	**109,908**	**3,736**	**30,421**	**176,957**
As at 31 December 2007	**46,067**	**116,985**	**3,241**	**20,591**	**186,884**
As at 31 December 2008	**32,892**	**109,908**	**3,736**	**30,421**	**176,957**

Item “Patents and know-how”, totalling Euro 32,892 thousand as at 31 December 2008, mainly relates to costs incurred for the purchase and implementation of IT systems within the Her Group. These costs are amortised over five years.

Item “Franchises”, amounting to Euro 102,944 thousand, mainly includes the value of the concessions held by Hera Spa in relation to the gas, water and purification plants. The negative change is due to the passage, from franchise to ownership, of assets connected with the purification service of the municipalities of Bentivoglio and Galliera and assets regarding the gas service of the municipalities of Casalecchio di Reno, Budrio, Loiano and Minerbio, as provided for by the related agreements, following the expiration of franchises.

Item “Licences, trademarks and similar rights” amounts to Euro 6,964 thousand, as at 31 December 2008. The increase over the year is due to the acquisition of the IRU rights by Acantho.

The other intangible assets, amounting to Euro 3,736 thousand, relate to the expenses incurred for the mapping, Geographical Information System (GIS) and other sundry charges of multiannual use.

Item “Work in progress”, equal to Euro 30,421 thousand, as at 31 December 2008, essentially represents the costs incurred for still incomplete IT projects. The increase, compared to the previous year, relates to the upgrade of the SAP R/3 and ISU platform, the completion of the implementation of the SAP ISU system, following to the data migration regarding the Modena area, and the evasion recovery project regarding the tax on municipal solid waste.

17. Goodwill

	31-Dec-08	31-Dec-07	Change
Goodwill	299,686	245,590	54,096
Total	**299,686**	**245,590**	**54,096**

The item goodwill as at 31 December 2008 is analysed as follows:

- residual goodwill from the 2002 integration resulting in the creation of Hera Spa of Euro 86,516 thousand;
- goodwill relating to the integration of Agea Spa in 2004, Euro 41,658 thousand. said goodwill represents the additional value of the purchase cost compared to the fair values of the assets and liabilities recorded. Specifically, with regard to the fair value of the Hera Spa shares issued following the increase in capital from the merger by incorporation of Agea, in accordance with IFRS 3, the share value was calculated starting from the date that control was taken of Agea Spa (1 January 2004);
- goodwill relating to the integration of Meta Spa, Euro 103,554 thousand. This goodwill represents the excess purchase cost over and above the fair value of assets and liabilities recognised for the group. In particular, with regard to the fair value of Hera Spa shares issued following the increase in capital for the merger by incorporation of Meta Spa, this value was calculated as of the end of 2005, essentially accepted as the effective date of control takeover of Meta Spa;
- goodwill relating to the integration transaction of Geat Distribuzione Gas Spa. This goodwill, equal to Euro 11,670 thousand, represents the excess purchase cost over and above the fair value of assets and liabilities recognised as at 1 January 2006 (date in which the actual control by Hera Spa started);
- goodwill relating to the integration transaction of Sat Spa. This goodwill of Euro 54,091 thousand represents the excess purchase cost over and above the fair value of assets and liabilities recognised for the Group. Namely, as regards the current value of Hera Spa's shares issued following the capital increase occurred on the occasion of the merger of Sat Spa, this value was determined referring to 1 January 2008, day in which the transaction was actually concluded;
- goodwill regarding other minor transactions equals Euro 2,197 thousand.

As provided for by the reference accounting standards (IAS 36), goodwill, which is no longer amortised, was tested for impairment. The following table shows the allocation of this item to the cash generating unit or group of units in accordance with the maximum aggregation limits that may not exceed the business segment identified in accordance with IAS 14.

(in millions of €)	
Gas	79
Electricity	36.2
Integrated water cycle	35.3
Waste management	138.2
Other services	11.0
Total goodwill	**299.7**

The impairment test was therefore carried out on the gas, electricity, integrated water cycle, waste management, and other services business segments. The recoverable value of cash generating units, to which each goodwill was referred, is assessed by determining the value in use, intended as the current value of operating cash slows (discounted cash flow method) deriving from the 2009/2011 three-year plan approved by the Board of Directors of the Parent company Hera S.p.A.

Based on this, the values were then calculated for the following years, bearing in mind the remaining lifetimes of the reference concessions, on the basis of medium/long term growth rates that vary according to the different segments and are based on expected growth in the respective generating unit sectors (a 2% average). Estimates were made by the Group management, based on past experiences. The rate used to discount back flows is 6.76%, net of taxation.

The test results were positive. Therefore, the above-mentioned recognition values were not adjusted.

18. Equity Investments

	31-Dec-08	31-Dec-07	Change
Equity investments in subsidiaries	366,512	363,598	2,915
Equity investments in associated companies	58,289	84,576	(26,287)
Equity investments in other companies	22,795	22,951	(156)
Total	**447,597**	**471,125**	**(23,528)**

Equity investments in subsidiaries

				movements for the year				
Equity investments in subsidiaries	%	31-Dec-07	incr. SAT	incr.	disp.	reval. (writedown)	other mov.	31-Dec-08
Akron Spa	58%	2,513						2,513
Ambiente 3000 Srl	51%	77					(77)	
Anthea Srl	100%			50	(50)			
Ares Spa in liquidation	100%	1,015					(1,015)	
Asa Spa	51%	4,184						4,184
Ecologia Ambiente Srl	100%	49,017		3,780				52,797
Ecosfera Spa	100%	1,813						1,813
Famula On Line Spa	60%	6,055						6,055
Frullo Energia Ambiente Srl	51%	8,740					77	8,817
Gal.A Spa	60%	207						207
Gastecnica Galliera Srl	100%	2,539						2,539
Hera Bologna Srl	100%	1,250						1,250
Hera Comm Srl	100%	88,592						88,592
Hera Ferrara Srl	100%	810						810
Hera Forlì-Cesena Srl	100%	650						650
Hera Energie Rinnovabili ex Hera Gas Tre Spa	100%	705						705
Hera Imola Faenza Srl	100%	1,370						1,370
Hera Luce Srl	90%	8,864						8,864
Hera Modena Srl	100%	1,000		150				1,150
Hera Ravenna Srl	100%	850						850
Hera Rete Modena Srl	100%	106,344						106,344
Hera Rimini Srl	100%	1,050						1,050
Herasocrem Spa	51%	1,131						1,131
Hera Servizi Funerari Srl	100%	10						10
Hera Trading Srl	100%	2,711						2,711
Ideametropoli Centro Global Service Srl in liquidation	100%			120			(120)	
Ingenia Srl	74%	63						63
Marche Multiservizi Spa ex Aspes Multiservizi Spa	42%	34,538						34,538
Medea Spa	100%	11,988						11,988
Nuova Geovis Spa	51%	4,856						4,856
Recupera Srl	100%	12,592						12,592
Romagna Compost Srl	60%	2,136						2,136
Satcom Spa	100%		3,250		(2,363)		(888)	
Sotris Spa	70%	2,362						2,362
Uniflotte Srl	97%	3,567						3,567
Total equity investments in subsidiaries		363,598	3,250	4,100	(2,413)		(2,023)	366,512

The most important movements that occurred during the year are listed below:

Ambiente 3000 Srl

By deed of 23 October 2008, the merger of Ambiente 3000 Srl in Frullo Energia Ambiente Srl was concluded, going into effect starting on 1 November 2008.

Anthea Srl.

On 27 March 2008, the company with sole shareholder Hera Spa was set up. On 23 December 2008, Hera Spa sold its entire shareholding to the Municipalities of Rimini, Bellaria, Igea Marina and Santarcangelo di Romagna.

Ares Spa in liquidation

The company was placed in liquidation on 12 November 2007 and was deleted from the Register of Companies on 27 June 2008.

Ecologia Ambiente Srl

With effect from 1 April 2008, Hera Spa sold the “special waste business unit” branch to Ecologia Ambiente Srl. Due to this transaction, made at book values, the share capital of Ecologia Ambiente Srl increased from Euro 20,000 thousand to Euro 27,780 thousand.

Frullo Energia Ambiente Srl

By deed of 23 October 2008, the merger of Ambiente 3000 Srl in Frullo Energia Ambiente Srl was concluded, going into effect starting on 1 November 2008.

Hera Energie Rinnovabili Spa.

On 28 March 2008, the shareholders’ general meeting of Hera Gas Tre Spa resolved on the change in the company’s name in Hera Energie Rinnovabili Spa.

Hera Modena Srl

Starting on 1 January 2008, Hera Spa sold the business branch pertaining to the management of networks, former Sat, to Società Operativa Territoriale di Modena, with a consequent increase in share capital equal to Euro 150 thousand.

Ideametropoli Centro Global Service Srl, in liquidation.

The company was placed in liquidation on 1 May 2003 and was deleted from the Register of Companies on 26 September 2008.

Marche Multiservizi Spa

Starting on 1 January 2008, Megas Spa merged in Aspes Multiservizi Spa and changed its corporate name in Marche Multiservizi Spa. The portion held by Hera Spa decreased from 49.86% to 41.87%.

Satcom Spa

This company's scope is the design, construction, development, installation, maintenance, management and supply of public and private networks of telecommunications and telecommunication services in fixed and/or mobile environments, also through the use of radiofrequencies. It was acquired following the merger of Sat Spa, 100% owned by this company. On 18 March 2008, Hera Spa sold 47.5% and 5% of Satcom Spa's share capital to Infracom Italia Spa and Con.ami, respectively. It still owns an equity investment equal to 47.5% of the share capital. The remaining balance was reclassified in equity investments in associated companies.

Equity investments in associated companies

				movements for the year				
Equity investments in associated companies	**%**	**31-Dec-2007**	**incr. SAT**	**incr.**	**disp.**	**reval. writedown**	**other mov.**	**31-Dec-2008**
Acantho Spa	47%	7,249		712				7,961
Agea Reti Srl	40%	7,783					(185)	7,598
Agess Scarl	21%	28						28
Consorzio Frullo	50%	2						2
Feronia Srl	40%		972					972
Italcic Srl	33%	40						40
Modena Network Spa	32%	900	960		(900)			960
Oikothen Scarl	46%	383						383
Pri.Ge.As Srl	49%		8					8
Refri Srl	20%	2,506						2,506
Sat Spa	47%	34,518		733			(35,251)	
Satcom Spa	48%						1,544	1,544
Sei Spa	20%			702				702
Service Imola Srl	40%	4						4
Set Spa	39%	31,163						31,163
So.Sel Spa	26%		91					91
Tamarete Energia Srl	32%			4,329				4,329
Total equity investments in associated companies		**84,576**	**2,031**	**6,475**	**(900)**	**0**	**(33,893)**	**58,289**

The most important movements that occurred during the year are listed below:

Acantho Spa.

On 24 January 2008, Hera Spa signed and paid its share, equal to 47% of the share capital decided by the company.

Agea reti Srl

On 18 November 2008, the Shareholders' general meeting of Agea Reti Srl resolved on the extraordinary distribution of previous provisions for the total amount of Euro 185 thousand.

Feronia Srl.

The corporate scope of this company is the construction and management of non-toxic waste treatment, storage and disposal in the Municipality of Finale Emilia. This company was purchased following the merger of Sat Spa.

Modena Network Spa

The corporate scope of this company is the design, construction, development, installation, maintenance, management and supply of public or private telecommunication networks and telecommunication services, by its own or outsourced, in Italy and abroad. It enlarged following the merger of Sat Spa. On 19 February 2008, Hera Spa has also sold to Acantho Spa 30% of Modena Network Spa's share capital.

Pri.Ge.As Srl.

The corporate scope of this company is the gas and management service of the entire cycle of energy resources, primarily in the territory of the Municipality of Prignano. It was acquired following the merger of Sat Spa.

Sat Spa

With effect starting on 1 January 2008, the merger of Sat Spa in Hera Spa was concluded, prior a further purchase of shares.

Satcom Spa

This equity investment was acquired following the merger of Sat Spa. On 18 March 2008, Hera Spa sold 47.5% and 5% of Satcom Spa's share capital to Infracom Italia Spa and Con.ami, respectively. It still owns a shareholding equal to 47.5% of the share capital.

Sei Spa

On 9 May 2008, Hera Spa acquired 20% of Sei Spa's share capital from Raetia Energie A.G., a company operating in the sectors of planning and development of the authorisation procedures, loans and construction of electrical energy power plants.

So.Sel Spa.

The corporate scope of this company is the reading or metering of water, gas and electricity consumptions, or any other service for the Managers of public or private utilities, as well as invoicing services on behalf of the Managing institutions. It was acquired following the merger of Sat Spa.

Tamarete Energia Srl.

On 16 December 2008, Hera Spa, by subscribing a capital increase, acquired 32% of Tamarete Energia Srl's share capital, a company operating in the sectors of design, construction, installation, operation and management in Italy of systems, plants and apparatus of energy generation and cogeneration for the procurement, production, transformation, supply and sale of electricity.

Equity investments in other companies

Equity investments in other companies	%	31-Dec-07	incr. SAT	movements for the year				31-Dec-08
				incr.	disp.	reval. (writedowns)	other mov.	
Acef Srl	10%	1						1
Ambiente Mare Spa	15%	300						300
Bonifica e Ambiente in liquidation (single)	-	2						2
Calenia Energia Spa	15%	9,073						9,073
Centuria Srl	2%	5						5
Consorzio Italiano Compostatori	3%	10						10
Consenergy 2000 - Consorzio per l'energia	1%							
Consorzio Ferrara Ricerche	0%	2						2
Consorzio Polieco	0%	1						1
Consorzio V.E.R.A. Energia	3%					()		-
Delta.Web Spa	6%	166			(166)			-
Democenter- Sipe Scarl	1%	41						41
Energia Italiana Spa	11%	13,233						13,233
Eticredito Banca Adriatica Spa	0%			50				50
Fondazione Flaminia Ravenna	4%	3						3
Modena Formazione Srl	7%	54						54
Prog.Este. Spa	0%	5						5
Risorsacqua Scarl in liquidation	7%	38					(38)	-
Seas Lavori E Servizi Scarl in liquidation	6%	2					(2)	-
Torricelli Srl	2%	14						14
Valdisieve Scarl	0%	1						1
Total equity investments in other companies		**22,951**		**50**	**-166**		**-40**	**22,795**

The most important movements that occurred during the year are listed below:

Delta.Web Spa.

On 4 November 2008, Hera Spa sold its entire equity investment to other Shareholders.

Eticredito Banca Adriatica.

On 11 July 2008, Hera Spa acquired 0.35% in the company's share capital.

Risorsacqua Scarl in liquidation

The company was placed in liquidation on 10 February 2004 and was deleted from the Register of Companies on 18 December 2008.

Seas Lavori e Servizi, in liquidation.

The company was placed in liquidation on 4 July 2006 and was deleted from the Register of Companies on 27 June 2008.

As provided for by the reference accounting principles, the value of equity investments in subsidiaries and associated companies is tested for impairment through the definition of the value of usage, intended as current value of cash flows (discounted cash flow method), arising from the development plans drawn up by the management of each single company. Based on this, the values were then calculated for the following years, bearing in mind the remaining lifetimes of the reference concessions, on the basis of medium/long term growth rates that vary according to the different segments (a 1%-2% average). The rate used to discount back flows is 6.76%, net of taxation.

The test results were positive. Therefore, the above-mentioned recognition values were not adjusted.

19. Financial assets

	31-Dec-08	31-Dec-07	Change
Other securities	1	1	-
Receivables for loans to subsidiary companies	7,120	4,836	2,284
Receivables for loans to associated companies	8,466	6,620	1,846
Receivables for loans to others	109	161	(52)
of which receivables for mortgages to be collected	109	122	(13)
of which other receivables	-	40	(40)
Total	**15,696**	**11,618**	**4,078**

The most important movements that occurred during the year are listed below:

		movements for the year				
	closing balance 31-dec-07	incr.	(repayments)	reval and (write-downs)	other mov.	closing balance 31-dec-08
Other securities						
Fixed-income credit instruments	1					1
	1					**1**
Receivables for loans to subsidiaries (after)						
Other receivables from subsidiaries within the year	48				(48)	
Recupera srl-loan receivable	504	2,500	(168)			2,836
Fea srl non-interest bearing loan account	4,284					4,284
	4,836	**2,500**	**(168)**		**(48)**	**7,120**
Receivables for loans to associated companies (after)						
Fin. receivables to associated companies (Sei)		1,847				1,847
Set interest bearing loan account	4,815					4,815
Oikothen non-interest bearing loan account	1,804					1,804
	6,620	**1,847**				**8,466**
Receivables for loans to others (after)						
Other investee companies loans account	40				(40)	
Receivables for loans	122		(13)			109
	162		**(13)**		**(40)**	**109**
Total	**11,618**	**4,347**	**(181)**		**(88)**	**15,696**

The items record loans granted to subsidiary and associated companies, non-interest bearing or regulated at arm's length rates.

20. Deferred tax assets

	31-Dec-08	31-Dec-07	Change
Receivables for prepaid IRPEG/IRES taxes	27,504	24,774	2,730
Receivables for prepaid IRAP taxes	2,483	2,228	255
Receivables for prepaid IAS taxes after the year	8,651	2,362	6,289
Total	**38,638**	**29,364**	**9,274**

As at 31 December 2008, they amounted to Euro 38,638 thousand (Euro 29,364 thousand as at 31 December 2007). The receivables for prepaid taxes are generated from the temporary differences between the balance sheet profit and the taxable income, mainly on the taxed provision for doubtful receivables, write-down of investments, amortisation of goodwill and taxed provisions for risks and charges.

Receivables for prepaid taxes generated by IAS/IFRS are disclosed separate.
In particular, the following is highlighted:

	31-Dec-08	31-Dec-07	Change
IAS 39 Derivatives	7,157	-	7,157
IAS 38 Intangible Assets	562	1,130	(567)
IAS 19 Employee leaving indemnity and other employee benefits	932	1,232	(300)
Total	**8,651**	**2,362**	**6,289**

21 Financial instruments - Derivatives

Non-current Assets/Liabilities thousands of €	Underlying hedge	No. active contracts	Notional
Hedging derivatives on rates			
- Interest rate Swap	6	241	
- Interest rate Swap	13		21,023
Total		**241**	**21,023**

The derivative financial instruments classified under non-current assets total Euro 241 thousand, recording a decrease of Euro 9,436 thousand compared to 31 December 2007. As at 31 December 2006, they amounted to Euro 9,677 thousand.

The derivative financial instruments classified under non-current liabilities total Euro 21,023 thousand, recording a decrease of Euro 19,607 thousand compared to the previous financial period. As at 31 December 2007 the derivative financial instruments classified under non-current liabilities totalled Euro 1,416 thousand.
The reduction in fair value compared to the previous year is to be ascribed to the particularly unfavourable trend (within current hedging) of the interest rates generated by the crisis of financial markets.

The fair value used as the basis for the valuations of interest rate swaps derives from market prices; in the absence of market prices, the method of discounting back future cash flows is used, taking the interest rate curves as reference.

All Group derivatives contracts have been stipulated with institutional counterparts.

The derivative financial instruments as at 31 December 2008 can be broken down into the following classes:

Derivative financial instruments thousands of €	Underlying	Notional	Fair Value Assets	Fair Value Liabilities	Income	Charges
Interest rate hedging derivatives						
- Hedge Accounting	Loans	583,2 mln	2	20,793	4,446	1,340
- Non Hedge Accounting	Loans	146,4 mln	239	230	3,368	2,618
Total			241	21,023	7,814	3,958

The interest rate derivatives in the form of interest rate swaps recorded under hedge accounting have a residual notional amount of Euro 583.2 million against variable rate mortgage loans of a similar amount.
The income and charges associated with interest rate derivatives in hedge accounting mostly regard the renegotiation of transactions. Namely, over 2008, as described in the explanatory notes to the Financial Statements as at 31 December 2007, after the advance redemption of a loan the hedging derivative associated with it was renegotiates so that the hedging of the new loan was fully ensured. The amount of ineffectiveness regarding this derivative class on rates resulted in the recording in the income statement of net charges totalling Euro 1,385 thousand.
All the hedges of the aforementioned derivative contracts and related underlying liabilities are classed as “cash flow hedges”. A special negative reserve, equal to Euro 16.1 million, was provided for in the shareholders’ equity.

The remaining interest rate derivatives not recorded under hedge accounting have a residual notional amount of Euro 146.4 million. Great part of these contracts derives from mirroring transactions made over 2006 with a view to restructuring the derivatives portfolio.

Please refer to the explanations in Note 13 with regard to the incorporated derivatives.

Interest rate risk

The Group’s financial requirements are met also by turning to outside resources in the form of debt. The cost of the various forms of borrowing can be affected by the changes of the market interest rates, with a consequent impact on the entity of the net financial charges.
To mitigate the interest rate volatility risk, the Group has stipulated derivative instruments on rates against part of its financial liabilities.

Sensitivity Analysis

In conjecturing an instant 1% reduction in interest rates, the potential fair value loss of the financial derivative instruments as at 31 December 2008 would amount to roughly Euro 16.4 million.
Likewise, conjecturing an instant 1% increase, there would be a potential fair value increase of about Euro 14.7 million.
These fair value changes would have no effect on the income statement if it weren't for the potential amount of ineffectiveness, since they totally refer to financial derivative instruments in hedge accounting. The effects on the income statement of the fair value changes of the instruments not in hedge accounting, as they almost entirely undergo mirror transactions, would be insignificant.

22. Inventories

	31-Dec-08	31-Dec-07	Change
Raw materials and stock	4,290	2,265	2,025
Total	**4,290**	**2,265**	**2,025**

Inventories chiefly consist of raw materials and stock and, in particular, spare parts and equipment used for the maintenance and running of operating plant. Measurement is usually made at average cost.

The table below provides a breakdown of the movements in the reserve for slow-moving inventory:

	31-Dec-07	Advances	Uses	Other changes	31-Dec-08
	123	-	(123)	-	-
Total reserve for slow-moving inventory	**123**	**-**	**(123)**	**-**	**-**

23. Trade receivables

The table below provides a breakdown of trade receivables.

Trade receivables	31-Dec-08	31-Dec-07	Change
Receivables due from customers	**375,604**	**358,249**	**17,355**
of which invoices issued	211,368	169,902	41,466
of which invoices to be issued	164,237	188,347	(24,111)
Receivables due from related parties	**809,775**	**784,575**	**25,200**
Due from subsidiaries	**753,627**	**727,938**	**25,689**
of which invoices issued	577,398	530,809	46,589
of which invoices to be issued	176,229	197,129	(20,900)
Due from associated companies	**26,497**	**26,826**	**(329)**
of which invoices issued	24,986	25,215	(229)
of which invoices to be issued	1,511	1,610	(100)
Due from related companies with considerable influence	**13,509**	**20,470**	**(6,961)**
of which invoices issued	10,919	16,511	(5,593)
of which invoices to be issued	2,591	3,959	(1,368)
Due to other related parties	**16,142**	**9,341**	**6,801**
of which invoices issued	13,505	8,599	4,905
of which invoices to be issued	2,637	741	1,896
Due from third parties	**31**	**182**	**(151)**
of which invoices issued	30	181	(151)
of which invoices to be issued	1	1	
TOTAL TRADE RECEIVABLES	**1,185,410**	**1,143,006**	**42,404**

Trade receivables as at 31 December 2008 total Euro 375,604 thousand (Euro 358,249 thousand as at 31 December 2007) and include estimated consumption, for the portion pertaining to the period, relating to bills and invoices to be issued after 31 December 2008.

Receivables are stated net of a bad debt provision of Euro 26,237 thousand, deemed fair and prudent in relation to the estimated realisable value of said receivables.

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

Provision for doubtful receivables	31-Dec-07	Acquisition for Sat merger	Provisions	Uses and other changes	31-Dec-08
Provision for doubtful receivables	25,964	1,077	11,851	(12,654)	26,237
Total	**25,964**	**1,077**	**11,851**	**(12,654)**	**26,237**

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

The table below gives a detailed view of the breakdown of *receivables due from subsidiaries*:

Receivables due from subsidiaries	31-Dec-08	31-Dec-07	Change
Asa Spa	63	208	(145)
Akron Spa	1,276	5,485	(4,208)
Ambiente 3000 Srl	-	16	(16)
Ares Spa in liquidation	-	(150)	150
Ecologia Ambiente Srl	79,457	243	79,214
Ecosfera Spa	20	573	(553)
Famula On-line Spa	1,290	3,363	(2,072)
Frullo Energia Ambiente Srl	5,850	4,306	1,544
Gal.A. Spa	38	63	(26)
Gastecnica Galliera Srl	1	-	1
Hera Imola-Faenza Srl	31,622	33,429	(1,807)
Hera Bologna Srl	125,030	90,007	35,023
Hera Comm Srl	247,112	250,772	(3,660)
Hera Ferrara Srl	14,468	14,847	(379)
Hera Forlì-Cesena Srl	36,477	35,856	621
Hera Luce Srl	913	445	468
Hera Modena Srl	71,248	22,489	48,759
Hera Ravenna Srl	29,998	39,423	(9,425)
Hera Rete Modena Srl	453	311	142
Hera Rimini Srl	18,096	27,074	(8,977)
Hera Servizi Funerari Srl	118	162	(44)
Hera Trading Srl	89,698	194,267	(104,569)
Herasocrem Spa	14	17	(3)
Ideametropoli Centro Global Service Srl in liquidation	-	8	(8)
Ingenia Srl	4	9	(5)
Marche Multiservizi Spa	292	201	91
Medea Spa	645	506	139
Nuova Geovis Spa	62	254	(192)
Recupera Srl	3,931	5,406	(1,475)
Romagna Compost Srl	112	112	1
Sotris Spa	143	2,362	(2,219)
Uniflotte Srl	(4,803)	(4,123)	(680)
Total	**753,627**	**727,938**	**25,689**

Receivables due from subsidiaries, equal to Euro 753,627 thousand (Euro 727,938 thousand as at 31 December 2007), refer to trade receivables and receivables for infragroup current accounts.
Trade receivables, which must be all paid within the following year, result from services that Hera charges to subsidiaries based on specific service agreements.
Receivables for infragroup current accounts refer to the centralised treasury service performed by Hera Spa for several group companies.
The relevant changes are due to year-end balances of the service agreements signed in 2008 and the infragroup bank current accounts.

The table below gives a detailed view of the breakdown of *receivables due from associated companies*:

Receivables due from associated companies	31-Dec-08	31-Dec-07	Change
Acantho Spa	22,414	22,221	193
Agea reti Srl	8	18	(10)
Agess Scarl	37	37	-
Feronia Srl	65	-	65
Modena Network Spa	344	309	35
Oikothen Scarl	6	6	-
Pri.ge.as. Srl	793	-	793
Refri Srl	1	-	1
Satcom Spa	1,555	-	1,555
Sei Spa	40	-	40
Sat Spa	-	3,461	(3,461)
Set Spa	1,232	775	458
So.sel	1	-	1
Total	**26,497**	**26,826**	**(329)**

The table below gives a detailed view of the breakdown of *receivables due from related companies with significant influence*:

Receivables due from related companies with significant influence	31-Dec-08	31-Dec-07	Change
Municipality of Bologna	4,245	13,194	(8,949)
Municipality of Modena	9,265	7,276	1,988
Total	**13,509**	**20,470**	**(6,961)**

The tables below give a detailed view of the breakdown of *receivables due from other related companies*. The significant increase, compared to the previous year, is due to receivables due from Romagna Acque resulting from the sale of the company's branch, as described in Note 5.

Receivables due from related companies	31-Dec-08	31-Dec-07	Change
Acosea Impianti	2,801	117	2,684
Adriatica Acque Srl	38	11	27
Amf - asset	5	8	(3)
Amir - asset	472	530	(57)
Area - asset	545	975	(430)
AttivaBologna Srl consort.	-	1,562	(1,562)
Calorpiù Italia Scarl	(73)	22	(95)
Calorpiù Modena Scarl	-	4	(4)
Con.ami	1,531	2,706	(1,174)
Consorzio energia servizi Bologna	17	17	-
Dyna green Srl	2	2	-
Eris scrl energia risorse sviluppo	575	616	(41)
Estense Global Service Scarl	27	8	19
Hera Comm Mediterranea Srl (ex Cales)	2,047	1,059	988
Hera Energia Bologna Srl	123	39	85
Romagna acque Spa	5,348	33	5,314
Sassuolo Gestioni Patrimoniali	273	-	273
Seas lavori e servizi Scarl	-	770	(770)
Sgr Servizi Spa	685	5	680
Sinergia Srl	12	25	(13)
Sis Spa - società italiana servizi	19	21	(3)
Team - assets	488	492	(4)
Unica reti - assets	1,206	319	887
Total	**16,142**	**9,341**	**6,801**

Credit risk

The book value of the trade receivables shown in the Financial Statements is the maximum theoretical exposure to credit risk for Hera Spa as at 31.12.2008. Even if not formalised, there is a procedure for disbursing loans to customers that contemplates making special individual assessments. This way of operating makes it possible to reduce the concentration and exposure to credit risk posed by both “business” and “private” customers.

Analyses are periodically made of the credit standings still open so as to single out any critical issues. Should individual positions turn out to be entirely or partially uncollectible, an adequate write-down is made. With regard to the receivables that do not undergo individual write-downs, allocations are made to the provision for doubtful receivables on the basis of historic analysis for the receivables regarding the general body of the customers (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the creditor).

With regard to customers as at 31 December 2008, the trade receivables can be broken down into the following classes:

	Institutions	Business	Mass Market	Total
amount	84,547	19,023	107,798	**211,368**
incidence	40%	9%	51%	**100%**

With regard to customers as at 31 December 2007, trade receivables can be broken down into the following classes:

	Institutions	Business	Mass Market	Total
amount	53,527	20,365	96,010	**169,902**
incidence	32%	12%	57%	**100%**

24. Contract work in progress

	31-Dec-08	31-Dec-07	Change
Contract work in progress	1,604	1,604	-
Total	**1,604**	**1,604**	**-**

As at 31 December 2008, contract work in progress amounts to Euro 1,604 thousand and refers to plant works at third-party sites.

25. Financial assets

	31-Dec-08	31-Dec-07	Change
Receivables due from subsidiaries within the year	2,952	11,030	(8,078)
Receivables due from associated comp. within the year	96	-	96
Receivables due from others within the year	442	2,206	(1,764)
of which for mortgages to be collected	371	348	23
of which for loans granted to municipalities	-	1,160	(1,160)
of which for others	71	699	(628)
Other securities	5	1	4
Total	**3,495**	**13,237**	**(9,742)**

The table below provides a breakdown of the movements in current receivables due from subsidiary companies.

		movements of the year				
	31-Dec-08	increases	(refunds)	reval. (writedowns)	other movements	31-Dec-2008
Ideametropoli CGS loan account	31	-	-	-	(31)	-
Medea Spa non-interest bearing loan account	492	-	-	-	-	492
Hera rete Modena interest bearing loan account	260	2,200	-	-	-	2,460
Receivables for dividends from subsidiaries	10,247	-	-	-	(10,247)	-
Total current financial assets	**11,030**	**2,200**	**-**	**-**	**(10,278)**	**2,952**

Receivables due from others within one year decreased, with respect to 31 December 2007, by Euro 1,764 thousand, following the repayment of the receivables due from the Municipality of Cattolica (Euro 1,159 thousand) and the decrease in accrued income for interest pertaining to subsequent financial years.

26. Other current assets

	31-Dec-08	31-Dec-07	Change
Guarantee deposits	14,177	14,042	135
VAT, excise and additional taxes	5,376	9,849	(4,473)
Receivables due from group companies for tax consolidation	10,229	10,363	(134)
Equalisation fund for the electricity sector	312	10,852	(10,540)
Advances for direct taxes	-	6,165	(6,165)
Withholdings on interest income	48	43	5
Sundry tax receivables	4,880	654	4,226
Contributions	6,673	5,174	1,499
Advances to suppliers/employees	3,072	1,203	1,869
Receivables due from Social Security	296	263	33
Insurance reimbursements	124	-	124
Other receivables	51,425	38,392	13,033
TOTAL OTHER CURRENT ASSETS	**96,612**	**97,000**	**(388)**

The guarantee deposits, totalling Euro 14,177 thousand, mainly consist of the deposit established in favour of Acosea Impianti Srl (Euro 12,000 thousand) and of guarantee deposits in favour of sundry public institutions and companies.

Amounts due for VAT, excise and additional taxes, equal to Euro 5,376 thousand, mainly refer to amounts due for Group VAT, equal to Euro 4,147 thousand (as at 31 December 2007 the balance amounted to Euro 8,797 thousand) and stamp duty on contracts, equal to Euro 516 thousand (as at 31 December 2007 the balance amounted to Euro 624 thousand). The decrease in the amounts due for VAT, compared to 2007, is mainly due to the cancellation of the position related to Metaenergy Spa following the entering of this company in the Group VAT from 1 January 2007.

Receivables due from group companies deriving from the “tax consolidation” procedure total Euro 10,229 thousand (Euro 10,363 thousand as at 31 December 2007).

Item “Equalisation fund for the electricity sector” amounted to Euro 312 thousand as at 31 December 2008 (Euro 10,852 thousand as at 31 December 2007). The decrease, compared to the previous year, is mainly due to invoicing recoveries which occurred over 2008 in the electrical service for the Modena area.

The cancellation of the credit position as regards the Tax Office for advances on direct taxes relates to receivables due for 2007 IRES tax following the prepayments made in excess with respect to the total amount due for the year.

Sundry tax receivables, equal to Euro 4,880 thousand (Euro 654 thousand as at 31 December 2007) mainly relate to tax receivables on District heating. The increase, compared to 31 December 2007, is due to the application of Art. 1, subsection 53, of Law no. 244 of 24 December 2007, which sets out that, from 1 January 2008, the above-mentioned receivables can be used within the annual limit of Euro 250,000. The exceeding amount can be offset starting from the third year following the one in which the excessive payment was made.

Receivables for contributions equal to Euro 6,673 thousand chiefly relate to receivables for grants disbursed by various entities, but are still to be cashed.

Advances to suppliers/employees, equal to Euro 3,072 thousand, increased by Euro 1,869 thousand following a confirmation advance payment for the purchase of a piece of land.

Item Other receivables is broken down as follows:

Other	31-Dec-08	31-Dec-07	Change
Energy efficiency bonds and emission trading	16,084	2,747	13,337
Costs advanced mainly for substitute taxes	7,228	9,024	(1,796)
Equalisation fund for electricity standardisation	3,593	4,294	(701)
Insurance costs	2,885	2,895	(10)
Consorzio Ami	2,318	1,529	789
Costs advanced for bank fees, charges and guarantee expenses	1,951	1,655	296
Receivables due from municipalities for tax moratorium	1,783	-	1,783
Asset companies	1,731	1,733	(2)
Costs advanced for the purchase of raw materials	172	926	(754)
Receivables from the sale of equity investments	1,123	105	1,018
Rental expenses and network services concession fees	1,095	758	337
Costs advanced for maintenance for computer systems	513	1,020	(507)
Credit institutions for interest income on swaps	507	-	507
Equalisation fund for electricity service continuity income	470	822	(352)
Costs advanced for leases and rentals	456	370	86
Costs advanced for waste disposal	1,244	661	583
Acosea Impianti	-	2,628	(2,628)
Costs advanced for energy efficiency bonds	1,261	1,325	(64)
Cassa Depositi for the purchase of motor vehicles	-	451	(451)
Other receivables	7,011	5,449	1,562
Total	**51,425**	**38,392**	**13,033**

Item “Energy efficiency bonds and emission trading” is composed of green and grey certificates, equal to Euro 7,236 thousand. The remaining portion relates to white certificates.

Receivables due from subsidiaries in the other current assets relate to sundry advances and tax-related receivables (receivables/payables for tax consolidation), which have already been specified.

A breakdown by company is provided below:

	31-Dec-2008	31-Dec-2007	Change
Asa Spa	(20)	34	(54)
Akron Spa	724	928	(204)
Ambiente 3000 Srl	-	146	(146)
Ecologia Ambiente Srl	3,316	(34)	3,350
Ecosfera Spa	16	75	(59)
Famula On-line Spa	747	39	708
Frullo Energia Ambiente Srl	1,332	1,526	(194)
Hera Imola-Faenza Srl	23	1,951	(1,928)
Hera Bologna Srl	171	4,117	(3,947)
Hera Comm Srl	1,759	(4,426)	6,185
Hera Ferrara Srl	1,139	1,004	136
Hera Forlì-Cesena Srl	(150)	487	(637)
Hera Gas Tre Spa	(8)	(1)	(7)
Hera Luce Srl	374	245	129
Hera Modena Srl	(669)	2,224	(2,893)
Hera Ravenna Srl	1,562	(568)	2,130
Hera Rimini Srl	(160)	701	(861)
Hera Servizi Funerari Srl	16	78	(62)
Hera Trading Srl	1,323	1,578	(255)
Hera Socrem Srl	(155)	15	(170)
Medea Spa	454	(344)	798
Nuova Geovis Spa	210	226	(16)
Recupera Srl	161	401	(240)
Sotris Spa	(97)	162	(259)
Uniflotte Srl	(240)	506	(746)
Total	**11,828**	**11,069**	**759**

Receivables due from other related parties in the other current assets are.

Receivables due from other related parties	31-Dec-08	31-Dec-07	Change
Amf - asset	20	21	(1)
Amir - asset	-	97	(97)
Acosea Impianti Srl	12,000	12,000	-
Calorpiù Italia Scarl	-	(112)	112
Con.ami	2,999	712	2,287
Hera Energia Bologna Srl	(17)	-	(17)
Sgr Servizi Spa	2	2	(1)
Sinergia Srl	76	330	(254)
Sis Spa - società italiana servizi	1,576	1,576	-
Unica reti - assets	135	135	-
Total	**16,792**	**14,763**	**2,029**

Geographical distribution of receivables

All receivables due to the company are owed by Italian customers and investee companies.

27. Cash and cash equivalents

	31-Dec-08	31-Dec-07	Change
Banks and postal current accounts	117,101	127,108	(10,007)
Cash on hand	38	133	(95)
Total	**117,139**	**127,241**	**-10,102**

As at 31 December 2008, cash and cash equivalents total Euro 117,139 thousand (Euro 127,241 thousand as at 31 December 2007) and include cash, cash equivalents existing at the central and decentralised accounts, deposits held at banks and credit institutions in general available for current operations as well as postal current accounts.

Classification of financial assets and liabilities pursuant to IFRS 7

The following table shows the breakdown of the Company's assets by measurement class. Conversely, the fair value of derivatives is detailed in Note 21.
Liabilities are all measured based on the "amortised cost" criteria.

31-Dec-07	Fair value to income statement	Receivables and loans	Held to maturity	Available for sale	Total
Non- current assets		**11,617**		**1**	**11,618**
Financial assets valued at fair value				1	1
Non-current receivables due to related parties		11,456			11,456
Receivables		161			161
Current assets		**1,253,242**		**1**	**1,253,243**
Trade receivables		1,143,006			1,143,006
Financial assets valued at fair value				1	1
Financial receivables		13,236			13,236
Other assets		97,000			97,000

Table in thousands of Euro

As regards Non-current Assets, reference is made to the detailed description in Note 19.
As regards Current Assets, reference is made to the detailed description in Notes 23, 25 and 26.

28 Share capital and reserves

The statement of changes in shareholders' equity is shown in section 3.01.04 of these Financial Statements. The information to be provided pursuant to Article 2427, no. 7 bis, which prescribes that the individual items making up shareholders' equity be analysed, setting forth their specification of availability, origin and utilisation in previous years, is stated below.

	Amount	Possible use	Amount available
CAPITAL	1,032,738		
reserve for treasury shares	(2,300)		
CAPITAL RESERVES:			
Share premium reserve	15,269	**A,B**	15,269
Revaluation reserve	2,885	**A,B,C**	2,885
Capital account payments	5,400	**A,B,C**	5,400
Reserve for difference between value of purchase and par value of treasury shares	(2,335)		
Share swap surplus reserve	42,408	**A,B,C**	42,408
Allotment reserve	48	**A,B,C**	48
TOTAL CAPITAL RESERVES	63,675		
PROFIT RESERVES:			
Legal reserve	18,702	**B**	
Extraordinary reserve	13,544	**A,B,C**	13,544
Reserve for retained profits	4,383	**A,B,C**	4,383
Reserve for dividends received on treasury shares	130	**A,B,C**	130
TOTAL PROFIT RESERVES	36,759		
IAS/IFRS RESERVES:			
Reserve for IAS/IFRS effects	805	**available**	805
Reserve Art. 7, c.6 L.Dec.38/2005	27,038	**N/A**	
Reserve Art. 7, c.7 L. Dec. 38/2005	26,464	**N/A**	
Dividends	(48,858) *		
Reserve Art. 6, c.2 L. Dec.38/2005	64,708	**N/A**	
Reserve for IFRS 3	180,076	**available**	180,076
TOTAL IAS/IFRS RESERVES	250,233		
GRAND TOTAL	1,381,105		264,948
AMOUNT THAT CANNOT BE DISTRIBUTED			15,269
REMAINING AMOUNT THAT CAN BE DISTRIBUTED			249,679

key: A :for share capital increase; B:coverage of losses; C: for distribution to shareholders

* This negative reserve has been covered by allocating the corresponding amount of the profit for the year 2006 via allocation to the reserve prescribed in art. 6, section 2, Leg. Decree 38/2005

Share capital

The share capital as at 31 December 2008, amounts to Euro 1,032,737,702. It is fully paid in and is represented by 1,032,737,702 ordinary shares with a par value of Euro 1 each.

Reserves for treasury shares

Item reserves for treasury shares includes the “reserve for treasury shares at par value” with a negative value equal to Euro 2,300 thousand and the “reserve for treasury shares exceeding par value” with a negative value equal to Euro 2,335 thousand. These reserves, set up in compliance with the IAS/IFRS standards, cover the number of treasury shares held in the portfolio at year-end date. The change during the year generated gains amounting to Euro 204 thousand, attributed directly to shareholders’ equity reserves.

Reserves

The item Reserves equal to Euro 364,745 thousand includes the following reserves:

- “legal” for Euro 18,702 thousand
- “extraordinary” for Euro 13,544 thousand
- “revaluation” for Euro 2,885 thousand
- “capital account payments” for Euro 5,400 thousand
- “share premium reserve” for Euro 15,269 thousand
- “other” for Euro 49 thousand
- “share swap surplus” for Euro 42,408 thousand

“IAS/IFRS reserve” for Euro 20,769 thousand, generated after the international accounting standards were adopted

- “reserve for gains on sale of treasury shares”, for Euro 805 thousand,

“IFRS 3 reserve”, for Euro 180,076 thousand, regarding integration transactions of Agea Spa, Meta Spa, Geat Distribuzione Gas Spa and Sat Spa,

- “reserve that cannot be disposed of”, according to art. 6, section 2, Leg. Decree 38/05, for Euro 64,708 thousand
- “reserve for dividends received on treasury shares”, for Euro 130 thousand.

Reserves for derivative instruments measured at fair value (Cash Flow-Hedge)

As at 31 December 2008, they total a negative figure of Euro 16,125 thousand. This reserve increased by Euro 20,490 thousand following the valuation at fair value of the reference derivative instruments.

Retained profit

This item amounts to Euro 4,383 thousand.

29. Banks and medium/long and short-term loans

As at 31 December 2008, **medium/long-term loans** amounted to Euro 1,412,226 thousand (Euro 1,251,998 thousand as at 31 December 2007) and mainly comprise bond issues, mortgages and loans raised.

The following is specified.

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

Hera Spa has also issued, or subscribed, the following bond issues, or loans.

- 17 May 2007, put bond, amounting to Euro 100 million, entirely subscribed by Deutsche Bank AG London;
- 2 August 2007, extendable put bond, amounting to Euro 200 million, entirely subscribed by BNP Paribas;
- 13 November 2007, put loan extendable step up, amounting to Euro 50 million, with Royal Bank of Scotland Plc;
- 28 November 2007, similar to above with Barclays Bank Plc.

Over 2008, Hera Spa issued a further puttable, callable, resettable bond, jointly with Banca Imi, Bnp Paribas e The Royal Bank of Scotland and amounting to Euro 200 million, which can be increate to Euro 250 million, maturing in 2031. Further details on this transaction are given in chapter “Financial policy and rating” in the Director’s Report. The exercise terms of calls and puts provided for in the structure and granted to third parties, highlight that the transaction on a whole is, substantially, a fixed-rate loan, both in the next three years and in the following years, in the event of possible exercise of the call, without prejudice of advance redemption if the put is exercised by bondholders. The contact terms of the above-mentioned loan are therefore similar to other put bonds signed by the Group. Therefore, this loan was recognised at amortised cost, according to the same procedures adopted for the above-mentioned loans, which are substantially similar.

As they have similar features, the above-mentioned bond issues and loans incorporate put options having requisites in order to not be valued independently, according to the instructions given in IAS 39, paragraph AG30, letter g. That being stated, the valuation according to the amortised cost of these operations entailed recording interest expense equal to Euro 1,956 thousand.

As at 31 December 2008, **short-term loans** totalled Euro 182,358 thousand (Euro 227,261 thousand as at 31 December 2007) and include payables to banks for Euro 104,329 thousand, payables for current portions of loans to banks for Euro 44,088 thousand, payables to others for current portions of loans for Euro 3,881 thousand and financial payables mainly for interest expense relating to bond issues for Euro 25,880 thousand and financial amounts due to subsidiaries, totalling Euro 4,180 thousand.

Existing loans at the balance sheet date are not provided with real security.

A list of the mortgage loans outstanding as at 31 December 2008 is provided in the table below.

Loans maturing within and after the year Miscellaneous banks	Residual 31-Dec-08	Portion within 2009	Portion after 2009	Portion within 5th year	Portion after 5th year
Banca delle Marche	509	195	313	509	-
Banca Intesa	50,540	15,650	34,890	50,540	-
Banca Opi	38,767	13,595	25,172	30,021	8,746
Banca Popolare di Ravenna	88	88	-	88	-
Banca Popolare di Verona	1,598	799	799	1,598	-
Banca Popolare Emilia Romagna	221	221	-	221	-
Bei	180,000	-	180,000	-	180,000
Carisbo	4,630	868	3,762	4,630	-
Cassa di Risparmio di Cento	219	219	-	219	-
Cassa di Risparmio di Cesena	2,237	258	1,980	1,409	828
Cassa di Risparmio di Ravenna	1,798	97	1,702	534	1,265
Dexia Crediop	39,286	7,143	32,143	35,714	3,571
Fon Spa	4,019	593	3,426	3,268	752
IMI San Paolo	1,664	267	1,397	818	846
Monte dei Paschi di Siena	6,824	2,205	4,619	6,824	-
Unicredit Banca	4,329	1,889	2,440	4,329	-
Total miscellaneous banks	**336,729**	**44,088**	**292,642**	**140,721**	**196,008**
Cassa Depositi e Prestiti					
Cassa Depositi e Prestiti	23,704	3,881	19,823	14,888	8,816
Total Cassa Depositi e Prestiti	**23,704**	**3,881**	**19,823**	**14,888**	**8,816**
Total Loans	**360,434**	**47,969**	**312,465**	**155,610**	**204,824**

Liquidity risk

Liquidity risk consists of the impossibility to cope with the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs.

Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done with the centralised management of incoming and outgoing flows (centralised treasury service); in the perspective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.

Current cash and cash equivalents and credit facilities, in addition to the resources generated by the operating and financing activities are deemed sufficient to meet future financial needs. As at year-end, there are unused credit lines totalling Euro 1,003,918 thousand.

30. Provision for employee leaving indemnity and other employee benefits

	31-Dec-07	Curtailment - act.gain/losses	Service Cost	Financial charges	Uses and other movements	31-Dec-08
Employee leaving indemnity	14,730	-	-	648	(1,747)	13,631
Gas discount	3,559	(7)		115	(1,201)	2,466
Premungas fund	922	-	1,757	140	(454)	2,365
Tariff reduction fund	-	-	112	165	2,830	3,107
Total	**19,211**	**(7)**	**1,869**	**1,067**	**(571)**	**21,569**

Employee leaving indemnity This item includes the provisions made in favour of staff for the leaving indemnity due in accordance with the law, net of the advances paid out to employees and payments made to social security institutes pursuant to regulations in force.
The calculation is made by using actuarial techniques and discounting back future liabilities to the balance sheet date. These liabilities are composed of the credit which the employees will accrue as of the date they will presumably leave the company.

Item “Gas discount” includes annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. Premungas is, on the other hand, a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed from January 1997, and its quarterly movements regard settlement of payments made to assigned retirees. For both cases, recalculations have been made, using the same actuarial techniques applied for employee leaving indemnity.

Tariff reduction fund (electrical service). This fund was set up to meet charges resulting from the granting to employees in the electrical branch who are receiving leaving indemnities, of a tariff reduction on electrical consumptions. As at 31 December 2007, the Fund was classified in item “Provisions for risks and charges”. In this case, as well, a recalculation was made according to actuarial techniques.

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

Rates	2007	2008
Discounting back rate, average	4.88%	4.68%
Cost of labour increase rate, average	3.04%	3.50%

31. Provisions for risks and charges

	31-Dec-08	Acquisition by Sat merger	Provisions	Uses and other movements	31-Dec-08
Provision for staff disputes and legal costs	9,118	-	850	(1,140)	8,828
Landfill closure and post-closure costs provision	41,420	2,042	94	1,516	45,072
Provision for the restoration of third party assets	64,027	-	16,483	(3,832)	76,678
Provision for sundry risks	7,217	4,066	1,412	(5,397)	7,297
Provision for provisional plans	7,279	-	-	(7,279)	-
Provision for future service costs (electricity service)	5,828	-	-	(3,039)	2,788
Tariff reduction provision (electricity service)	3,153	-	-	(3,153)	-
Total	**138,042**	**6,107**	**18,838**	**(22,323)**	**140,665**

The provision for staff disputes and legal costs, amounting to Euro 8,828 thousand, reflects the assessments of the outcome of lawsuits and disputes brought by employees.

The provisions also include Euro 3,476 thousand relating to the dispute pending with INPS with regard to the demand for payment of contributions on involuntary unemployment, on social security benefits (CIG, CIGS, mobility), on sick-leave for blue-collar workers 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.

The developments of the INPS disputes are described hereunder.

As regards the **involuntary unemployment**, on 7 March 2008 the Employment Ministry issued a decree stating the exemption from the payment of such amount for Hera Spa and any other subsidiary, starting from Hera's incorporation date (1 November 2002). In accordance with the Decree, INPS offices in Forlì and Ferrara provided for the relief of tax assessment still pending for the portion of contributions on unemployment, equal to Euro 750 thousand. Therefore, the risk to pay INPS the contribution on unemployment no longer exists for 2008. The Leg. Decree 112/2008 sets out that, starting on 1 January 2009, exemptions possibly granted are no longer effective. Therefore, the Hera Group shall pay the above-mentioned contributions.

With regard to the contributions for **blue-collar workers' sick leave**, the aforementioned Leg. Decree 112/2008 supplies an interpretation of Law no. 138/1943, Art. 6, according to which any previous dispute is to be deemed as settled. In this way, any claim from INPS are no longer valid, taking account that the Hera Group has started to pay the contribution for workers' sick leave on 1 January 2005.

In relation to the contributions on **CIG, CIGS and Mobility**, the exclusion is supported not only by specific legal norms but by the fundamental consideration that the social security benefits are effectively unusable since the Hera Group runs essential services which must be constantly ensured. By contrast, INPS believes that the transformation into a joint-stock company and the transfer to private parties of even just a portion of the share capital, support the belief that the contributory obligation is enforceable. 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 the contributions for involuntary unemployment, CIG, CIGS and mobility to be not due, unlike what INPS claimed. The claim before the Court of Cassation is pending for Hera following an inspection Amir Spa promoted in 2000.
With its message no. 18089 of 10 July 2007, INPS ordered that, according to the principles stated in circular no. 63/2005, the contribution obligation for CIG, CIGS and mobility was to go into effect on the very date the circular was issued, i.e. May 2005. This is in compliance with the orientation the Council of State expressed (opinion no. 65 of 8 February 2006 referring to Enel Spa) regarding the non-retroactivity of the contribution obligations referred to in the circular. Actually, despite the fact that the literal tone of the message seems to undoubtedly regard the industrial companies of the public institutions (former municipal enterprises) as well, INPS - in latching on to circular 63/2005 – maintained that the message takes on its area of application, thereby referring only to Enel Spa, and asserts this in court.

Afterwards, on 5 February 2008, the Employment Ministry intervened with a message addressed to the INPS General Management. It stated that the conclusions the Council of State reached regarding the non-retroactivity prior to May 2005 of the contribution obligation for CIG, CIGS and mobility by necessity are general and unequivocal in order to protect the unavoidable principle of "par condicio" amongst market operators. Therefore, they also apply to the industrial companies of the public institutions (which the Hera Group also is part of).

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 equivalent to a total of 4.29%.

This higher rate is a serious penalisation for the “former municipal enterprises” with respect to other market operators. Confservizi has brought this failed contribution harmonisation consequent to Law 335/1995 to the attention of the Employment Ministry several times, which in turn has consulted the Council of State. The Council deemed a special legislative initiative necessary (circular no. 88 of 31 May 2004), which rules out the possibility of an administrative solution. In spite of Confservizi’s efforts to push through this legislative initiative, as of today no result is yet to be seen.

With regard to only the INPDAP personnel regulated by the electricity sector collective labour agreement, litigation consequent to interpretation of art. 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 Modena INPS Positions Management Office, the former Meta Spa applied reduced rates starting in 2001, at the same time it requested reimbursement of the greater contributions it had paid in, but which were not due, regarding financial year 2000 (reimbursement that then was actually made between 2001 and 2002).

As from November 2003, however, INPS served the notices by means of which it requested the payments of the contributions at the full rate, completely amending the interpretative position previously adopted, deeming that the reduction of the CUAF and maternity rates owed by the electricity sector was not applicable for the workers enrolled with INPDAP. On the other hand, this reduction is peaceably applied for the Enel Spa Group companies.

Taking account of the above, and especially of the positive news regarding contributions on involuntary unemployment and workers’ sick leave, a provision of Euro 3,476 thousand was allocated to meet liabilities resulting from tax assessments received to date and still pending, equal to Euro 6.9 million. This amount does not include tax assessments received for contributions on unemployment and sick leave. This prudential fund is deemed to be suitable, taking into account both the likely development of the litigation, as well as the opinions of the appointed legal advisors.

The **landfill closure and post-closure costs provision**, equal to Euro 45,072 thousand, represents the amount set aside by the Company 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 76,678 thousand includes the provisions made in relation to the legal and contractual restrictions encumbering the company in its capacity as leaseholder of the distribution networks owned by the asset companies. These provisions have been made on the basis of the normal depreciation rates envisaged for the assets in question; rates established contractually for the purpose of compensating the lessor companies for the wear and tear of the assets used for the business activities, applied to the value of the assets received under lease. In observance of the matters laid down by IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (as a rule on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The **provision for sundry risks,** equal to Euro 7,297 thousand, carries allocations made against various types of risks. The description of the main items is summarised hereunder:

- Euro 1,797 thousand per Mis quota, continuity and equalisation charges for the electrical service;
- Euro 4,302 thousand, regarding costs for restoration of freely transferable assets of the Rosola aqueduct system under concession, bottom of the Valle Savio and further provisions for sundry risks, all of a basically modest amount and connected with environmental issues;
- Euro 1,198 thousand, regarding further provisions of various kind, all of a basically modest amount.

The **provision for provisional plans** was set up in past years to finance investments in sewerage and purification in the water service was entirely used over the year.

The **provision for future service costs (electricity service)**, equal to Euro 2,788 thousand, refers to future payments connected with the self-certification of electricity tariffs. This item is calculated in compliance with the provisions of Resolution no. 204/99 and thereafter of the Authority for Electricity and Gas. This resolution provides that each operator, with regard to each type of user, must submit self certification of the amount of the “surplus” revenues pertaining to the year, using calculation parameters that will be determined by 31 July of the next year. The “exceeding” revenues shall be returned to customers.

The **tariff reduction provision (electricity service)** as at 31 December 2008 was reclassified in provisions for personnel.

32. Deferred tax liabilities

Deferred tax liabilities	31-Dec-08	31-Dec-07	Change
Deferred tax liabilities	3,204	2,666	538
IAS/IFRS deferred tax liabilities	66,881	68,535	(1,654)
Tax liabilities pending disputes	-	804	(804)
TOTAL	**70,085**	**72,005**	**(1,920)**

Deferred tax liabilities are generated by the temporary differences between the balance sheet profit and taxable income. The breakdown of deferred tax liabilities generated after the adoption of international accounting standards is shown hereunder.

	31-Dec-08	31-Dec-07	Change
IAS 37 Restoration of third party assets and landfill post-closure	31,154	32,414	(1,260)
IAS 17 Financial leasing	1,581	1,124	457
IAS 16 Fixed Assets	33,090	33,452	(362)
IAS 19 Employee leaving indemnity and other employee benefits	1,056	899	157
IAS 39 Derivatives	-	646	(646)
Total	**66,881**	**68,535**	**(1,654)**

These liabilities are collectable when the differences which generated them reverse to the income statement.

Item “Tax liabilities pending disputes” was partly used for payments, equal to Euro 81 thousand, and partly reassessed taking account of the favourable settlement of the dispute.

33. Financial leasing payables

	31-Dec-08	31-Dec-07	Change
Financial leasing payables within the year	2,710	2,997	(287)
Financial leasing payables beyond the year	5,267	5,637	(370)
Total	**7,977**	**8,634**	**(657)**

This item represents the recording of payables arising from the accounting of leasing transactions using the financial method.

34. Trade payables

Trade payables (current)	31-Dec-08	31-Dec-07	Change
Advances	**568**	**937**	**(369)**
Payables to suppliers	**156,894**	**168,298**	**(11,405)**
for which invoices received	97,183	110,636	(13,452)
for which invoices to be received	59,711	57,663	2,048
Payables to related parties	**866,663**	**698,291**	**168,372**
To subsidiaries	**833,175**	**671,416**	**161,759**
for which invoices received	456,158	358,976	97,182
for which invoices to be received	377,018	312,440	64,577
To associated companies	**13,166**	**8,099**	**5,067**
for which invoices received	10,342	5,394	4,947
for which invoices to be received	2,824	2,705	119
To related companies with significant influence	**8,466**	**5,113**	**3,353**
for which invoices received	5,145	740	4,404
for which invoices to be received	3,321	4,373	(1,052)
To other related parties	**11,856**	**13,662**	**(1,807)**
for which invoices received	7,141	7,661	(520)
for which invoices to be received	4,715	6,002	(1,287)
Payables to third parties	**332**	**3,361**	**(3,029)**
for which invoices received	254	3,046	(2,792)
for which invoices to be received	78	315	(237)
TOTAL	**1,024,457**	**870,888**	**153,569**

Advance payments of Euro 568 thousand (Euro 937 thousand as at 31 December 2007) refer to advances received from customers for works to be performed.

Trade payables, all of a commercial nature and included in amounts provisioned to cover invoices due, total Euro 156,894 thousand (Euro 168,298 as at 31 December 2007). Payables to suppliers also include payables to European suppliers for Euro 971 thousand (Euro 1,873 thousand as at 31 December 2007). Payables to suppliers must all be paid by next year.

Payables to related companies, equal Euro 866.663 thousand, (Euro 698,291 thousand as at 31 December 2007) mainly regard application of the infragroup service contracts (waste disposal, IT services, telephony, equipped premises, fleets, etc).

The table below provides a breakdown of *payables to subsidiaries*:

Payables to subsidiaries	31-Dec-08	31-Dec-07	Change
Asa Spa	(81)	1,962	(2,043)
Akron Spa	5,414	4,299	1,114
Ares Spa in liquidation	-	344	(344)
Ideametropoli Centro Global Service Srl in liquidation	-	(1)	1
Ecologia Ambiente Srl	73,359	3,133	70,226
Ecosfera Spa	715	830	(115)
Famula On-line Spa	19,847	18,290	1,556
Frullo Energia Ambiente Srl	3,300	3,885	(585)
Gal.A. Spa	1,332	1,887	(555)
Hera Imola-Faenza Srl	45,434	53,426	(7,992)
Hera Bologna Srl	132,067	97,049	35,018
Hera Comm Srl	246,195	232,860	13,335
Hera Ferrara Srl	36,602	39,855	(3,253)
Hera Forlì-Cesena Srl	44,995	47,874	(2,879)
Hera Luce Srl	5,483	10,454	(4,971)
Hera Modena Srl	71,023	39,860	31,163
Hera Ravenna Srl	53,629	51,573	2,056
Hera Rimini Srl	35,831	51,305	(15,474)
Hera Servizi Funerari Srl	-	21	(21)
Hera Trading Srl	47,571	392	47,178
Herasocrem Spa	194	101	93
Ingenia Srl	92	116	(24)
Marche Multiservizi Spa	-	3	(3)
Medea Spa	19	-	19
Nuova Geovis Spa	1,400	1,374	26
Recupera Srl	3,078	1,907	1,171
Romagna Compost Srl	347	311	36
Sotris SpA	655	3,480	(2,825)
Uniflotte Srl	4,676	4,824	(148)
Total	**833,175**	**671,416**	**161,759**

The table below provides a breakdown of *payables to associated companies*, all governed at arm's length conditions:

Payables to associated companies	31-Dec-08	31-Dec-07	Change
Acantho Spa	11,851	7,334	4,517
Agea Reti Srl	585	-	585
Agess Scarl	10	10	-
PRI.GE.A.S. Srl	6	-	6
Italcic Scarl	-	462	(462)
Satcom Spa	(237)	-	(237)
Service imola srl (ami)	627	293	333
SO.SEL	326	-	326
Total	**13,166**	**8,099**	**5,067**

The table below provides a breakdown of *payables to related companies with significant influence*:

Payables to related companies with significant influence	31-Dec-08	31-Dec-07	Change
Municipality of Bologna	5,604	2,803	2,801
Municipality of Modena	2,862	2,311	552
Total	**8,466**	**5,113**	**3,353**

The table below provides a breakdown of *payables to other related companies:*

Payables to other related companies	31-Dec-08	31-Dec-07	Change
Adriatica Acque Srl	72	-	72
Amir - assets	906	899	7
Area - assets	198	534	(336)
Attiva Bologna Srl consort.	-	1,323	(1,323)
Calorpiù Italia Scarl	33	889	(856)
Calorpiù Modena Scarl	-	45	(45)
Con.ami	628	1,123	(495)
Consorzio Energia Servizi Bologna	100	32	68
Eris scrl energia risorse sviluppo	1,121	1,111	10
Estense Global Service Scarl	780	325	455
Fiorano Gestioni Patrimoniali	184	-	184
Formigine Patrimonio Srl	243	-	243
Hera Comm Mediterranea Srl (ex Cales)	2	-	2
Hera Energia Bologna Srl	207	552	(345)
Maranello Patrimonio Srl	280	-	280
Romagna acque Spa	427	275	152
Sassuolo Gestioni Patrimoniali	1,527	-	1,527
Seas Lavori e Servizi Scarl	-	15	(15)
Serramazzoni Patrimonio Srl	82	-	82
Sgr Servizi Spa	180	128	52
Sinergia Srl	2,588	3,859	(1,271)
Sis Spa - società italiana servizi	-	192	(192)
Team - assets	12	8	3
Unica Reti - assets	2,277	2,354	(77)
Componenti CdA	10	-	10
Total	**11,856**	**13,662**	**(1,807)**

35. Tax liabilities

Tax liabilities	31-Dec-08	31-Dec-07	Change
income taxes (IRES and IRAP)	21,575	183	21,393
tax on consumption and additional region tax	4,194	2,437	1,757
employee withholdings	2,264	2,055	209
VAT	-	-	-
substitute tax	16,348	23,571	(7,223)
sewerage charges	565	617	(52)
other tax liabilities	2,875	2,538	337
Total	**47,821**	**31,401**	**16,421**

Item income taxes payables (IRES and IRAP), equal to Euro 21,575 thousand, relates to IRES and IRAP payables, amounting to Euro 18,756 thousand and Euro 2,819 thousand, respectively (the payables equal to Euro 183 thousand as at 31 December 2007 is related to IRAP only). Please refer to the notes under Note 14 “taxes for the period” and Note 26 "other current assets" for the difference from last year.

Item “Tax on consumption and additional regional tax", equal to Euro 4,194 thousand (Euro 2,437 thousand as at 31 December 2007), shows an increase equal to Euro 1,757 thousand, mainly due to payables due to the Province for the additional tax on waste.

Item “Substitute tax" reflects the option set out be Art. 1, subsection 48 of Law 244/2007 that Hera Spa adopted as at 31 December 2007. The amount due for substitute tax payable within the next year is equal to Euro 9,341 thousand. The decrease, compared to the previous year, is due to amounts paid over the year according to the instalment plan provided for by regulations in force.

The “other tax liabilities” refer to the ecotax amount due for the last quarter of 2008 paid in 2009.

Tax liabilities are payable by next year.

36. Other current liabilities

	31-Dec-08	31-Dec-07	Change
Payables to social security institutions: Inps, Inpdap, Inail	2,487	2,471	16
Other institutions	1,522	1,517	5
Personnel	5,511	5,269	242
Directors and Statutory Auditors	20	-	20
Guarantee deposits	24,490	23,888	602
Customers	230	230	-
Provisional plans	-	3,477	(3,477)
Contributions towards inlets/outlets and pipelines	756	732	24
Other payables	80,440	76,486	3,954
TOTAL	**115,456**	**114,069**	**1,387**

Payables to social security and welfare institutions relate to contributions due to these institutions for the month of December. Said liabilities must be paid by next year.

Payables to personnel relate to holidays accrued and not taken as at 31 December 2009, productivity bonuses and wages and salaries.

Item “Payables for guarantee deposits” refers to the deposits customers paid for water supply agreements.

Payables for provisional plans, equal to Euro 3,477 thousand as at 31 December 2007, were pending with respect to Municipalities, following the application of the specific water treatment/sewerage tariffs. It is specified that this item, as at 31 December 2008, is no longer existent as investments in the water treatment and sewerage sectors have been completed.

The main changes in item “other” are shown hereunder:

	31-Dec-08	31-Dec-07	Change
Amounts due for advances from municipalities for tax moratorium	-	17,052	(17,052)
Equalisation Fund for electricity standardisation	1,073	1,073	-
Amounts due to shareholders for dividends	1,288	-	1,288
Other works and services	2,054	532	1,522
Insurances and allowances	2,457	1,325	1,132
Municipalities for environmental inconvenience and as guarantee	3,473	3,068	405
Outsourcing works for consulting and design studies	4,521	7,386	(2,865)
Other amounts due	13,976	9,213	4,763
Capital account payments on works	51,598	36,837	14,761
TOTAL	**80,440**	**76,486**	**3,954**

The decrease in advances from municipalities for tax moratorium, equal to Euro 17,052 thousand, is chargeable to the payment of tax assessments regarding the tax moratorium occurred in the first half of 2008.

Please refer to note 14, “income taxes”, for a fuller explanation of this matter.

The increase in capital account payments on work is mainly due to the completion of some investments in the water sectors and following reclassification of the related amounts. This item will reduce over the future years, in proportion to amortisation/depreciation rates calculated on related fixes assets. The increase recorded in this item is attributable to the decrease in item liabilities/provisions for provisional plans.

37. Guarantees provided

	31-Dec-08	31-Dec-07	Change
Sureties and guarantees provided in the interest:			
of third parties	**452,695**	**457,051**	**-4,356**
Other unsecured guarantees provided in the interest:			
of subsidiaries	473,868	202,742	271,126
of associated companies	9,434	156,432	-146,998
Total	**483,302**	**359,174**	**124,128**
Total	**935,997**	**816,225**	**119,772**

In **sureties provided in the interest of sundry parties**, the negative change, compared to 2007 and equal to Euro 4,356 thousand, regards the return of expired or not renewed sureties.

The value, as at 31 December 2008, includes:

- 49,740 sureties issued to post-closure guarantee of landfills of the mortgages;
- for Euro 70,200 thousand per surety issued by Hera Spa for the benefit of its associated company Set Spa to guarantee a loan granted it by the banks Dexia Crediop Spa and Banca Opi Spa;
- Euro 8,985 thousand for sureties issued to municipalities for a correct management of public utility services.

The unsecured guarantees provided in the interest of subsidiaries, include the following:

1) Patronage letters, as a guarantee of loans, equal to Euro 108,334 thousand, issue in favour of::
- Fea Srl, Euro 51,000 thousand as a guarantee of a loan granted by Banca Intesa Infrastrutture e Sviluppo Spa;
- Hera Trading Srl/Hera Comm Srl, Euro 18,000 thousand, by way of appointment at BNL for the issue of sureties;
- Gal.a Spa, Euro 16,329 thousand, against a number of loans granted by Cassa di risparmio di Cento;
- Medea Spa, Euro 13,828 thousand, against two loans granted by Banco di Sardegna and BNL;
- Calenia Energia Spa, Euro 450 thousand;
- Nuova Geovis Spa, Euro 4,182 thousand;
- Famula on line Spa, Euro 2,500 thousand;
- Recupera Srl, Euro 1,495 thousand;
- Hera Luce Srl, Euro 550 thousand;

2) guarantees against commodity swap agreements, equal to Euro 112,922 thousand, mainly in favour of:
    a. Hera Trading Srl, Euro 110,000 thousand;

3) guarantees against contract obligations, equal to Euro 248,602 thousand, in favour of:
    a. Hera Trading Srl, Euro 159,480 thousand, regarding the supply, transportation and optimisation of electrical energy and the supply, transportation and storage of gas;
    b. Hera Comm Srl, Euro 70,868 thousand regarding the supply and optimisation of electrical energy;
    c. Sotris Spa, Euro 14,642 thousand as a guarantee of sureties issued by the same in favour of the Province of Ravenna for the management post-closure of landfills;
    d. Gastecnica Galliera Srl, Euro 1,946 thousand, as a guarantee the surety issued by the same as winner of the TAG tender;
    e. Medea Spa, Euro 1,500 thousand, as a guarantee of ENI and Butan gas Spa, for the supply of LPG at the plant of Porto Torres;
    f. Other minor.

4) Guarantees on leasing agreements, given to Uniflotte Srl for Euro 3,110 thousand, to Medea Spa for the VAT reimbursement, amounting to Euro 400 thousand and Hera Comm Srl for the VAT reimbursement, equal to Euro 500 thousand.

The unsecured guarantees provided in the interest of subsidiaries, include the following:

- patronage letters, as a guarantee of loans, equal to Euro 5,840 thousand, issue in favour of:
    a. Nuova Geovis Spa, Euro 2,948 thousand;
    b. Gal.A Spa , Euro 1,048 thousand;
    c. Oikothen Scarl , Euro 1,844 thousand;

- patronage letters, as a guarantee of loans, equal to Euro 855 thousand, issue in favour of:
    a. Acantho Spa, Euro 855 thousand;

- patronage letters, against financial leasing agreements signed by Acantho Spa for the amount of Euro 2,739 thousand.

With regard to the other commitments, we note the following:

	31-Dec-08	31-Dec-07	Change
Commitments			
Third party assets used by the Company	1,319,329	1,548,175	-228,846
Other	879	872	7
Total	**1,320,208**	**1,549,047**	**-228,839**

1) the third party assets used by Hera Spa comprise:

- water and gas cycle assets received under license from the local authorities;
- leased assets of the asset companies relating to the water and energy sectors (gas, electrical energy and district heating).

The negative change, compared to the previous year, equal to Euro 228,846 thousand, is due:

- to negative changes due to the termination of the lease contract with Romagna Acque following the sale of the corporate branch, as described in section 3.03.02 “Relations with related parties”, equal to Euro 18,594 thousand, and the reclassification, in owned assets and assets of the Asset company, equal to Euro 235,295 thousand (as described in Note 15);
- to positive changes for the acquisition, under lease contract, of the water system of Dragone in Modena, equal to Euro 12,436 thousand and other acquisitions from the former Sat Spa and within the water cycle, equal to Euro 12,436 thousand.

2) The beneficial use contract for the management of the landfills of the company Gal.A. Spa, which expired in early 2006, was replaced by a landfill lease contract. Hence the value reported as at 31 December 2005 of Euro 11,244 thousand, has been reclassified under third party assets under lease.

3) Item “Other”, equal to Euro 879 thousand, includes transfer of the fifth portion of the salary and small loans to employees, amounting to Euro 671 thousand and bills for collection equal to Euro 208 thousand.

3.03.02 Explanatory Notes of related parties

Management of the services

Hera Spa holds concessions of local public services of economic interest (distribution of natural gas via local gas pipelines, integrated water service and waste management services, including sweeping, collection, transport and waste recovery and disposal) in a large amount of its territory of competence and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini). The electricity distribution service has been carried out in the Imola district, in the municipality of Modena and in the municipalities of the province of Modena acquired from the previous operator (Enel Distribuzione) since 1 July 2006.

Other utilities (district heating systems, heat management and public lighting) are provided under market conditions, i.e. through special agreements with local authorities. Hera is responsible for waste treatment and disposal service via special agreements with local authorities, excluding the regulatory activity carried out by the environmental authorities (AATO), but subject to monitoring by the regional public water service and municipal waste management authorities.

Regional and national legislation assign the responsibilities for appointment, control and tariff regulation concerning integrated water and municipal hygiene to the AATOs. These responsibilities formerly were of the granting municipalities which are, nevertheless, represented at the Shareholders' Meetings of the AATOs. In observance of the provisions of said regional law and national legislation on the subject (specifically article 113 of the Consolidated Local Authority Act and the sectorial regulations regarding appointing services on an exclusive basis), the Hera Group entered into special agreements with the AATOs, which establish the coming into effect of the technical and tariff planning.

It is worth noting that over the year the corporate branch related to the management of water production plants of the AATO of Forlì-Cesena, Ravenna, Rimini, was sold to Romagna Acque. This transaction had been possible according to Art. 14 of the regional law no. 25 6/07/1999, which sets out that, in the presence of a majority shareholder of local institutions, owner of collection, potable treatment and primary distribution plants and wholesaler of integrated water service of more than one AATO, the same shareholder can undertake the direct management of such plants and networks.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, implementing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report accompanying the financial statements. Hera benefits from the increases in residual durations given to the operators that have promoted partial privatisations and aggregations. The residual duration of distribution concessions is not less than that foreseen in the company's stock exchange listing.

The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. The tariffs for gas distribution are fixed according to current regulations and to the periodic resolutions of the Authority for Electrical Energy and Gas. The territory in which Hera carries out the gas distribution services consists of "tariff areas" in which a distribution tariff is uniformly applied to the various categories of customers.

In relation to the electricity area, the contracts (with thirty-year duration and renewable pursuant to the legislation in force) relate to the distribution of energy, including management of the distribution network, operation of the plants, carrying out of ordinary and extraordinary maintenance and planning and identification of the development interventions. Interruption, or cancellation, of the license may occur according to the judgement of the sector's authorities, should non-fulfilments and breaches attributable to the company awarded the concession that seriously and on a wide scale jeopardise the electricity distribution service occur.

The company awarded the concession is obliged to apply the tariffs set by regulations in force and resolutions adopted by the Authority for Electrical Energy and Gas to the consumers. The tariff regulation in force when the Financial Statements for the year were approved (to which this report is attached) was deliberation no. 348/2007 ("Integrated provisions for carrying out electrical energy transmission, distribution and measurement for the regulatory period 2008-2011 and provisions regarding the economic conditions regulating the provision of the connection service"), which superseded the previous tariff option system and established a single national distribution tariff.

Water sector

Hera manages the integrated water supply service under agreements with the AATOs of varying duration (not less than twenty years), for water system services, sewerage and waste treatment services or for a combination of these services. Water system management includes the whole of public water collection, potable treatment, distribution and sale of drinking water for civil and industrial use. The sewerage and purification services include the management of the networks and sewage and purification plants.
The agreements also provide for execution of new network design and construction activities and the building of new plants to be used in managing the service.
The management of the service is awarded exclusively to HERA for the municipal territory involving the obligation of the Municipality not to grant to third parties usage of the subsoil of its property or state aqueducts without the prior consent of HERA.

The agreements regulate, in addition, other aspects such as the methods of managing the services as well as reciprocal obligations between the parties relating to, principally, the charges for ordinary and extraordinary maintenance work on the networks and plants necessary for the functioning of the services. The agreements are accompanied by technical and economic disciplinary measures regulating the service, the compulsory quality and operating standards and the tariff framework. The tariffs, which are fixed annually (on the basis of multiannual economic agreements) in accordance with the law, in particular the regional laws, (DPGR no. 49 of 13 March 2006), must be determined by AATOs.

The local authorities grant rights of use, even free of charge, to the management company for the integrated water service network and systems operations. In the majority of the cases concerning the areas managed by HERA, the local authorities have conferred the ownership of networks and plants to special purpose asset companies.
On termination of the concession, HERA is obliged to return any assets used in provision of the service to the asset companies or local authorities. Any works carried out for the innovation or improvement of the networks must be returned, at the end of the concession against payment of the residual value of those assets.
Hera’s relations with users are regulated by sector laws and by the provisions set out by the regional councils and environmental agencies. The duties of the operator towards service quality and resources and the users’ rights are illustrated in the specific Service Charters proposed by the operator and approved by the Agencies.

Waste management sector

Hera manages the municipal waste service, the agreements signed by Hera with the AATO have as subject matter the exclusive management of services in the sector of municipal waste management (waste collection and transportation services, road cleaning and waste recovery and disposal, etc.).
The duration of the agreements is fixed by the regional regulations as ten years. The agreements regulate aspects of the relationship such as the methods of the service as well as mutual obligations between the parties. The agreements are complete with technical and economic disciplinary measures regulating the service, the compulsory quality and operating standards.
The amount payable to the operator for the services performed is defined on an annual basis (according to multiannual economic agreements), in accordance with Italian Presidential Decree No. 158/1999, whenever a tariff is defined.
For the use of the waste treatment plants, the Hera Group is bound to obtain authorisations from the province.

Management of the networks, plants and equipment

The infrastructures required to carry out the services assigned, including the local gas pipelines and the water and sewerage networks are in part owned by Hera and in part by third parties (municipalities, consortia of municipalities, asset companies owned by local authorities). The dealings between the service operators and the owners of the operating assets are disciplined by specific agreements concluded between them and by regional laws; the regulation of the economic elements is, in some cases, covered by rental agreements, which fix the fee payable by the operator to the owners for the use of the networks and plants.
These contracts oblige Hera to carry out routine and extraordinary maintenance and network extensions at it own expense and under its management, as required in the investments plan agreed to with the asset companies and, if significant, by the ATO area plans.

Upon expiry of the contract, Hera SpA will return the business unit and, at the same time, pay the difference between the initial value of the assets on stipulation of the rental contract (value equal to that resulting from the net book values recorded in the asset company minus the depreciation recognised as at the rental date) and the value of the assets on termination of the contract. The end value is equal to the initial value minus depreciation accrued until the expiry of the contract plus the value of the investments, including extraordinary maintenance on leased assets, made by Hera net of the amortisation accrued.

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

Values indicated in **the table for year 2008**, item 3.02 Financial Statements - Consob resolution no. 15519 of 27 July 2006 refer to related parties hereunder:

Related parties - subsidiaries:	
Akron Spa	Hera Modena Srl
Asa Spa	Hera Ravenna Srl
Ecologia Ambiente Srl	Hera Rete Modena Srl
Ecosfera Spa	Hera Rimini Srl
Famula On-line Spa	Hera Servizi Funerari Srl
Frullo Energia Ambiente Srl	Hera Trading Srl
Gal.A. Spa	Herasocrem Spa
Gas Tecnica Galliera Srl	Ingenia Srl
Hera Bologna Srl	Marche Multiservizi Spa ex Aspes Multiservizi Spa
Hera Comm Srl	Medea Spa
Hera Energie Rinnovabili Spa	Nuova Geovis Spa
Hera Ferrara Srl	Recupera Srl
Hera Forlì-Cesena Srl	Romagna Compost Srl
Hera Imola-Faenza Srl	Sotris Spa
Hera Luce Srl	Uniflotte Srl

Related parties - associated companies:	
Acantho Spa	Pri.Ge.A.S. Srl
Agea Reti Srl	Refri Srl
Agess Scarl	Satcom Spa
Consorzio Frullo	Sei Spa
Feronia Srl	Service Imola Srl (AMI)
Italcic Scarl	Set Spa
Modena Network Spa	So.Sel. Spa
Oikothen Scarl	Tamarete Energia Srl

Related parties with significant influence:	
Municipality of Bologna	Municipality of Modena

Other related parties:	
Acosea Impianti Srl	Formigine Patrimonio Srl
Acque Srl	Galsi Spa
Adriatica Acque Srl	Hera Comm Marche ex Megastrade Srl
Amf - asset	Hera Comm Mediterranea Srl
Amir - asset	Hera Energie Bologna Srl
Area - asset	Maranello Patrimonio Srl
Aspes Gas Srl	Natura Srl
Aspes Spa	Romagna Acque Spa
Calenia Energia Spa	Sassuolo Gestioni Patrimoniali Srl
Calorpiù Italia Scarl	Sat Patrimonio Srl
Con.Ami	Serramazzoni Patrimonio Sarl
Consorzio Energia Servizi Bologna	Sgr Servizi Spa
Dyna Green Srl	Sinergia Srl
Energia Italiana Spa	Società Intercomunale di Servizi Spa - Sis Spa
Eris Scrl Ener. Ris. Svil.	Società Italiana Servizi Spa - Sis Spa asset
Estense Global Service Scarl	Team - asset
Fiorano Gestioni Patrimoniali Srl	Unica reti - asset
Flameenergy Gmbh	Winmaxer Spa

Third-party related parties:	
Acef Srl (single)	Consorzio Sviluppoenergia 2
Ambiente Mare Spa (area)	Democenter scarl
Bonifica e Ambiente in liquidation (single)	Eticredito – Banca Etica Adriatica
Centuria Rit – Romagna Innovazione Tecnologia Soc.Cons.a rl	Fondazione Flaminia
Consenergy 2000	Isgas Energit Multiutilities Soc.Cons.a rl
Consorzio Ferrara Ricerche	Modena Formazione Srl
Consorzio Italiano Compostatori (amia unica team agea)	Prog.Este Spa
Consorzio Polieco (team)	Torricelli Srl (single)
Consorzio Sviluppoenergia 1	Vadisieve Cons.rl

Values indicated in the **table for year 2007**, item 3.02 Financial Statements - Consob resolution no. 15519 of 27 July 2006 refer to related parties hereunder:

Related parties - subsidiairies:	
Akron Spa	Hera Imola-Faenza Srl
Ambiente 3000 Srl	Hera Luce Srl
Ares Spa Consortile	Hera Modena Srl
Asa Spa	Hera Ravenna Srl
Aspes Multiservizi Spa	Hera Rete Modena Srl
Cgs Trasf. Idea Metropoli cgs Srl in liquidation	Hera Rimini Srl
Ecologia Ambiente Srl	Hera Trading Srl
Ecosfera Spa	Herasocrem Spa
Famula On-line Spa	Hera Servizi Funerari Srl
Frullo Energia Ambiente Srl	Ingenia Srl
Gal.A. Spa	Medea Spa
Gas Tecnica Galliera Srl	Nuova Geovis Spa
Hera Bologna Srl	Recupera Srl
Hera Comm Srl	Romagna Compost Srl
Hera Ferrara Srl	Sotris Spa
Hera Gas Tre Spa	Uniflotte Srl
Hera Forlì-Cesena Srl	Viviservizi Srl Consortile in liquidation

Related parties - associated companies:	
Acantho Spa	Oikothen Scarl
Agea Reti Srl	Refri Srl
Agess Scarl	Sat Spa
Italcic Scarl	Service Imola Srl (AMI)
Modena Network Spa	Set Spa

Related parties with significant influence:	
Municipality of Bologna	Municipality of Modena

Other related parties:	
Acque Srl	Eris Scrl Ener. Ris. Svil.
Adriatica Acque Srl	Estense Global Service Scarl
Amf - asset	Flameenergy Gmbh
Amir - asset	Galsi Spa
Area - asset	Hera Comm Mediterranea Srl (ex Cales Srl)
Attiva Bologna Srl consort. In liquidation	Hera Energie Bologna Srl
Acosea Impianti Srl	Romagna Acque Spa
Aspes Gas Srl	Sgr Servizi Spa
Calenia Energia Spa	Seas Lavori e Servizi Scarl
Calorpiù Italia Scarl	Sinergia Srl
Calorpiù Modena Scarl	Società Intercomunale di Servizi Spa - Sis Spa
Consorzio Energia Servizi Bologna	Società Italiana Servizi Spa - Sis Spa asset
Con.ami	Team - asset
Dyna Green Srl	Unica Reti - asset
Energia italiana Spa	

Remuneration paid to Directors, Statutory Auditors and Executives with strategic responsibilities

As set forth in art. 78 of the CONSOB Resolution no. 11971 of 14 May 1999 containing the provisions for implementation of the Italian Legislative Decree no. 58 of 24 February 1998, information on the remuneration paid in the year to the directors, statutory auditors and executives with strategic responsibilities of Hera SpA and its subsidiaries is provided below. Remuneration means the emolument paid for the office held, even for a fraction of a year, any other non-monetary benefits, bonuses and incentives, including those assigned by subsidiaries of Hera Spa. The amounts are in Euro.

Board of Directors

Name and surname	Office held	Period over which office was held	Expiry of office	Emolument for the office	Non-monetary benefits	Bonus & other incentives	Other considerations
Tomaso Tommasi di Vignano	Chairman	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	333,743	6,402	69,975	
Maurizio Chiarini	Managing Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	108,743	12,806	72,781	232,995
Giorgio Razzoli	Vice Chairman	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	120,000	3,850		
Mara Bernardini	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	100,000	259		
Filippo Brandolini	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	100,000	285		
Luigi Castagna	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	100,000	1,017		
Pierluigi Celli	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2007	24,385	575		
Piero Collina	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	75,000	1,357		
Pier Giuseppe Dolcini	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	75,000	-		
Giuseppe Fiorani	Director	from 01.01.2008 to 28.04.2008	Appr. of Fin. St as at 31.12.2007	24,385	180		
Vander Maranini	Director	from 01.01.2008 to 28.04.2008	Appr. of Fin. St as at 31.12.2007	32,514	388		
Nicodemo Montanari	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	100,000	2,727		
Fabio Roversi Monaco	Director	from 01.01.2008 to 28.04.2008	Appr. of Fin. St as at 31.12.2007	24,385	810		
Roberto Sacchetti	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	100,000	5,426		
Luciano Sita	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	75,000	1,960		
Bruno Tani	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	75,000	1,017		
Lanfranco Maggioli	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	75,000	622		
Stefano Zolea	Director	from 01.01.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	100,000	420		
Mauro Cavallini	Director	from 29.04.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	49,522	326		
Ferruccio Giovanelli	Director	from 29.04.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	49,522	428		
Alberto Marri	Director	from 29.04.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	49,522	467		
Francesco Sutti	Director	from 29.04.2008 to 31.12.2008	Appr. of Fin. St as at 31.12.2010	49,522	982		
				1,841,243	42,304	142,756	232,995

Board of Statutory Auditors

Name and surname	Office held	Period over which office was held	Expiry of office	Emolument for the office	Non monetary benefits	Bonus & other incentives	Other considerations
Sergio Santi	Chairman	from 29.04.2008 to 31.12.2008	Approval of Fin.Stat.as at 31.12.2010	80,984	1,306		
Sergio Santi	Standing Auditor	from 01.01.2008 to 28.04.2008	Approval of Fin.Stat.as at 31.12.2007	26,011			
Antonio Venturini	Chairman	from 01.01.2008 to 28.04.2008	Approval of Fin.Stat.as at 31.12.2007	39,016			
Antonio Venturini	Standing Auditor	from 29.04.2008 to 31.12.2008	Approval of Fin.Stat.as at 31.12.2010	33,605			
Fernando Lolli	Standing Auditor	from 01.01.2008 to 31.12.2008	Approval of Fin.Stat.as at 31.12.2010	80,000	3,213		
				259,616	4,519		

With regards to the Executives with strategic functions (Management Committee), the total gross annual salary paid during 2008 amount to Euro 2,288,674 while non-monetary benefits amount to Euro 95,443.

3.04 Net Financial Indebtedness

3.04.01 Net Financial Indebtedness of Hera Spa

In accordance with the requirement under Consob notification of 28 July 2006 and in compliance with the CERS recommendation of 10 February 2005 "Recommendations for the standard implementation of European Commission rules on information prospectuses" we note that the net financial position is as follows:

Net financial position	31-Dec-08	31-Dec-07
(in millions of €)		
Cash and cash equivalents	**117.1**	**127.2**
Other current financial receivables	**3.1**	**12.9**
Current bank indebtedness	-104.3	-150.7
Current portion of non-current bank indebtedness	-69.6	-72.7
Other current loans	-8.1	-3.5
Financial leasing liabilities – expiring within the next year	-2.7	-3.0
Current financial indebtedness	**-184.7**	**-229.9**
Net current financial indebtedness	**-64.5**	**-89.8**
Non-current financial receivables	15.6	11.5
Non-current bank indebtedness (long-term loans)	-292.5	-331.8
Bonds issued	-999.7	-798.2
Other non-current loans	-120.0	-121.9
Financial leasing payables – expiring beyond the next year	-5.3	-5.6
Non-current financial indebtedness	**-1,417.5**	**-1,257.5**
Net non-current financial indebtedness	**-1,401.9**	**-1,246.0**
Net financial indebtedness	**-1,466.4**	**-1,335.8**

3.04.02 Net financial indebtedness – Consob resolution no. 15519 of 2006

Net financial position	31-Dec-08	of which related parties A	B	C	D	Total	Influence on the balance sheet items
(in millions of €)							
Cash and cash equivalents	**117.1**					-	
Other current financial receivables	**3.1**	**2.9**	**0.1**			**3.0**	96.77%
Current bank indebtedness	-104.3					-	
Current portion of non-current bank indebtedness	-69.6					-	
Other current loans	-8.1	-4.2				**-4.2**	51.85%
Financial leasing payables - expiring within the next year	-2.7					-	
Current financial indebtedness	**-184.7**	**-4.2**	**-**	**-**	**-**	**-4.2**	
Net current financial indebtedness	**-64.5**	**-1.3**	**0.1**	**-**	**-**	**-1.2**	
Non-current financial receivables	15.6	7.1	8.5			**15.6**	100.00%
Non-current bank indebtedness (long-term loans)	-292.5					-	
Bonds issued	-999.7					-	
Other non-current loans	-120.0					-	
Financial leasing payables - expiring beyond the next year	-5.3					-	
Non-current financial indebtedness	**-1,417.5**	**-**	**-**	**-**	**-**	**-**	
Net non-current financial indebtedness	**-1,401.9**	**7.1**	**8.5**	**-**	**-**	**15.6**	
Net financial indebtedness	**-1,466.4**	**5.8**	**8.6**	**-**	**-**	**14.4**	

Net financial position	31-Dec-07	of which related parties A	B	C	D	Total	Influence on balance sheet items
(in millions of €)							
Cash and cash equivalents	**127.2**					-	
Other current financial receivables	**12.9**	**11.0**				**11.0**	85.25%
Current bank indebtedness	-150.7					-	
Current portion of non-current bank indebtedness	-72.7					-	
Other current loans	-3.5					-	
Financial liabilities from derivative instruments	-					-	
Financial leasing payables - expiring within the next year	-3.0					-	
Current financial indebtedness	**-229.9**	**-**	**-**	**-**	**-**	**-**	
Net current financial indebtedness	**-89.8**	**11.0**	**-**	**-**	**-**	**11.0**	
Non-current financial receivables	11.5	4.8	6.6			**11.4**	98.98%
Non-current bank indebtedness (long-term loans)	-331.8					-	
Bonds issued	-798.2					-	
Other non-current loans	-121.9					-	
Financial leasing payables - expiring beyond the next year	-5.6					-	
Non-current financial indebtedness	**-1,257.5**	**-**	**-**	**-**	**-**	**-**	
Net non-current financial indebtedness	**-1,246.0**	**4.8**	**6.6**	**-**	**-**	**11.4**	
Net financial indebtedness	**-1,335.8**	**15.8**	**6.6**	**-**	**-**	**22.4**	

Key
A Subsidiaries
B Associated companies
C Related parties with significant influence
D Other related parties

3.05 Statement of equity investments

Statement of equity investments

€/000	Share capital	Sh. equity excluding 2008 profit	Profit (loss) 2008	Total shareh. equity	% owned	Interest in sh. equity	Book value 31-Dec-08	Differences compared to sh. equity
Subsidiaries								
Akron Spa								
Asa Spa	1,820	2,415	268	2,683	51.00	1,368	4,184	-2,816
Ecologia Ambiente Srl	23,780	53,146	14,540	67,686	100.00	67,686	52,797	14,889
Ecosfera Spa	1,000	1,328	107	1,435	100.00	1,435	1,813	-378
Famula On Line Spa	4,364	12,260	395	12,655	60.00	7,593	6,055	1,538
Frullo Energia Ambiente Srl	17,139	20,167	13,149	33,316	51.00	16,991	8,817	8,174
Gal. A. Spa	300	360	74	434	60.00	260	207	53
Gastecnica Galliera Srl	312	364	76	440	100.00	440	2,539	-2,099
Hera Bologna Srl	1,250	1,865	18,799	20,664	100.00	20,664	1,250	19,414
Hera Comm Srl	53,137	53,137	-91	53,046	100.00	53,046	88,592	-35,546
Hera Energie Rinnovabili Spa ex Hera Gas Tre Spa	120	117	-21	96	100.00	96	705	-609
Hera Ferrara Srl	810	979	8,722	9,701	100.00	9,701	810	8,891
Hera Forlì-Cesena Srl	650	820	587	1,407	100.00	1,407	650	757
Hera Imola-Faenza Srl	750	1,520	4,930	6,450	100.00	6,450	1,370	5,080
Hera Luce Srl	264	5,933	4,759	10,692	89.58	9,578	8,864	714
Hera Modena Srl	1,150	1,380	7,831	9,211	100.00	9,211	1,150	8,061
Hera Ravenna Srl	850	1,240	5,759	6,999	100.00	6,999	850	6,149
Hera Rete Modena Srl	22,222	22,429	539	22,968	100.00	22,968	106,344	-83,376
Hera Rimini Srl	1,050	1,260	1,311	2,571	100.00	2,571	1,050	1,521
Herasocrem Spa	2,218	2,251	-208	2,043	51.00	1,042	1,131	-89
Hera Servizi Funerari Srl	10	12	201	213	100.00	213	10	203
Hera Trading Srl	2,600	3,288	5,143	8,431	100.00	8,431	2,711	5,720
Ingenia Srl	52	124	35	159	74.00	118	63	55
Marche Multiservizi Spa ex Aspes Multiservizi Spa	13,056	14,251	4,683	18,934	41.87	7,928	34,538	-26,610
Medea Spa	4,500	3,310	-309	3,001	100.00	3,001	11,988	-8,987
Nuova Geovis Spa	2,205	3,506	1,082	4,588	51.00	2,340	4,856	-2,516
Recupera Srl	1,673	12,218	1,226	13,444	100.00	13,444	12,592	852
Romagna Compost Srl	3,560	3,944	70	4,014	60.00	2,408	2,136	272
Sotris Spa	2,340	5,950	959	6,909	70.00	4,836	2,362	2,474
Uniflotte Srl	2,254	2,548	1,102	3,650	97.00	3,541	3,567	-27
Total subsidiaries	**165,436**			**327,840**		**285,766**	**363,999**	
Associated companies								
Acantho Spa (*)	15,876	12,491	38	12,529	47.46	5,946	7,961	-2,015
Agea Reti Srl	19,000	19,131	167	19,298	39.72	7,665	7,598	67
Agess Scrl	80	82	7	89	21.44	19	28	-9
Consorzio Frullo (*)	1	2	-1	1	50.00	1	2	-2
Feronia Srl	2,430	2,411	-114	2,297	40.00	919	972	-53
Italcic Scarl (*)	90	63	6	69	33.33	23	40	-17
Modena Network Spa	3,000	2,453	-319	2,134	32.00	683	960	-277
Oikothen Scarl	1,102	763	-123	640	46.10	295	383	-88
Pri.Ge.A.S. Srl	16	78	14	92	49.00	45	8	37
Refri Srl (*)	6,800	6,253	10	6,263	20.00	1,253	2,506	-1,253
Satcom Spa	2,000	1,652	944	2,596	47.50	1,233	1,544	-311
Sei Spa	120	1,290	-379	911	20.00	182	702	-520
Service Imola Srl	10	24	279	303	40.00	121	4	117
Set Spa	120	57,612	1,323	58,935	39.00	22,985	31,163	-8,178
So.Sel Spa	240	1,249	321	1,570	26.00	408	91	317
Tamarete Energia Srl	3,600	13,530	1	13,531	32.00	4,330	4,329	1
Total associated companies	54,485			121,258		46,108	**58,289**	

* Share capital data, shareholders' equity and profit/loss regarding the last Financial Statements available

3.06 Art. 149 duodecies of the Issuers' Regulations - table

3.06 Art. 149 duodecies of the Issuers' Regulations - table

	2008
Service provided to certify the financial statements	316
Other services provided for issuing certification	1
Other services provided	26
Total	**343**

3.07 Declaration in accordance with Art. 154 bis of Legislative Decree 58/98

Declaration of these Financial Statements in accordance with Art. 154 bis of Legislative Decree 58/98

1 - The undersigned Mr Maurizio Chiarini in his capacity as Managing Director, and Mr Giovanni Barberis in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154-bis, paragraphs 3 and 4, of the legislative decree no. 58 dated 24 February 1998:

- the adequacy with reference to the features of the company and
- the actual application

of the administrative and accounting procedures for the preparation of these Financial Statements over 2008.

2 – We further declare that:

2.1 – these Financial Statements:

a. were drawn up in accordance with the applicable International Accounting Principles, approved by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and the Council of 19 July 2002, as well as provisions issued for implementing art. 9 of Legislative Decree no. 38/2005.
b. are consistent with the data contained in the accounting books and entries;
c. provide a true and accurate representation of the capital, economic and financial situation of the issuer

2.2 – the Directors' Report includes a reliable analysis on the performance and profit/loss for the year, as well as the situation of the issuer, together with the description of the main risks and uncertainties to which the issuer is exposed.

The Managing Director
Maurizio Chiarini

The Manager in charge
Giovanni Barberis

26 March 2009

3.08 Report

3.08.01 Report of the Board of Auditors

Companies' Register No. 04245520376
E&AR

HERA S.P.A.

Registered offices in VIALE C. BERTI PICHAT 2/4, BOLOGNA (BO), ITALY – Share Capital Euro 1,032,737,702

fully paid-in.

Report of the Board of Statutory Auditors to the shareholders' meeting pursuant to Article 2429 of the Italian Civil Code

To the Shareholders of HERA S.P.A.

During the year ended as at 31 December 2008, we carried out the supervisory activities envisaged by law. In detail, the Board of Statutory Auditors pursuant to the matters laid down by Article 2429 of the Italian Civil Code, Article 153 of Italian Legislative Decree No. 58/1998 and in compliance with Consob Communication DEM/6037577 dated 28 April 2006, reports on and indicates the following:

1. The Company granted the appointment to audit the account as per Articles 155 *et seq*. of Italian Legislative Decree No. 58/1998, to the independent auditing firm PriceWaterhouseCoopers as enrolled in the register established with the Ministry of Justice.

2. By means of obtaining information from the heads of the respective divisions, from the examination of the documentation forwarded to us and from an examination of the audit book, we acquired awareness of and oversaw – in as far as it was our responsibility – the adequacy of the Company's organizational structure, the internal audit system, the administrative-accounting system and its reliability to correctly represent the operating events.

3. During the year, we took part in 12 Director's Board Meetings and 19 meetings of the Board of Statutory Auditors, as well as 1 shareholders' meeting and, in observance of the Articles of Association provisions, we were periodically informed by the directors on the performance of the corporate operations. In detail, the transactions of greatest economic, financial and operational importance carried out by the Company during the year, in observance of the law and the memorandum of association, were as follows:

- <u>Sat Spa</u>: with effect as at 1 January 2008, the merger by incorporation of Sat Spa within Hera Spa was finalized.
- <u>Marche Multiservizi Spa</u>: on 1 January 2008, the merger between Mega Spa and Aspes Multiservizi Spa was achieved, giving rise to Marche Multiservizi Spa. At present, the shareholding held by Hera Spa comes to 41.87% of the share capital.
- <u>Satcom Spa</u>: Hera Spa took over the ownership of this equity investment following the merger by incorporation of Sat Spa. On 18 March 2008, Hera Spa transferred 47.5% of the share capital of Satcom Spa to Infracom Italia Spa and 5% to Con.ami, remaining shareholder with an investment of 47.5% in the share capital.
- Sei Spa: on 9 May 2008, Hera Spa acquired 20% of the share capital of Sei Spa from Ratia Energie Ag; this company is operative in the sectors of planning and development of the process for the authorization, funding and construction of plants for the generation of electricity.
- Tamarete Energia Srl: On 16 December 2008, Hera Spa acquired a 32% equity investment in the share capital of Tamarete Energia Srl, a company operating in the sectors of planning, construction, installation, running and management in Italy of energy systems, plants and equipment for generation and co-generation for the supply, production, transformation, transfer and sale of electricity; it also subscribed a share capital increase.

4. The Company complies with the Code of Best Practice drawn up by the Committee for the corporate governance of listed companies; the Board of Directors has resolved the assimilation of the recommendations made by the Code of Best Practice for listed companies. With regard to the Board of Statutory Auditors, note that the functions concern: (i) the task of overseeing the independence of the auditing firm, (ii) the faculty to request the Audit division for the performance of checks, (iii) the prompt exchange of information with the Internal Audit Committee on significant information and (iv) the checking of the correct application of the standards and assessment procedures adopted by the Board of Directors in order to evaluate the independence of its members and the evaluation of the independence of its members on the basis of the criteria used for the Directors. In the latter connection, the Statutory Auditors checked the existence of the independence requisites in relation to the non-executive Directors.
5. The Board of Statutory Auditors did not come across any atypical and/or unusual transactions, including those carried out with related parties or infraGroup.
6. On 10 April 2009, the independent auditing firm issued its report pursuant to Article 156 of Italian Legislative Decree No. 58/198, in which it certified that the financial statements as at 31 December 2008 provided a true and fair view of the equity and financial situation and the economic result of the Company. The independent auditing firm also issued the reports on the audit of all the subsidiary companies without findings, also certifying that the 2008 financial statements were compliant with the norms which discipline the basis of presentation and provide a true and fair view of the equity and financial situation and the economic result of the companies.
7. With reference to Italian Legislative Decree No. 231 dated 8 June 2001, the Company has adopted the organization and management model, whose contents are consistent with the Company’s structure.
8. A complaint was made to the Board of Statutory Auditors, in pursuance of Article 2408 of the Italian Civil Code, which emerged as unfounded.
9. No petitions have been received by the Board of Statutory Auditors.
10. During the year ended as at 31 December 2008, the Company did not grant the independent auditing firm any appointments other than the accounts audit activities as per the law.
11. The Board of Statutory Auditors did not issue any opinions as per the law during the year.
12. By means of direct checks and information gathered from the independent auditing firm, the Board of Statutory Auditors ascertained the observance of the legal norms pertaining to the formation and layout of the financial statements of the Company and the report on operations accompanying the same. Furthermore, the Board of Statutory Auditors examined the accounting standards adopted for the formation of the financial statements, presented so as to ascertain compliance with the legal regulations and the economic-corporate conditions.
The Board of Statutory Auditors confirms that the directors, when drawing up the financial statements, did not depart from the legal provisions as per Article 2423.4 of the Italian Civil Code.
13. The balance sheet discloses a positive result for the year of Euro 84,523,060 as summarized in the following balances:

Assets	Euro	4,509,464,844
Liabilities	Euro	3,043,836,303
- Shareholders’ equity (excluding profit for the year)	Euro	1,381,105,481
- **Profit (loss) for the year**	**Euro**	**84,523,060**

In summary, the income statement presents the following balances:

	Amounts in Euro
Revenues	1,811,656,629
Changes in inventories of finished products and work in progress	
Other operating revenues	(70,093,834)

Consumption of raw materials and consumables (net of changes in inventories of raw materials and stock)	(120,625,968)
Costs for services	(1,401,954,949)
Payroll and related costs	(65,286,856)
Amortisation, depreciation and provisions	(172,263,141)
Other operating costs	(35,238,779)
Capitalized costs	16,680,105
Operating profit	**103,060,875**
Portion of profits (losses) of investee companies	83,604,784
Financial income	10,167,423
Financial charges	(96,923,039)
Pre-tax profit	**99,910,043**
Income taxes for the year	15,386,983
Net profit for the year	**84,523,060**

14. During the year ended 31 December 2008, we held periodic meetings with the members of the independent auditing firm, as per Article 150.3 of Italian Legislative Decree No. 58/98, and no significant data or information emerged which would merit mention in this report.

15. The supervisory and audit activities did not reveal any significant events liable of being reported or mentioned in this report.

16. In light of the above, the Board of Statutory Auditors does not have any reason for preventing approval of the financial statements as at 31 December 2008, nor has it any objections to make with regard to the resolved proposal presented by the Board of Directors for the allocation of the result for the year.

Bologna, Italy, 10 April 2009

The Board of Statutory Auditors

Chairman of the Board of Statutory Auditors	Sergio Santi (signed)
Standing Auditor	Antonio Venturini (signed)
Standing Auditor	Fernando Lolli (signed)

3.08.02 Report of the Independent Auditing Firm

PRICEWATERHOUSECOOPERS

HERA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2008

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998

To the Shareholders of
Hera SpA

1. We have audited the financial statements of Hera SpA as of 31 December 2008, which comprise the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and related notes. The directors of Hera SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our audit opinion.

   For the opinion on the financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 11 April 2008.

3. In our opinion, the financial statements of Hera SpA as of 31 December 2008 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in equity and cash flows of Hera SpA for the year then ended.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35138 Via Vicenza 4 Tel. 049873481 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel.0458002561

PRICEWATERHOUSECOOPERS

4. The directors of Hera SpA are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by article 156, paragraph 4-bis, letter d), of the Legislative Decree no. 58/98. For this purpose, we have performed the procedures required under Auditing Standard no. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations is consistent with the financial statements of Hera SpA as of 31 December 2008.

Rome, 10 April 2009

PricewaterhouseCoopers SpA

Signed by

Aurelio Fedele
(Partner)

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