Hera Group consolidated annual report as at 31 december 2007

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1.01 Letter to the shareholders

Dear Shareholders,

Today we are presenting the results your Company has achieved in its fifth year of business.

It was a year that proved to be extraordinarily complex in attaining what the Industrial Plan envisaged, the results of which, although positive, were above all affected by the unusual weather conditions during the first six months, which limited sales in the gas and district heating sectors compared to the figures usually attained.

Growth of the EBIT was in any case higher than 6%, and was achieved thanks to the good results of the electricity sector and the total commitment of the structure to continuing the in-house efficiency process.

In fact, no contributions came from expansion of the geographic business perimeter as the two activities established in 2007 (acquisition of Sat of Sassuolo and extension of Aspes of Pesaro to the Urbino area) generated effects starting only from 1 January 2008.

The sector's scenario, guided above all by energy issues, witnessed additional concentration processes form on both the European and domestic levels.

As foreseen, operating investments (Euro 464 million) were particularly large, and focused mainly on the water and waste management sectors. The entity of this effort will necessarily have to be reduced over the next three-year period, even though it will continue to be sizeable, owing to the gradual completion of the waste management plants.

To this regard, the Ferrara and Forlì plants have been completed, and the two electrical power plants in Campania were put into operation during the year, significantly strengthening the company's presence in the electricity sector.

The Group's capitalisation figure was slightly corrected in 2007 (-7.3%). This was in part due to the particularly brilliant profit attained in the previous year, but was above all due to the first signs of the difficulties of the international stock markets that then came about, and to a sizeable extent, during the first quarter of this year.

As far as services are concerned, standardisation of the Group's IT systems was completed, as scheduled, for the provinces of Ferrara and Modena, which will continue to be strengthened and undergo innovation over the next few years as well.

Lastly, on the subject of initiatives addressed to the Group's stakeholders, I am pleased to report to you that for this first time this year the results of the financial statements and the sustainability report were published at the same time, guaranteeing the constant link that exists between these two fundamental components of the Group's action, also in formal terms.

In a setting of overall economic difficulty on which the raw material costs trend and the consequent impact on costs borne by the customers did not facilitate their perception of the efforts made by the company with regard to cost efficiency and reduction, the commitment to an ongoing information and communication action grew in order to keep the Company's activity transparent and appreciated by the territory and its customers.

In conclusion, I wish to particularly thank the Board of Directors and the Board of Statutory Auditors, which today complete their three years of office, and also all of our employees for their fine work, with the hope that the Group may continue its positive pattern of achieving excellent results, also through its ability to seize further opportunities for growth.

The Chairman
of the Board of Directors

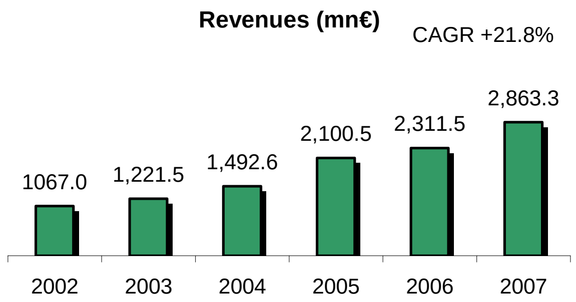
(Tomaso Tommasi di Vignano)

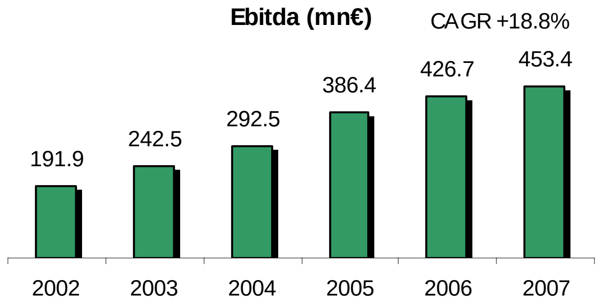
1.02 Hera's Mission

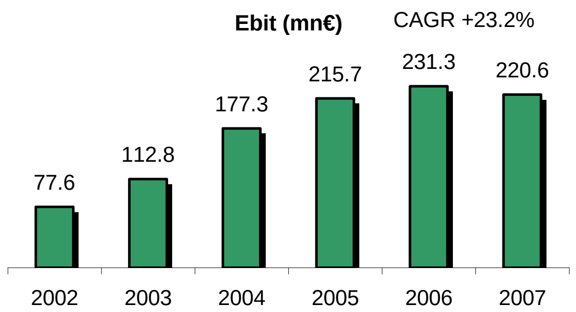
"Hera's goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by respecting the local environment".

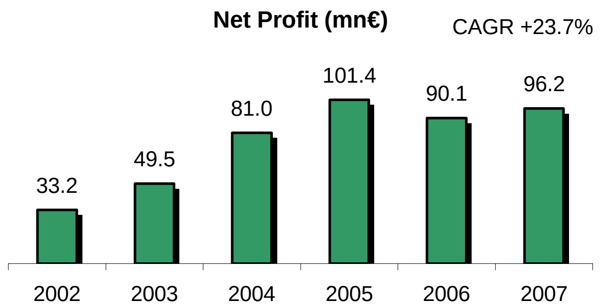
For Hera, being the best means inspiring the pride and trust of: ***customers****, who receive, thanks to Hera's responsiveness to their needs, quality services that satisfy their expectations;* ***the women and men who work at Hera****, whose skills, engagement and passion are the foundation of the 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".*

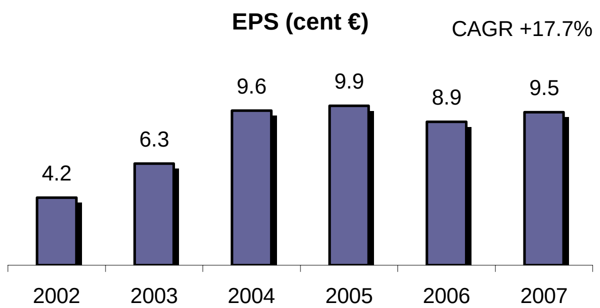
1.03 Highlights

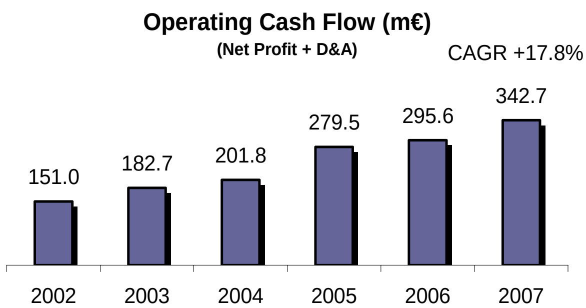


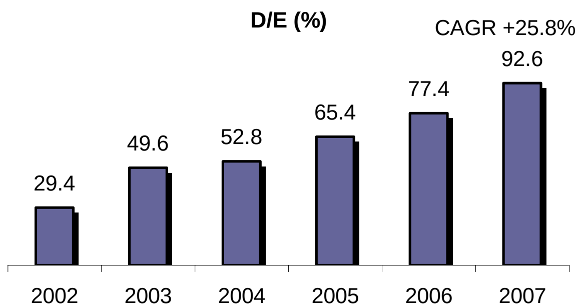


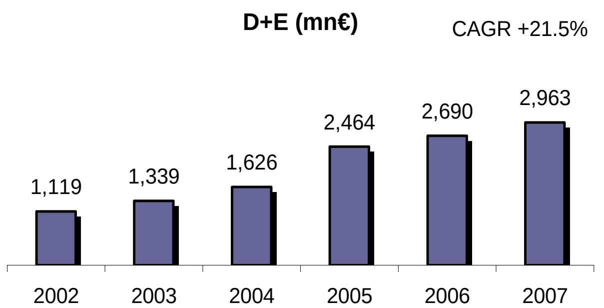












1.04 Company Officers

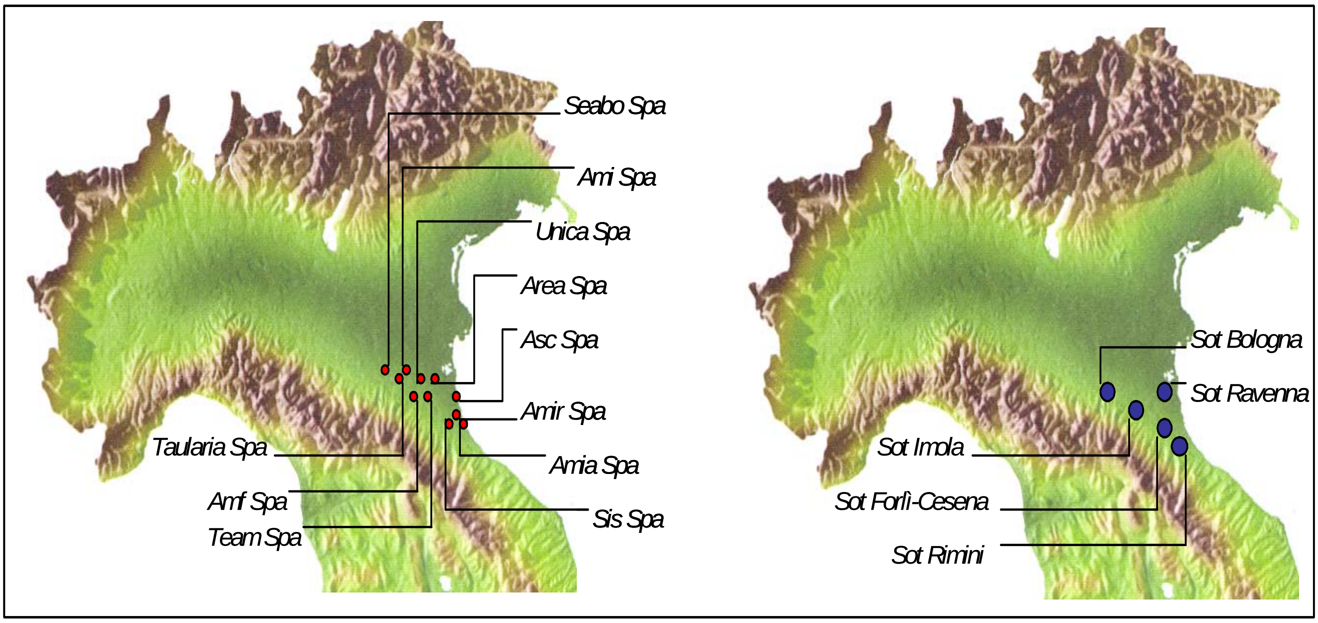
Board of Directors	
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giorgio Razzoli
Managing Director	Maurizio Chiarini
Director	Mara Bernardini
Director	Filippo Brandolini
Director	Luigi Castagna
Director	Pier Luigi Celli
Director	Piero Collina
Director	Piergiuseppe Dolcini
Director	Giuseppe Fiorani
Director	Lanfranco Maggioli
Director	Vander Maranini
Director	Nicodemo Montanari
Director	Fabio Alberto Roversi Monaco
Director	Roberto Sacchetti
Director	Luciano Sita
Director	Bruno Tani
Director	Stefano Zolea
Board of Statutory Auditors	
Chairman	Antonio Venturini
Standing auditor	Fernando Lolli
Standing auditor	Sergio Santi
Alternate auditor	Roberto Picone
Alternate auditor	Stefano Ceccacci
Internal Control Committee	
Chairman	Giorgio Razzoli
Member	Stefano Zolea
Member	Vander Maranini
Member	Luigi Castagna
Remuneration Committee	
Chairman	Giorgio Razzoli
Member	Pier Luigi Celli
Member	Piero Collina
Member	Nicodemo Montanari
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giorgio Razzoli
Member	Maurizio Chiarini
Auditing Company	
	PricewaterhouseCoopers

1.05 Hera over five years

It has been five years since Hera was established and listed on the Stock Exchange. During that time the Group has witnessed a level of growth and development in line with the promises made to the shareholders at the initial public offering. After 5 years, we can take stock of the situation and evaluate the results of our business model and strategies, and attempt to understand what strong points we can capitalise on for the future.

Hera was established in 2002 as the first major merger in the Italian utility sector, with the merger of 11 municipal companies in the Emilia Romagna region to form the Group. This merger preceded the consolidation process that started in the sector by a couple of years, a process that is still ongoing. It created one of the biggest local multi-utility companies in Italy and features some unique and innovative elements with respect to other companies of this type.

The broad, highly diversified shareholder base was a strong contributing factor to the Group's success over the past 5 years. This model was then copied in other mergers. This was one of the distinguishing features of Hera and was due to the willingness of the founding shareholders to cede control of the local companies to a bigger Group, and to divide the governance with numerous other shareholders.



** S.O.T.: Local operating company*

This merger led to the creation of a domestic leader in waste management, the second biggest operator in integrated water cycle management, and the third biggest operator in the gas business, with a portfolio that is well balanced between regulated and deregulated services. It has one of the most complete portfolios in the sector and also carries out activities to its electrical energy activities such as district heating and public lighting.

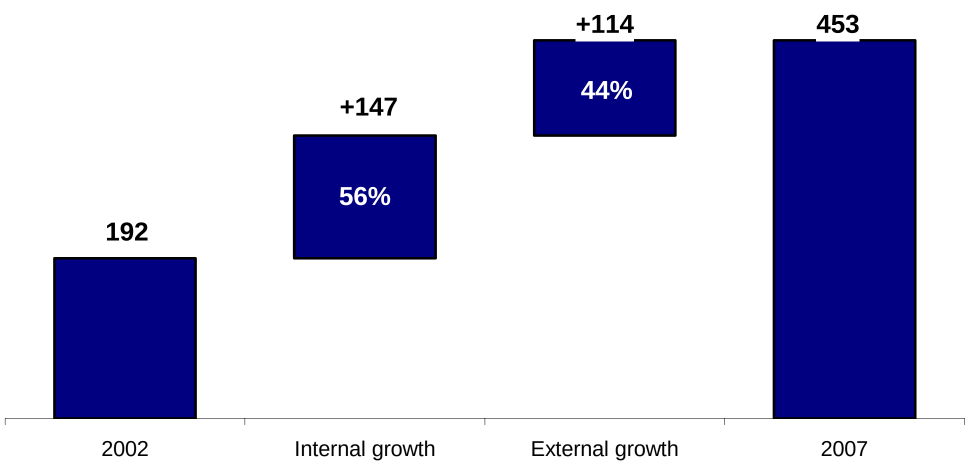
These distinctive elements form the basis of the industrial model chosen by Hera for more efficient management of public utility services. The management of this highly innovative process ensured a steady increase in earnings since 2002.

Economic figures (ml€)	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**Cagr.% 2002-2007**
Revenues	2863.3	2311.5	2100.5	1492.6	1211.5	1067	+21.8%
Ebitda	453.4	426.7	386.4	292.5	242.5	191.9	+18.8%
Ebit	220.6	231.3	215.7	144.4	112.8	77.6	+23.2%
Net profit	96.2	90.1	101.4	81.0	49.5	33.2	+23.7%

Indices	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**Cagr.% 2002-2007**
EPS (€)	0.095	0.089	0.100	0.096	0.062	0.042	+17.7%
D/E (%)	92.6%	77.4%	65.4%	52.8%	49.7%	29.3%	+25.9%
ROE (%)	7.1%	6.6%	7.3%	8.1%	5.9%	4.2%	+11.1%
ROI (%)	7.4%	8.6%	8.8%	10.9%	8.4%	6.9%	+1.4%

The business volume has doubled, net profits have almost tripled.

EBITDA rose from Euro 192 million in 2002 to Euro 453 million in 2007, increasing almost 2.5-fold in five years. 56% of this EBITDA increase (Euro 147 million) is due to the growth in internal lines, and the remaining 44% increase is due to development policies implemented for external lines (Euro 114 million).



1.06 Strategy

The internal growth strategy

Hera's main strategic objectives over the past five years involved the reorganisation of business activities in order to increase efficiency and develop markets by exploiting its strong points.

This merger created a big new company, allowing Hera to exploit the economies of scale when purchasing and reducing management costs, while the reorganisation of the local operating companies' activities meant that services could be provided more efficiently thanks to internal benchmarking among other things.

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

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

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

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

The external growth strategy

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

Two main principles guided the expansion strategy for external lines: expansion through mergers with multi-business companies involved in related areas and upstream integration of deregulated activities.

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

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

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

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

This strategy of further extending its multi-business and identifying certain domestic players to operate with has gained growing consensus among both public and private investors. Hera's public shareholders recently gave authorisation to the management to initiate contacts with the main listed multi-utility companies who have recently expressed interest in becoming strategic partners of Hera.

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

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

Acquisitions in the gas sector	Activity	Ownership
Argile Gas (Bologna)	Sales	100.0%
Gasgas (Ferrara)	Sales	100.0%
Tecnometano (Ferrara)	Distribution	100.0%
TS Distribuzione (Bologna)	Distribution	100.0%
TS Energia (Bologna	Sales	100.0%
SGR Servizi (Rimini)	Sales	29.6%
Geat Gas (Riccione)	Sales and distribution	100.0%

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

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

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

Acquisitions in the electricity sector	Installed capacity	Ownership
Tirreno Power	Generation (2.600 MW)	5.5%
Calenia Energia	Generation (800 MW)	15.0%
Set	Generation (400 MW)	39.0%
Electricity network (prov. of Modena)	Distribution	100.0%

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

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

Sustainability

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

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

Company function organisation reflects the relevance of sustainability and the continued **dialogue** with the key Group counterparts: the c*orporate social responsibility* CSR unit, QSA control system, external relations, and investor relation functions were submitted directly to the company heads to guarantee continuous, qualified, and transparent communication.

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

Indicators	2007	2006	2005	2004	2003	2002
Added value^ (ml€)	797.8	792.4	715.4	535.5	408.0	367.7
Training hours per person	24.3	20.1	18.5	17.2	13.5	14.1
Accident frequency indices*	42.5	47.5	50.1	56.8	67.6	73.2
Average waiting time for answer from *call center* (sec)	46.2	34.5	70.2	102.9	-	-
Amount from local suppliers (% of total)	62%	70%	70%	-	-	-
Amount from suppliers certified ISO9001 (% of total)	68%	60%	61%	-	-	-
% of EE produced by renewable sources** and similar	69.8%	71.4%	68.0%	72.4%	87.2%	94.5%
Emissions of the WTE with respect to regulatory limits***	23.7%	25.0%	28.5%	27.5%	29.1%	-
Separate waste collection****	38.6%	33.5%	30.9%	34.0%	29.3%	26.2%
Low environmental impact vehicles***** (% of total)	32.0%	25.4%	13.0%	13.9%	13.3%	-

^ 2005 data includes Meta, 2006 and 2007 data include Aspes
** Calculated as number of accidents/hours worked x 1,000,000*
*** Includes the waste to energy production*
**** Calculated as effective concentrations/regulatory limits (optimal value <100%)*
***** Calculated using the DPCM [Prime Minister's decree]*
****** Methane, electric power and biodiesel*

The Group has always drafted a **Sustainability Report** which highlights the results of the social and environmental policies carried out. The development of these policies over the last 5 years has led to the Group increasing the added value for the stakeholders 2.25 fold, up to about Euro 800 million.

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

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

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

The continued efforts to increase value for the stakeholders has underlain Group policies to date and will remain the guiding principle in the future management of the Group.

The industrial plans

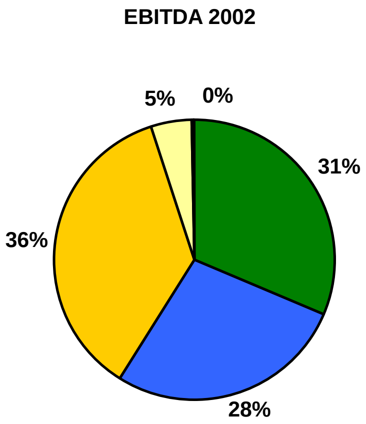
Since its IPO, the strategic objectives of Hera have always formed part of its industrial plans. The plans are established with a bottom-up logic and updated on an annual basis, both to examine previous Group expansion, and to update the objectives by developing macro reference scenarios.

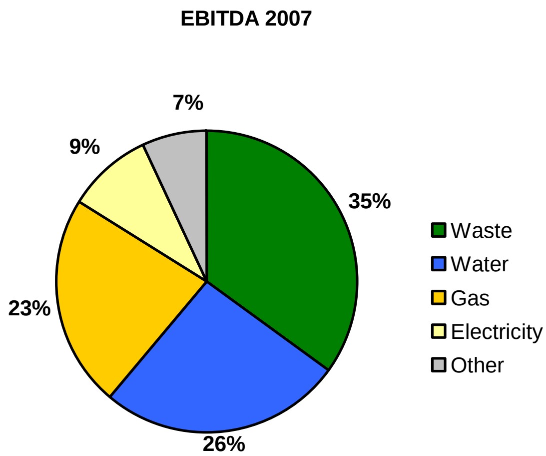
The strategy pursued over the past five years was re-confirmed for the 2007-2010 plan, i.e. focusing on achieving the right cost - revenue balance, completion of new electricity generation plants from renewable and conventional sources, external growth strategies with the objective of increasing the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

The economic and financial targets to 2010 provide for double figure growth even when just considering the internal growth only, represented by the balance of cost and revenue and the construction of new WTE plants and electricity generation. The expected growth will be supported by an investment plan of over Euro 1 billion, mainly financed with the cash flows generated by the business. The fact that the investments will be mainly self-financing will provide the basis for a solid financial structure up to 2010 which will support the policy to increase dividends by double digit percentages.

1.07 Business Sectors

In these five years of growth, Hera has maintained a balanced development of both its regulated business activities (integrated water services, collection and disposal of municipal waste, distribution of methane gas and electricity and district heating), and its non-regulated business activities (sale of methane gas and electricity, disposal of special and industrial waste and public lighting).





In addition to strengthening its market position in its main activities, significant growth has been achieved in the electrical energy sector and the "other activities" that complement the core business which improved the risk profile of the Group.

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

Environment

Hera is the leading domestic operator in the **environmental** sector by quantity of waste collected and disposed of. The Hera Group is an excellent example of an environmental company in an Italian context characterised by a considerable dearth of infrastructures in this sector, with one of the nation's most impressive plant structures comprising over 70 plants capable of covering the full range of possible treatment and exploitation of waste.

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

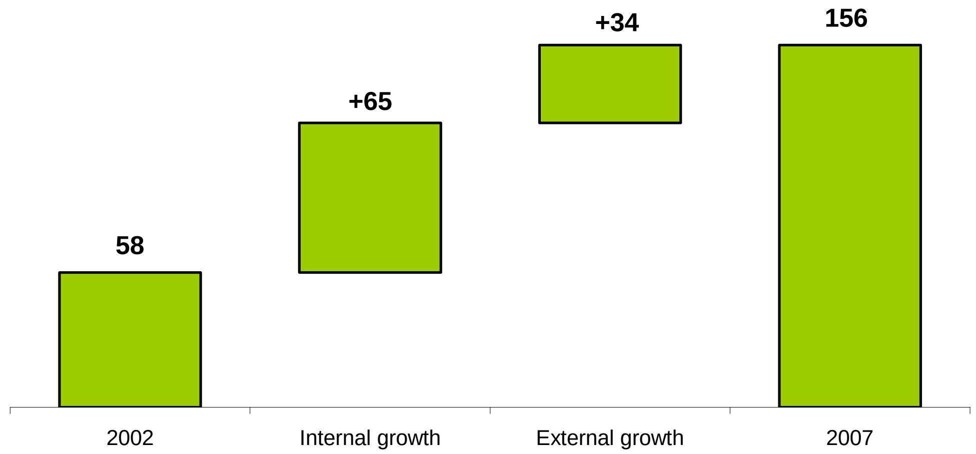
Hera is also one of the leading waste to electricity generators in Italy thanks to an installed capacity of 74 megawatts that can produce 358.6 gigawatts per year.

Plants	**Treatment capacity (ton)**	**Installed power (MW)**
Forlì waste-to-energy plant*	120,000	11
Ravenna waste-to-energy plant	56,500	6
Rimini waste-to-energy plant	127,600	10
Modena waste-to-energy plant	140,000	7
Ferrara waste-to-energy plant*	140,000	13
FEA waste-to-energy plant	180,000	22
Ecologia-Ambiente waste-to-energy	40,000	4
Total	**804,100**	**74**

** New plants*

The financial results in the environmental sector have shown consistent growth in EBITDA over the past five years (almost tripled in five years) and continuous and significant improvement in profit margins, increasing from 20% to 28%.

(ml€)	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**Cagr.% 2002-2007**
EBITDA	156,3	150,5	130,5	85,7	63,2	58,2	+21,8%



The expansion of the WTE in Bologna, the acquisition of the special waste WTE in Ravenna, the cost and development balance of the activities related to disposal and treatment of special waste contributed to two thirds of the growth of Euro 65 million, and the doubling of the EBITDA between 2002 and 2007. The remaining growth (Euro 34 million) can be attributed to the merger with Geat, Agea, Meta and Aspes.

In five years operating capex totalling Euro 475 million have been made to update and expand the plant facilities.

The 2010 plan provides for continued financial growth, with a double digit percentage growth in EBITDA mainly resulting from the contribution of the new plants now being built. The three-year plan provides for the expansion of 4 plants and the increase in total disposal capacity to 1 million tonnes of waste per year, and the generation of over 100 megawatts of electricity (two of these plants have already been finished).

The 2010 plan also provides for the development of a "full service" commercial range of services for business customers (integrated services of industrial waste treatment and disposal services as well as the reclamation of industrial sites) and the progressive adjustment of prices in accordance with laws that discipline municipal waste collection, transportation and disposal services.

This financial growth will be supported by an investment of about Euro 294 million to complete the WTE for waste to energy production and the development of new patented techniques to use the CO2 emissions in electrical energy production processes.

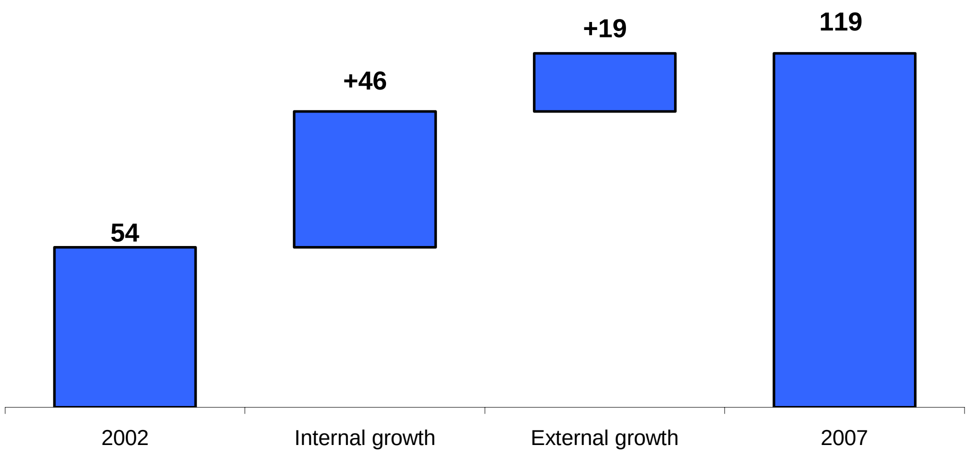
Integrated Water Cycle

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

Volumes invoiced (ml mc)	2007	2006	2005	2004	2003	2002	Cagr.% 2002-2007
Waterworks	241	244	228	203	180	176	6.5%
Sewerage system	216	209	200	155	137	134	10.0%
Purification	216	216	206	181	158	154	7.0%

In the last five years, profits have consistently increased with an annual average growth of +17%: the EBITDA has more than doubled, increasing from Euro 54 to Euro 119 million.

(ml€)	2007	2006	2005	2004	2003	2002	Cagr.% 2002-2007
EBITDA	118.5	107.5	94.3	76.5	66.4	53.6	+17.2%



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

The improved results benefited from the operating capex made since 2002 of about Euro 430 million, which mainly went towards improving the water networks and related plants. The 2010 industrial plan provides for further growth in profits by pursuing the same efficiency improving strategies of the past and with an investment plan of about Euro 349 million.

Energy

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

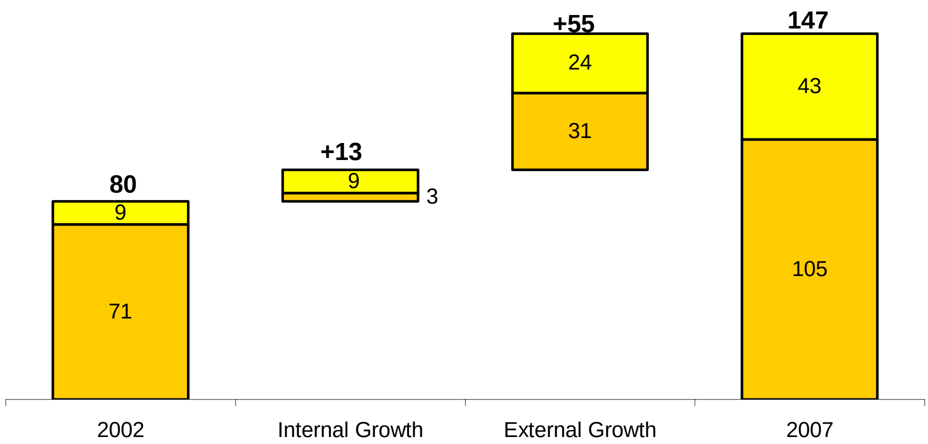
With over 1 million customers, Hera sells over 2.3 billion cubic metres per year, up an average of 10% annually.

Volumes (ml mc)	2007	2006	2005	2004	2003	2002	Cagr.% 2002-2007
Volumes distributed	2,150	2,312	2,399	1,912	1,661		
Volumes sold	2,337	2,408	2,786	2,062	1,634	1,444	10.1%
of which Trading	*224*	*184*	*448*	*176*	*0*		

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

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

Volumes (Gwh)	2007	2006	2005	2004	2003	2002	Cagr.% 2002-2007
Volumes sold	4,335	3,133	3,755	2,282	1,628	948	35.5%



The increase in the energy sector results over the last five years was mainly due to the M&A activities, but internal growth also contributed as a result of the increased the electricity business (+ Euro 9.4 million in five years), and the maintenance of gas profits (+Euro 3.3 million in five years) notwithstanding the negative influence of the extremely mild winter 2006/2007 and the progressive increase in competition.

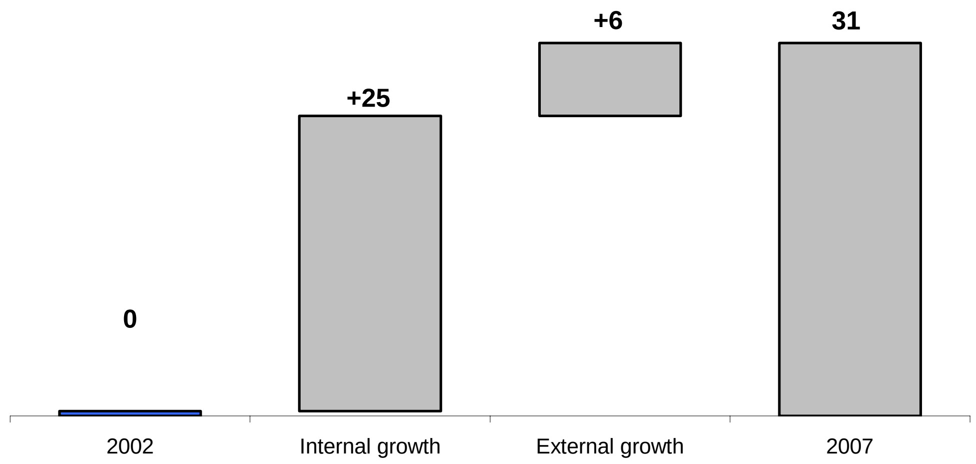
Hera expanded its generating and electricity distribution capacity, investing (operating capex) about Euro 80 million in it, and about Euro 145 million in the gas distribution infrastructure. Energy trading activities have been significantly developed over the past five years and diversification has improved the provisioning portfolio with the agreement of long term contracts with various national and foreign suppliers.

The 2010 industrial plan provides for the maintenance of the gas sales profits, further development of the electricity market through the dual fuel offer, pursuit of the upstream integration strategy in electricity generation (with renewable energy source plants encouraged to obtain green certification), and diversification of the methane gas supply (thanks to the Galsi project). Around Euro 259 million will be invested.

Other Businesses

Further to the considerable rationalisation of Hera Group activities, the "other businesses" that complement the core business have been reorganised and provided with integrated management.
Hera is an leading Italian company in the district heating sector with about 400 GWh supplied in 2007, and the country's second biggest operator in public lighting with about 320,000 light points managed.

Technical data	2007	2006	2005	2004	2003	Cagr.% 2003-2007
Heat volumes distributed (Gwh)	392	426	470	434	282	+8.5%
Light points (000)	319	309	293	249	202	+12.1%
Municipalities served	60	57	58	51	46	+6.9%



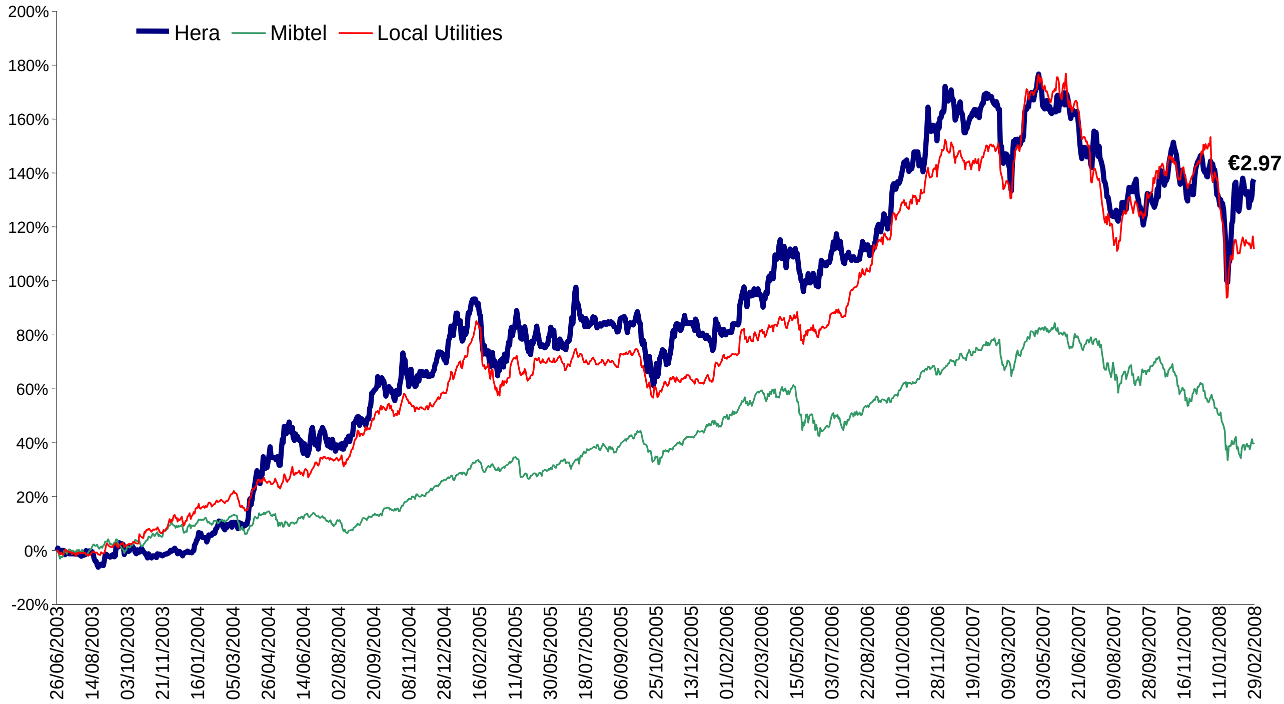
The growth in this business was mainly supported by internal development policies: rationalisation of non-strategic activities, reduction of costs and more efficient operations.

The 2010 industrial plan provides for further growth from the rationalisation and increased efficiency of the activities, as well as from the development of district heating plants. These activities are closely related to the core energy businesses of the Group.

1.08 Stock performance

On 26 June 2003 Hera was listed on the Milan stock exchange in the blue chip segment with 350.75 million shares (equalling 45% of the share capital) at a placing price of Euro 1.25 per share and had purchase requests from over 170 Italian and international investors for more than 2.4 times the offering.

The mergers over the years with companies in the sector, the continuous growth in profits and the industrial growth plans led to the company outperforming both the Mibtel and the Italian local utility index since being listed and closed the most recent session of February 2008 at +137% over the placing price.



In 2007, there was a reversal downwards in the financial markets which had been on the up for the previous 5 years. Market volatility resulted from fears about rising inflation, and increased interest rates and oil prices that reached record highs. World wide price lists were also negatively influenced by the sub-prime mortgage crisis which led to financial turmoil and is still the main cause for concern by politicians and financiers the world over.

Within this context, Hera shares closed 2007 at Euro 3.055, slightly down with respect to the beginning of the year (-7.3%), but still better than the Mibtel (-7.7%). Hera's solid financial standing and low risk profile meant that negative market trends could be significantly contained even though it affected many other listed Italian companies.

Hera share volumes traded

The average annual volume of daily trades has more than tripled from when the shares were listed, reaching 2.1 million shares in 2007 testifying to the growing interest that the financial market has in Hera shares. The average annual value of daily trades 2007 was Euro 6.6 million, five times higher than when they were initially offered.

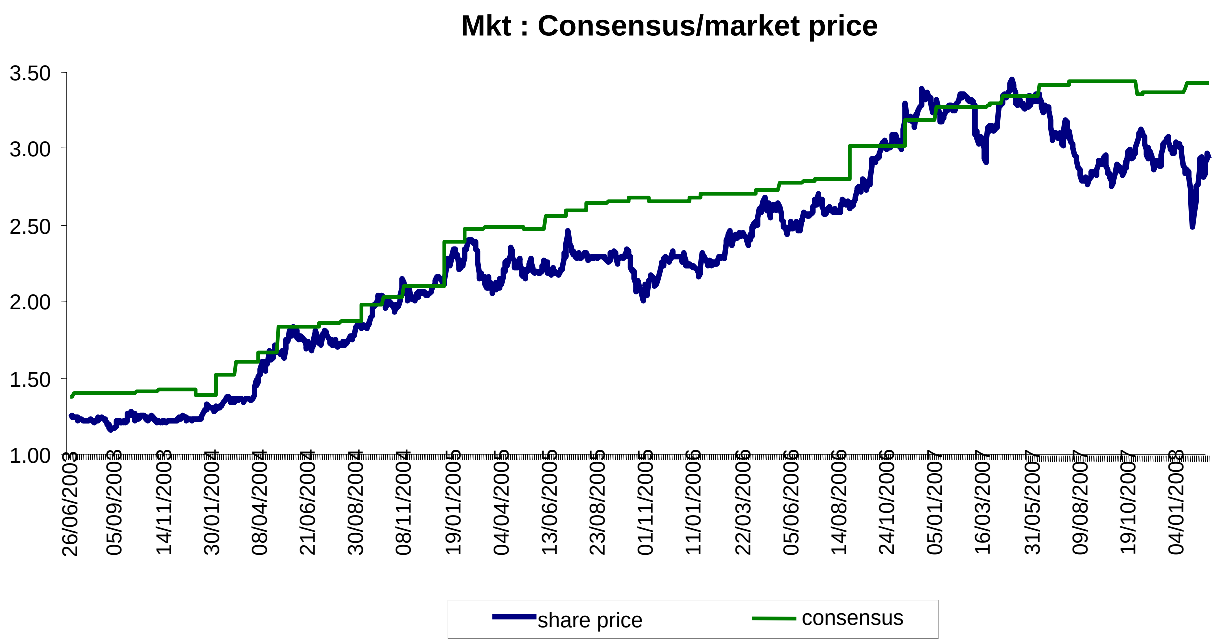
Indexes and baskets

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

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

Share coverage

At present, 14 independent analysts regularly cover Hera Group's shares, and half of these analysts are international, namely: Axia (ethical analysis), Banca Akros, IMI, Banca Leonardo, CAI Cheuvreux, Cazenove, Citigroup, Dresdner Kleinwort, Euromobiliare, Intermonte Securities, Kepler, Mediobanca, Merril Lynch, and Santander.



Hera shares were included among the "best picks" by some international analysts in the first few months of 2008, i.e. offering one of the best investment opportunities thanks to its low risk profile, the significant difference between market price and theoretical value (estimated at Euro 3.40 per share by the analysts) and potential for further growth stemming from possible future mergers.

Rating

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

The financial robustness and profitability of the Group guaranteed an excellent rating both by Moody's (A1), and Standard&Poor (A for long term debt and A-1 for short term debt).

The sustainable profile of the Hera Group received a positive ethical rating by Axia for the third year running (A+++).

Shareholding Structure

Since the stock listing, the subsequent acquisitions of Geat, Agea and Meta led to the widening of the Group perimeter and the share capital increased as a result (230.2 million shares in all) up to 1,016,752,02 ordinary shares with a nominal value of 1 Euro each. The stock capitalisation exceeded Euro 3 billion at the end of 2007, tripling the IPO value.

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

The absence of a controlling shareholder in its structure (the largest shareholder is the municipality of Bologna with approximately 15%) is a feature which distinguishes Hera from the other local utility companies and it is the only company with this type of structure in Italy. The Hera share holding comprises over 180 public institutions (mainly municipalities in the areas covered) that have a total holding of more than 58% (of which 51% restricted by a shareholders' agreement), about 300 Italian and foreign institutional investors (about 37%), and almost 25,000 private shareholders (about 10%).

Some international institutional investors (Lazard Asset Management and Pictet Asset Management) hold "significant" shareholdings of approximately 2% of the share capital.

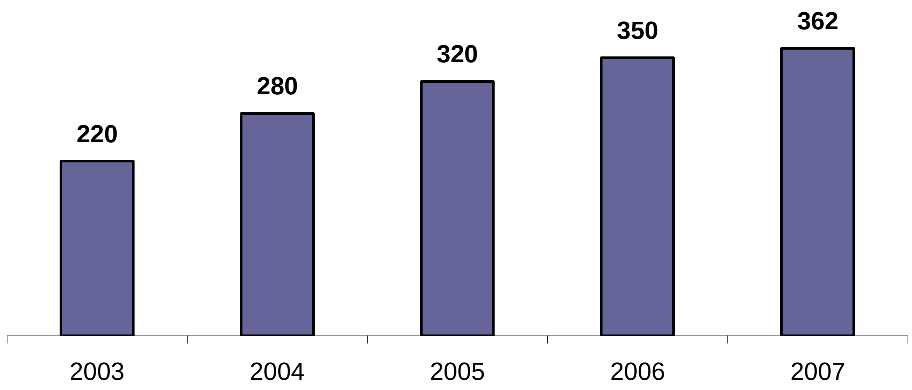
In 2006 Hera started a repurchase programme of its treasury shares for a maximum of 15 million shares, and renewed by the shareholders' meeting of 26 April 2007 for a total amount of Euro 60 million, up from Euro 45 million. This plan was used to fund the acquisition of a division of Geat of Riccione, and will be exercised in future to reduce the dilutive effect of any further mergers with small companies. Hera held around 617,000 treasury shares in its portfolio as at 31 December 2007.

Relations with the financial market

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

In 2007, there were a great number of meetings with the financial community when presenting the annual and interim results and the 2007-2010 industrial plan: over 360 meetings were held during the international road shows organised in the world's leading stock exchanges (London, Paris, Geneva, Zurich, and New York), visits to the Group by institutional investors and analysts, conference calls organised by International brokers, presentations at the Italian stock exchange and quarterly presentations of Group results to the financial community through conference calls transmitted by webcasting over the internet site both through Italian and English.

Meetings with financial market operators



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

All the data relating to the 2006 financial year was made available on the Investor Relations section of the website in real time as it was being approved by the board of directors in 2007. It could be consulted and downloaded in both Italian and in English. The Hera Group site thereby came sixth (twentieth in 2005 and eighth in 2006) in the Webranking 2007 classification set up by Halvarsson&Halvarsson, placing the online financial communication of Hera among the best in Italy, with a large stock capitalisation.

Hera is very focused on providing continuous and transparent communication and was also awarded the "2007 Financial Report Oscar" in the "Companies and Large Enterprises" category by the financial world, organised by the Italian Public Relations Federation: this award placed the Hera Group's financial communication initiatives with all its stakeholders among the best in Italy.

Total return for shareholders

Ever since it was established, Hera's dividend distribution policy is to reward Group shareholders. As at 31 December 2007 the total return per shareholder, including dividends and capital gain was Euro 2.12 per share, i.e. a percentage return of +270% with respect to the placing price (Euro 1.25 per share).

1.09 Notice of call of the Shareholders' Meeting

Hera Spa

Registered office in Bologna, Viale C. Berti Pichat no. 2/4

Share Capital Euro 1,032,737,702 fully paid-in

Enrolment number in the Bologna Register of Companies, Tax Code and VAT No. 04245520376

Shareholders are called to Ordinary Shareholders' Meeting to be held in the Sala Auditorium of the CENTRO CONGRESSI – CNR – Via Gobetti no. 101, Bologna on 28 April 2008 at 2 p.m. in first call and, if necessary, on **29 April 2008 at the same place at 10 a.m. in second call**, to discuss and deliberate on the following:

Agenda

1. Financial statements as at 31 December 2007, Directors' Report, proposal to divide the profit and report of the Board of Statutory Auditors: consequent resolutions;
2. Acknowledgement of the appointments of the members of the Board of Directors according to art. 2449 of the Italian Civil Code;
3. Appointment of the members of the Board of Directors not designated pursuant to art. 2449 of the Italian Civil Code;
4. Appointment of the members of the Board of Statutory Auditors and the Chairman;
5. Determination of the remuneration of the members of the Board of Directors;
6. Determination of the remuneration of the members of the Board of Statutory Auditors;
7. Renewal of the authorisation to purchase treasury shares and procedures for arrangement of the same: consequent provisions.

The reports explaining the items and proposals on the Agenda, including the financial statements and consolidated financial statements as at 31 December 2007, together with the Directors' Report, are on file at the registered office of the company and the registered office of Borsa Italiana S.p.A., in accordance with law and available to persons who may request a copy.

According to art. 17 of the Articles of Association:

1) Shareholders, with the exception of Shareholders holding rights pursuant to art. 2449 of the Italian Civil Code, representing at least 1% of the shares with voting rights in an Ordinary Shareholders' Meeting, are entitled to submit lists for the nomination of four members of the Board of Directors;

2) The above-mentioned lists, in which the candidates must be listed by sequential number equivalent to the maximum number of members that can be elected for the offices to be held, must be filed with the registered office of the company, under penalty of cancellation, at least 20 days before the meeting and shall be made public by means of an announcement in three daily newspapers having national circulation, of which two are financial, at least ten days before the meeting;

3) Each Shareholder may present or take part in presenting and voting on one list only;

4) The agreements and votes expressed in violation of said prohibition can not be attributed to any list whatsoever;

5) The parties presenting the lists must ensure that they file, together with the lists, a description of the candidates' professional curriculum, the irrevocable acceptance of the office on the part of the candidates (on condition of their appointment) and certification that there are no grounds for ineligibility/forfeiture, and, if necessary, also a declaration stating they have the independence requisites established for the auditors by art. 148, section 3, of Italian Legislative Decree no. 58/1998 and those provided for by the Code of Conduct drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A. The first two candidates of each list must be in possession of the above-stated independence requisites;

6) No one can be a candidate on more than one list, and acceptance of candidacies on more than one list is cause for ineligibility;

Pursuant to art. 26 of the Articles of Association:

1) Shareholders who alone or together with others represent at least 3% of the shares with right to vote at the Ordinary Shareholders' Meeting, are entitled to present lists for the appointment of the members of the Board of Statutory Auditors. Specifically, the Municipalities, Provinces or Consortiums established according to art. 31 of Italian Legislative Decree no. 267/2000 shall present one sole list, whereas the other Shareholders shall be entitled to present lists for appointing one standing auditor and one alternate auditor.
Two standing auditors and one alternate auditor shall be taken from the list obtaining the highest number of Shareholders' votes, in the sequential order with which they are listed on the list. Chairmanship of the Board of Statutory Auditors is given to the first candidate of the list obtaining the second highest quotient;

2) The above-mentioned lists contain a number of candidates no higher than the number of members to be elected, listed with sequential numbering; each candidate may appear on only one list, under penalty of ineligibility;

3) Each shareholder may present, or take part in presenting, one list only;

4) If this rule is broken, the vote of the Shareholder with respect to any of the presented lists is not taken into account;

5) Said lists must be filed with the registered office, under penalty of cancellation, at least 20 days before the meeting and shall be made public by means of an announcement published in three daily newspapers having national circulation, of which two are financial, at least 10 days before the meeting.

6) The filed lists must be accompanied by:
   - a declaration stating there are no agreements or connections of any kind with other shareholders who have presented other lists;
   - declarations with which the individual candidates accept their candidacies and, under their own responsibility, declare that causes of ineligibility or incompatibility provided by the law do not exist, and also that the requisites of integrity and professionalism required by law for the members of the Board of Statutory Auditors exist;

7) Everyone entitled to vote may vote one list only.

Pursuant to art. 11 of the Articles of Association, the Shareholders holding the requirements set forth in legislative provisions in force are entitled to attend the Meeting.

The shareholders or their representatives who attend the Meeting may forward, by post or by fax (to +39 051-287.244) to HERA S.p.A. corporate secretary's office, copy of the documentation certifying their legitimate right to attend the Meeting, at least three days prior to the date of the Meeting in first call.

Parties other than shareholders who plan to attend the Meeting must forward their requests with the same procedures and in the terms set forth above.

There is reason to believe that the necessary constituent quorum may not be reached for the meeting on first call and hence shareholders are informed that the meeting shall be held on second call on 29 April 2008 at 10 a.m. in the Sala Auditorium of the CENTRO CONGRESSI – CNR – Via Gobetti no. 101, Bologna.

Bologna,

The Chairman of the Board of Directors

(Tomaso Tommasi di Vignano)

2 – Directors' Report

2.01.01 Corporate Events and Group Structure

Financial year 2007 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 5 companies in liquidation, and 2 merger operations, including the merger by incorporation of Sat Spa in Hera Spa.

Earlier, during financial year 2006, 24 disposals/liquidations of investee companies had taken place, in addition to 3 merger operations, including the merger by incorporation of Geat Distribuzione Gas Spa in Hera Spa.

The main M&A transactions which took place during 2007 are also described below.

Recupera Srl

On 17 May 2007 Hera Spa acquired the equity investment (6.05%) held by Area Spa in Recupera Srl, a company that provides consulting services in the ecology, chemistry and agricultural domain thus bringing its stake to 100% of the company's share capital.

Ecosfera Spa

On 30 May 2007 Hera Spa acquired the equity investments held by Area Spa (22.50%), Finmedia Srl (22.50%) and Sies Srl (4%) in Ecosfera Spa, a company that operates in the collection and disposal of industrial and civil waste, bringing its equity investment to 100% of the company's share capital.

Aspes Multiservizi Spa

On 4 July 2007 Hera Spa acquired from the public 7,695 shares of Aspes Multiservizi Spa, equal to 0.07% of the share capital, bringing its stake to 49.86%.

Gastecnica Galliera Srl

On 23-24 October 2007 Hera Spa acquired the entire equity investment in the company Gastecnica Galliera Srl, a company that distributes natural gas in the Municipality of Castello d'Argile, therefore becoming its sole shareholder.

Sat Spa

On 19 December 2007 the Sat Spa merger by incorporation in Hera Spa agreement was signed, going into effect on 1 January 2008. Sat Spa is a multi-service company operating in the territory of the municipalities of Sassuolo, Fiorano Modenese, Formigine, Serramazzoni and Maranello.

Marche Multiservizi Spa

On 21 December 2007 the Megas Spa merger by incorporation in Aspes Multiservizi Spa was signed, going into effect on 1 January 2008, in order to aggregate the two multiutilities companies operating in the province of Pesaro – Urbino. Starting on the date the merger went into effect, Aspes Multiservizi Spa changed its company name to Marche Multiservizi Spa.

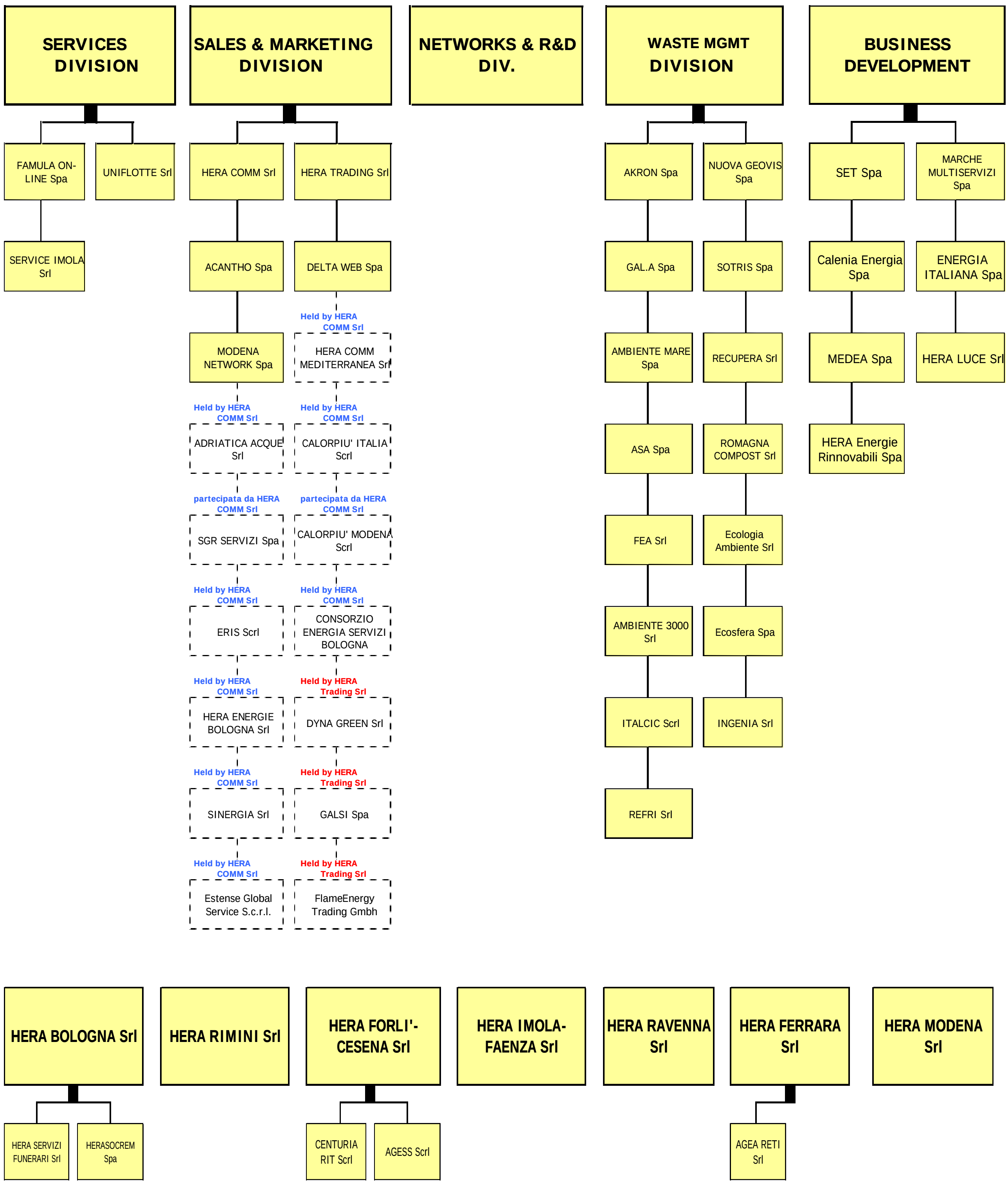
OTHER TRANSACTIONS

Other transactions involving Hera Group companies were carried out during 2007:

- Taking effect on 1 July 2007, the Hera Energie Bologna Srl shareholders' meeting passed a resolution to increase its share capital, to be freed in kind by shareholder Eco Termo Logic Srl by way of allotting its energy service line of business. Taking effect on the same date was conclusion of the transaction of selling Eco Termo Logic Srl company shares to Hera Comm Srl in order that the latter would hold 51% of the share capital.

- The company Feronia Srl was established on 3 October 2007; its purpose is the execution and management of the Finale Emilia (Modena) landfill, 40% held by Sat Spa and 60% held by Sorgea Srl.

HERA Spa – Share capital Euro 1,016,752,029 – Standing as at 31 December 2007



Disposal of the equity investments is also scheduled: Modena Formazione Srl, Democenter – Sipe Scarl and Acef Srl.

Merger by incorporation into Hera Spa of Hera Rete Modena Srl and Gastecnica Galliera Srl is scheduled.

2.01.02 Performance of the Hera Group in 2007:

2.01.02.01 *Financial and Economic Results*

Consolidated summary results of the Hera Group

(millions of €)	31 Dec 2006	Inc.%	31-Dec-2007	Inc.%	Change %
Revenues	**2,311.5**		**2,863.3**		**+23.9%**
EBITDA	**426.7**	**18.5%**	**453.4**	**15.8%**	**+6.3%**
EBIT	231.3	10.0%	220.6	7.7%	-4.6%
Net profit	**100.2**	**4.3%**	**109.9**	**3.8%**	**+9.6%**

2007 was distinguished by an exceptionally mild climate that further reduced gas and district heating distribution and sales, already sharply down as of the final quarter of 2006.

Even though the weather factor had a strong impact on the financial results of the Group, the multi-business structure and the growth policies adopted meant that these effects were offset and net profit was up on the previous year.

As regards the territorial development and business, 2007 was marked by the consolidation of the operations put in place the previous year, and more specifically:

- at the end of June 2006 Hera Rete Modena srl was acquired from Enel Spa for the purpose of the distribution and sale of electricity in 18 municipalities in the province of Modena. In the second half of 2006 the business was integrated into the local company of Modena.

- at the end of 2006 the companies operating in the Pesaro area which are part of Aspes Multiservizi entered the scope of consolidation of the Group

Two further operations were initiated in 2007 and will become operative from 1 January 2008:

- the incorporation of SAT Sassuolo, a multiservice company operating in the Sassuolo, Fiorano Modenese, Formigine, Serra Mazzoni and Maranello municipal areas

- the integration of Megas Spa into Aspes Multiservizi in order to merge the two multi-business companies that operate in the province of Pesaro-Urbino. In addition, the company changed its name to Marche Multiservizi Spa starting from 1 January 2008, the date the operation came into effect

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

The following table provides a summary of the Group's results:

Income statement (mln/€)	**31-Dec-2006**	**Inc%**	**31-Dec-2007**	**Inc%**	**Change**	**Change %**
Revenues	2,311.5		2,863.3		+551.8	+23.9%
Change in inventories of finished prod	2.7	0.1%	(4.2)	-0.1%	-6.9	-257.5%
Other operating costs	50.3	2.2%	46.0	1.6%	-4.3	-8.5%
Raw materials and other materials	(1,146.7)	-49.6%	(1,613.9)	-56.4%	+467.2	+40.7%
Service costs	(642.5)	-27.8%	(724.7)	-25.3%	+82.2	+12.8%
Other operating expenses	(46.5)	-2.0%	(50.4)	-1.8%	+3.9	+8.5%
Personnel costs	(296.6)	-12.8%	(300.9)	-10.5%	+4.3	+1.5%
Capitalised costs	194.5	8.4%	238.2	8.3%	+43.7	+22.5%
EBITDA	**426.7**	**18.5%**	**453.4**	**15.8%**	**+26.7**	**+6.3%**
Amortisation, depreciation and provisi	(195.4)	-8.5%	(232.8)	-8.1%	+37.4	+19.2%
EBIT	**231.3**	**10.0%**	**220.6**	**7.7%**	**-10.7**	**-4.6%**
Adjustments to technical fixed assets	-	0.0%	-	0.0%	+0.0	+0.0%
Financial charges	(52.1)	-2.3%	(78.0)	-2.7%	+25.9	+49.7%
Pre-tax profit	**179.2**	**7.8%**	**142.5**	**5.0%**	**-36.7**	**-20.5%**
Tax	(79.0)	-3.4%	(32.6)	-1.1%	-46.4	-58.7%
Net profit for the year	**100.2**	**4.3%**	**109.9**	**3.8%**	**+9.7**	**+9.6%**

Revenues for 2007 amounted to Euro 2,863.3 million compared with Euro 2,311.5 million in 2006, disclosing growth of 23.9%; the EBITDA rose from Euro 426.7 million in 2006 to Euro 453.4 million in 2007, +6.3%, and the EBIT increased from Euro 231.3 million to Euro 231.8 million showing an increase of 0.2%. The pre-tax profit was down 14,2% from Euro 179.2 million in 2006 to Euro 153.7 million in 2007 while the net profit was up 18.9% increasing from Euro 100.2 million in 2006 to 119.2 in 2007.

The increase in **Revenues**, equal to Euro 551.8 million should be viewed in relation to two opposing factors: (i) the increase in revenues from the electricity segment in relation to the greater volumes traded, which increased by about Euro 599.8 million, (ii) the Euro 65.6 million reduction in gas revenues, related to the reduction in volumes distributed and sold due to the weather conditions.

Costs of raw and consumable materials of Euro 467.2 million (+ 40.7%) are linked to the rise in costs associated with higher volumes of electricity traded and the decrease in gas volumes.

The increase in other operating costs (**service costs** up by Euro 82.1 million and **other operating costs** are up by Euro 3.9 million) amounted in total to Euro 86.0 million (+12.5%). Considering that around Euro 39.7 million of the increase is related to the higher capitalised work costs and around Euro 39.5 million to the higher transport costs of electricity, there has been an approximate increase of 1% over the previous year: we should note that this result confirms how well the company's cost containment policy has worked, a policy that has been in place since the company's establishment, despite cost increases which were significant in some cases, and the increase in Group business.

Personnel costs rose from Euro 296.6 million in 2006 to Euro 300.9 million in 2007 (+1.5%), with a ratio to revenues of 10.5%. the fact that this increase was so modest was due to the reduction in personnel and the effect of applying the IAS standards on social security reform.

The increase in **capitalised costs** from Euro 194.5 million to Euro 238.2 million is mainly due to the increase in investments in this period, particularly in the water segment.

As at 31 December, the Group's consolidated **EBITDA** increased from Euro 426.7 million in 2006 to Euro 453.4 million in 2007, an increase of 6.3%. this result is particularly positive considering the exceptionally mild weather conditions mentioned above which significantly reduced sales of gas and heat from district heating and the application of Resolution 134 by the authority for electricity and gas (AEEG) for the entire year, which considerably affected sales margins of residential customers. These negative events were set-off by the positive results shown by all the other segments, and especially electricity as noted in the detailed analysis of the business segment.

The percentage-based incidence of the EBITDA on revenues decreased slightly from 18.5% in 2006 to 15.8% in 2007 due to the increase in trading of raw energy materials: net of this effect the incidence would be about 18.2%.

Amortisation, depreciation and provisions increased by 19.2%, up from Euro 195.4 million in 2006 to Euro 232.8 million in 2007: this increase should be considered in relation to both the increase in depreciation due to the higher amount of investments made, especially in the plant area, and the increase in provisions using the principle of prudence as noted in detail in the supplementary notes.

Regarding this point, 2007 shows an **operating profit** of Euro 220.6 million, down 4.6% compared to last year.

Financial charges, which include the notional portion linked to the application of the IAS standards, net of the portion of profits from associated companies, rose from Euro 56.4 million to Euro 82.7 million, an increase of 46.6% over 2006. This increase is related to (i) the increase in indebtedness made necessary by the increase in business and the operative and extraordinary investments by the Group, (ii) increased interest rates. We note that Euro 6 million of the 2006 result benefited from income resulting from restructuring the interest rate hedging operations in which IAS standards were fully applied.

Thanks to the benefits of applying the provisions of the 2008 Finance Law on deferred taxes, **taxes** fell from Euro 79.0 million to Euro 32.6 million.

As a result of the above, **net profit** increased from Euro 100.2 million in 2006 to Euro 109.9 million in 2007, an increase of 9.6%.

Analysis of the Group's balance sheet

We note the performance of the Group's net capital employed and the sources of financing for the year ended as at 31 December 2007 with respect to the situation at the previous year ending.

Balance sheet (mln/€)	**31-Dec-2006**	**Inc%**	**31-Dec-2007**	**Inc%**	**Change**	**Change %**
Net fixed assets	2,921.9	108.6%	3,248.8	109.7%	326.9	+11.2%
Net working capital	167.9	6.2%	119.8	4.0%	(48.1)	-28.6%
(Provisions)	(400.2)	-14.9%	(406.0)	-13.7%	(5.8)	+1.4%
Net capital employed	**2,689.6**	**100.0%**	**2,962.6**	**100.0%**	**273.0**	**+10.2%**
Shareholders' equity	1,516.3	56.4%	1,538.6	51.9%	22.3	+1.5%
Long-term debt	*948.8*	*35.3%*	*1,396.0*	*47.1%*	447.2	+47.1%
Net short-term debt	*224.5*	*8.3%*	*28.1*	*0.9%*	(196.4)	-87.5%
Net financial position	*1,173.3*	43.6%	*1,424.1*	48.1%	250.8	+21.4%
Total sources of financing	**2,689.6**	**100.0%**	**2,962.7**	**100.0%**	**273.1**	**+10.2%**

The net capital employed in 2007 increased 10.2% from Euro 2,689.6 million to Euro 2,962.6 million for a substantial investment plan put in place and explained in more detail below.

Amongst the net fixed assets, the tangible and intangible fixed assets increased to Euro 2,452.0 million from Euro 2,351.7 million at 31 December 2007.

Provisions as at 2007 year end amounted to Euro 406.0 million compared with Euro 400.2 million as at 31 December 2006. The slight increase is essentially attributable to provisions for the post-closure of landfills and for restoring networks and plants granted under use to the Group owned by the spun-off companies (asset companies). These provisions were partially offset by (i) the decrease in the employee leaving indemnity provisions resulting from new regulations and the associated accounting treatment in accordance with international accounting standards decreasing the employee leaving indemnity provision, and (ii) from the reduction in the provision for deferred tax assets.

Net working capital has decreased from Euro 167.9 million in 2006 to Euro 119.8 million in 2007 notwithstanding the increase in business of the Group.

Shareholders' equity rose from Euro 1,516.3 million to Euro 1,538.6 million and the ratio of indebtedness to equity rose from 0.77 in 2006 to 0.92 in 2007.

Financial situation of the Group

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

	(mln/€)	31-Dec-2006	Inc%	31-Dec-2007	Inc%	Change	Change %
a	**Cash on hand**	**213.6**		**211.0**			
b	**Other current financial receivables**	**12.8**		**10.0**			
	Current bank indebtedness	-312.4		-149.6			
	Current portion of bank indebtedness	-109.4		-86.1			
	Other current financial indebtedness	-17.3		-7.6			
	Current financial assets/liabilities from derivative instruments	-2.3		-0.2			
	Financial leasing payables falling due by next financial period	-9.5		-5.6			
c	**Current financial indebtedness**	**-450.9**		**-249.1**			
d=a+b+c	**Net current financial indebtedness**	**-224.5**	**19.1%**	**-28.1**	**2.0%**	**+196.4**	**-87.5%**
e	**Non current financial receivables**	**19.2**		**6.6**			
f	**Non current financial assets/liabilities from derivative instruments**	**0.0**		**7.8**			
	Non current bank indebtedness	-410.0		-475.9			
	Bonds issued	-497.6		-798.2			
	Other non current financial indebtedness	-29.4		-122.4			
	Financial leasing payables falling due after the next financial period	-31.0		-13.9			
g	**Non current financial indebtedness**	**-968.0**		**-1,410.4**			
h=e+f+g	**Net non current financial indebtedness**	**-948.8**	**80.9%**	**-1,396.0**	**98.0%**	**-447.2**	**+47.1%**
i=d+h	**Net financial indebtedness**	**-1,173.3**	**100.0%**	**-1,424.1**	**100.0%**	**-250.8**	**+21.4%**

The net financial position rose with respect to 31 December 2006, passing from Euro 1,173.3 million to Euro 1,424.1 million as at 31 December 2007. The increase was mainly due to the continuation of the significant investment plan on schedule.

These transactions allowed the Group to improve the balance of its asset structure, offsetting the high value of the fixed assets with an indebtedness mainly comprising medium/long-term debt, which cover over 98% of total indebtedness as at 31 December 2007. Significant refinancing transactions were carried out in 2007, details of which can be found in the section describing financial management.

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

Hera Group Investments

The Group's tangible and intangible investments totalled Euro 464.0 million, compared to Euro 321.1 million in the same period of the previous year.
In the same period financial investments were also made amounting to Euro 7.8 million. These investments refer to the increase in potential in the energy sectors, through investments in new plants (e.g. Galsi), and for joint ventures in energy trading (e.g. Flameenergy GMBH).

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

Total investments (mln €)	**31-Dec-2006**	**31-Dec-2007**	**Change**	**Change %**
Gas segment	25.4	31.7	+6.3	+24.9%
Electricity segment	14.8	49.2	+34.5	+233.5%
Integrated water cycle segment	100.2	131.4	+31.2	+31.1%
Waste management segment	88.8	166.2	+77.4	+87.1%
Other services segment	35.4	35.0	-0.4	-1.2%
Central structure	56.4	50.4	-6.0	-10.6%
Total operating investments	**321.1**	**464.0**	**+142.9**	**+44.5%**
Financial investments	183.7	7.8	-175.9	-95.8%
Total investments	**504.8**	**471.8**	**-33.0**	**-6.5%**

We should note that the acquisition of the former Enel Modena network for Euro 106.6 million, the acquisition of SAT Sassuolo for Euro 34.5 million, and the former GDG Riccione gas distribution network for Euro 14.5 million, formed part of the 2006 financial investments.

Investments relating to the gas service in the area in question mainly regard expansion, enhancement and upgrading of networks and plant systems. Investments by Medea regard the creation of the Sassari distribution networks and Hera Trading investments were for the acquisition of easements on foreign gas pipelines for the purchase of raw materials.

Gas (mln €)	**31-Dec-2006**	**31-Dec-2007**	**Change**	**Var. %**
Territory	22.5	27.3	+4.8	+21.5%
Aspes	1.0	0.8	-0.3	-24.0%
Medea	1.9	1.0	-0.9	-47.0%
Hera Trading	0.0	2.6	+2.6	-
Total Gas	**25.4**	**31.7**	**+6.3**	**+24.9%**

Investments in the electricity service relate to the expansion of the service and the extraordinary maintenance of plant systems and distribution networks for the Modena and Imola areas and the investments in remote control and meter updating, while investments in combined cycle electricity and thermal power plants (CCGT) concern the Imola facility under construction.

Electricity (mln €)	**31-Dec-2006**	**31-Dec-2007**	**Change**	**Change %**
Territory	10.8	15.7	+4.9	+45.9%
CCGT	4.0	33.5	+29.5	+737.5%
Total electricity	**14.8**	**49.2**	**+34.5**	**+233.5%**

Investments relating to the integrated water cycle are considerably up compared to last year, for agreements made with local territorial waste management agencies and reflected in the tariff increases. They mainly regard expansion, enhancement and upgrading of networks and plant systems, in particular with regard to sewer systems.

Integrated water cycle (mln €)	**31-Dec-2006**	**31-Dec-2007**	**Change**	**Change %**
Aqueduct system	57.6	68.5	+10.9	+19.0%
Purification system	18.4	22.8	+4.4	+23.7%
Sewerage system	24.1	40.1	+15.9	+66.0%
Total water cycle	**100.2**	**131.4**	**+31.2**	**+31.2%**

In the waste management area, projects carried out on plants located throughout the area increased compared to last year. Investments in waste-to-energy plants were focused on the Modena, Canal Bianco (Ferrara) and Forli plants which are almost completed.

Waste management (mln €)	**31-Dec-2006**	**31-Dec-2007**	**Change**	**Change %**
Plants	16.2	26.9	+10.7	+66.0%
Investee companies	14.3	37.9	+23.6	+165.3%
New plants:	0.0	0.0	+0.0	-
WTE Canal Bianco (FE)	26.9	40.0	+13.1	+48.8%
WTE Modena 4th line	14.6	14.8	+0.2	+1.7%
WTE Modena 3rd line	0.0	1.8	+1.8	-
WTE Forlì	16.5	35.2	+18.7	+113.1%
WTE Rimini	0.3	9.6	+9.3	-
Total waste management	**88.8**	**166.2**	**+77.5**	**+87.3%**

District heating service investments concerned extension work to the service mainly in the areas of Bologna (Euro 6.2 million), Imola (Euro 2.4 million), Ravenna (Euro 0.7 million), Forlì Cesena (Euro 3.0 million), Ferrara (Euro 3.4 million) and Modena (Euro 0.5 million). Telecommunication investments relate to the regional telecom plan for fibre-optic connections. In the public lighting sector, investments were for the installation of new light points and extraordinary maintenance of already existing points. 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-2006**	**31-Dec-2007**	**Change**	**Change %**
TLR	17.9	16.2	-1.7	-9.3%
TLC	2.2	3.5	+1.3	+58.4%
Public lighting	3.7	1.9	-1.8	-47.9%
Heat management and micro-c(	8.2	11.7	+3.5	+42.4%
Other	3.4	1.7	-1.7	-50.4%
Total other services	**35.4**	**35.0**	**-0.4**	**-1.1%**

Investments in the central structure were down on the whole by 10%. The most significant reduction regards the computer systems which were completely overhauled over the last few years. Maintenance of the group property assets and investments in the renewal of the transport operations fleet are the other most significant investments.

Central structure (mln €)	**31-Dec-2006**	**31-Dec-2007**	**Change**	**Change %**
Buildings	10.9	12.9	+2.0	+18.6%
Information systems	28.4	22.0	-6.4	-22.6%
Vehicle fleets	11.0	10.3	-0.7	-6.3%
Other investments	6.1	5.3	-0.9	-14.2%
Total structure	**56.4**	**50.4**	**-5.9**	**-10.5%**

2.01.02.02 *Regulatory framework*

The main changes that have been made to the regulatory framework and tariff system in the reference markets

1. Energy: evolution of the regulatory framework

The most significant regulatory innovation in energy markets regards completing the path taken towards full deregulation of demand. With the passing of the bill on 1 July implementing the 2003 community directive, the right of any end consumer to choose its supplier was established, in addition, the type of "managed deregulation" of the national market was confirmed, by the confirmation of the power of the authorities regarding electrical energy and gas (hereinafter AEEG), to establish regulated prices, and reference prices for categories of customers who are considered worthy of protection (families and small companies, identified by turnover and number of employees).

A type of controlled protection (so called safeguarding) will be provided to other customers who do not qualify to be protected, and who are generally professionals and business people, but who could not be considered to be part of the "unregulated market" as long as they have not agreed a contract with an alternative supplier to the distributor who served them under the regulated regime, at the date of starting. The lawmakers chose a competition model for the market to introduce competition in the provision of services to this category of customer: the country was subdivided into macro-regions, in which a tender process was organised with offers based on a parameter representing the procurement costs established by the AEEG.

In definitively opening the domestic market to competition, the legislation also provided for the introduction of caution and regulation to encourage transparency and the separation of company operations among the different segments. Specifically, in the electricity sector, there is a net separation (previously applicable in the gas market) between sellers and distributors, who were the suppliers to the captive customers in the previous system.

1. 1 Energy and environment

The support given to electricity produced from renewable sources was radically renewed by the 2008 finance law, after which bills were presented to parliament (not yet completed), to partially overcome the "market" regime (green certificates) in favour of managed support prices, with different benefits according to the source.

The lawmaker took the intermediate route, safeguarding the model of market valuation for the entitlements corresponding to energy produced from renewable sources, and at the same time, introducing differentiating elements which were not in the previous system. The new scheme provides that the green certificates will last for fifteen years now, and for a system of multipliers that increase benefits in accordance with the sustainability of the source (the entitlements granted to organic waste, for example, equal 1.1 times the energy produced) for plants starting operations from 1 January 2008 and powered by renewable sources as defined under the directive 2001/77/EC. An alternative system of managed withdrawal prices is reserved to smaller plants (power less than 1 Mw).

The "rights acquired" by plants that use sources not specifically listed in the definitions of community laws, and that were allowed benefits in accordance with undertakings to produce from renewable sources taken when approving the directive (for example Cip6 and green certificates for energy from waste), are protected for the plants that started up operations by 2007.

However, the ministry for economic development can make an exception to the limitation for plants with special significance, protecting those actually being built in particular. The decree was not issued when drafting this report. On the other hand, an exception in favour of the waste-to-energy plants planned to deal with the waste emergency in Campania was explicitly provided by the chairman of the council of ministers as an emergency measure.

The finance law also provides for the creation of a fund to facilitate the granting of CO_2 emission certificates for the new parties entering the electricity market.

Among the more important provisions forming part of the new support framework for renewable sources that help bring Italy into compliance with community regulations regarding integration of environmental aspects into energy policies, we note:

- the approval of the national allocation plan for the second phase of the European market of the CO_2 emission rights
- the revised decree on energy saving objectives that increases the amount of obligors (distributors with at least 50,000 customers as opposed to the previous cut-off of 100,000) while awaiting the complete review of the matter in implementation of the transposition of the directive on efficiency in the final use of energy, currently undergoing approval
- the legislative decree that promotes high yield cogeneration in the electricity market
- the application of the regulation that extends the granting of green certificates to plants powered by fossil fuels connected to local networks of waste to energy systems.

2. Regulations: cross-over matters

The entry into effect of the separation of operation regulations was postponed from 1 January to 1 July 2008. Vertically integrated operators must have adopted a plan to fulfil obligations by that date, and have prepared the necessary organisational changes needed to put the independent network supplier into operation. The disputed admittance of some operators, has been resolved in favour of the AEEG, at least temporarily. The administrative judge of the first instance recognised the authority to separate operations, in addition to the proportionality and the consistency of the measures undertaken with decision 11/2007.

The new rules on accounting separation are, in any case, already in effect for those operators that did not request an extension. The AEEG intends to increasingly use separated accounts for pricing purposes.

Support instruments for market dynamics were introduced in both of the regulated sectors. One is the withdrawal rule which can be applied in the event of default. In addition the distributors are obliged to provide the essential information in order to make sales offers to protected customers to the sellers who so request.

2.1 Electricity: regulations and the tariff system framework

There was much regulatory activity following approval of the decree of 1 July and its subsequent passing into law to align the organisational and tariff system of the electricity sector with the altered market frame work. A number of consolidated laws resulted (on sales, on distribution/transport, on connection conditions and service quality).

With the entry into effect of the new tariffs for the distribution of electricity on 1 January 2008, general criteria containing greater clarity and logic were also introduced as regards, specifically, the definition of the components to cover sales and distribution costs (by now to be paid to legally separated subjects), the standardisation of tariffs at a national level (overriding the previous options proposed by the operators), and the progressive adoption of policies to align costs to tariffs (time slots) supported by the progressive increase of electronic metering systems in the network.

The change to the regulated price structures for the most protected categories (families and small companies) is particularly important and a double payment structure applies: that paid by the customer, presumably set at a level that will allow for the potential development of the market supply in the sector, and a the lower price, paid by the selling party to cover procurement costs.

In the distribution segment, the equalising mechanisms were thoroughly reviewed to account for the greater complexity and to support the expected flow increase to compensate for the amount determined by the application of a single national tariff instead of the previous options that the operator could use, whose role was to minimise the differences from the restriction of the permitted revenues. The regulatory developments will have to account for changes to distribution costs (and sales costs) which will become independent to ensure proper trading operations as they will now be completely separated from sales.

A new standardised measuring scheme was introduced that presumably aims at encouraging the incorporation of remote measurement and control technology to the existing metering systems.

New regulations on the quality of electricity services have been introduced along with the reform of the sales and distribution tariffs for protected categories. The consolidated law for the 2008-2011 regulatory period introduces new aspects for the payer regarding the quality of the distribution services which will be supported by a progressive improvement in the registration and reporting of black-outs, and will impose stricter sales quality standards, with the introduction of new types of automatic compensation to customers to take effect from 2009.

2.2 Natural gas: regulations and the tariff system framework

The criteria governing regulation of the natural gas sector show greater continuity than the electricity sector. We note:

- as part of the general review of the components covering sales and marketing costs carried out in 2007 the reform of the QVD (retail sale) component with the introduction of a bijective structure (set price equal for all protected customers and quotas variable in relation to consumption) that increased alignment of said cover with actual costs
- the development of the instruments to support the regulated markets of capacity and gas
- the updating of the standard network code and the development of the rules on the communication standards between distributors and sellers

Since the expiry of the regulatory period for the distribution tariffs and service quality is approaching (September 2008), numerous surveys and consultations have been initiated by the AEEG in view of the significant innovations: among these, the alignment of the tariff system regulation period to the calendar year in place of the current thermal year.

An especially important change was announced regarding the future tariff structure for distribution, for which the following is provided:

- the possible replacement of the regulated capital evaluation methods currently in effect with a standardised valuation with new replacement cost criteria (however various options are being discussed with an increasing level of discontinuity compared to the current regulations)
- the progressive standardisation of the tariffs, possibly on a national basis or at least on a regional basis
- the identification of a "local restriction" (tariff system) and a "company restriction", at least as regards the determination of the invested capital, in order to ensure that the geographical location of the operations management is not a determining factor as regards the distribution payments (as will be noted below, that should extend to supra-municipal areas).

Quality regulations are also being reviewed in view of the expiry of the current regulatory period. Like the decisions made in the electricity sector, it can be imagined that stricter criteria in the definition of service efficiency and greater user protections will be adopted, just as for the incentive providing schemes to pass from the current optional participation to the obligatory regime.

The AEEG has also started to examine future technological developments of the metering systems, due to evidence pointing to the fact that the current instruments are supposedly inadequate and outdated.

The government was notified of apparent inconsistencies of the general and technical regulations on measurement techniques that cause uncertainty when measuring the energy actually used by gas users.

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

3.1 Water and environmental services

The consolidated environmental act was gradually reviewed over 2007 (Legis. Decree 152/06), which re-defined waste in terms of European Community jurisprudence and substantially aligned consolidated management procedures.

There is nothing of significance in the new management and assignment model plans even though the government had presented a proposal involving radical reform. Even though the local public services reform bill (*Lanzillotta* bill) was approved at the first reading by the Senate, it hasn't yet been finalised due to the fall of the government.

Reform of the water sector market has been continuously excluded from the various versions of the bill presented, which indicates a tendency that was confirmed by a moratorium put on tenders to assign water services introduced during approval of the regulations in favour of consumers and competition. However, water sector regulations are currently under review: the supervisory committee on water resources started an analysis on tariff regulation and intend to propose a reform to make the system more efficient, and giving greater protection to the people.

Regulatory acts will be formulated from discussions held at a regional level: a **regional tariff method** came into effect in Emilia Romagna on 1 January 2008 which established obligations regarding the efficiency and service quality levels, and unlike the standard setting of capital payment provided under the national regulatory method, sets this payment using the more logical criteria of the effective cost of capital.

3.2 Competition rules for the gas distribution market

The passing of the decree of 1 October 2007 containing urgent public finance measures, and subsequently modified by the 2008 finance law, once again affects the **gas tender** process after the changes to the original imposed by the *Letta* decree made effective by the *Marzano* law and the so-called *milleproroghe* decree of 2006 (passed into law no. 51 of 23 February 2006).

Unlike the recent past where repeated legislative actions redefined the residual duration of the licenses directly granted, the regulation does not change the expiry date of the licenses, which therefore stay as defined in accordance with the above noted changes of the *Letta* decree, but rather introduces organisational criteria with which to carry out the tender process.

The law changes the "municipal tenders" and gives the right to the government to identify optimal customer bases, with the assistance of AEEG. The tenders will therefore be carried out in accordance with **different and broader** territorial bases compared to current ones. The customer bases will have to be identified within a year of passing the law (therefore by 29 November 2008) and the tenders carried out two years from said identification. A **standard call for tenders** will probably be introduced which will include the evaluation of the bidders and the financial aspects, qualitative parameters and reliability of the management.

The regulation also provides that the municipalities interested in the "new calls for tenders" will be given, where less, **a fee of 10%** of the restriction on the distribution revenues. This provision aims to safeguard the assets of municipalities whose licenses have expired (in the absence of extensions pursuant to *Letta* and *Marzano*, in fact, licenses in being pursuant to law expired on 31 December 2007) and which therefore have been damaged by the postponement of the tenders waiting for decisions on the customer bases.

It is possible that the optimal customer bases will be established on the basis of the aggregation of the current customer base tariffs. Their establishment will be coordinated with the regulations being formulated and noted under paragraph 2.2 on the distribution tariffs.

2.01.02.03 *Tariffs*

By issuing resolution 218/06, AEEG completed the revision of the legislation on gas for the current regulatory period, providing sellers with a stable legal framework around the tariff-setting mechanisms for the above-mentioned period. Following the administrative appeal filed by some distributors, the original tariff reference resolution on gas distribution, no. 170/04, was suspended by the ruling of the Lombardy Regional Administrative Court of February 2005. On the basis of this ruling, AEEG issued resolution 122/05, which adopted only some of the motions included in the appeal, in particular introducing the algorithm for the reversal of real investments made by the companies into the tariffs. However, the revision of the scheduled productivity recovery rate amounts that impact recognised management costs and technical amortisation of capital was left unresolved. Said revision was defined in October 2006 through resolution 218/06 illustrated above in its calculation values and mechanisms.

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 3.1% for the thermal year 2006/07 and 2.5% for the thermal year 2007/08 compared to base values of 4.6% and 4.4% respectively, recognised to companies not affected by merger processes.

The recent resolution 53/07 issued by AEEG in March 2007 and no. 261/07 of October 2007, formally approved the distribution tariffs for the 2006/07 and 2007/08 thermal years on the basis of the new elements introduced by resolution 218/06. Hence the 2007 financial statements of Hera Spa reflect the above-mentioned approvals for gas transport revenues, and are therefore based on stable tariff parameters.

Against this backdrop, gas transport revenues for 2007 amounted to about Euro 119.5 million with distribution volumes of about 2.1 billion of cubic metres, with a corresponding average revenue per unit of Euro cents 5.77 per cubic metre.

Gas distribution - transport revenues	2006	2007	change %
Hera Spa with former Geat Riccione			
Revenue (millions of euro)	118.9	119.5	0.50%
Volumes (millions of cubic metres)	2,226	2,073	-6.90%
Average revenue per unit (Euro cent per cubic metre)	5.34	5.77	7.90%

Against a 6.9% reduction in volumes distributed due to the extremely unfavourable weather conditions, 2007 revenues for the consolidated Hera Spa companies were therefore substantially stable compared to 2006. In fact, the significant reduction in volumes was fully offset in terms of revenue by the increase in average revenue per unit of about 7.9% due to both the tariff adjustments introduced by AEEG resolution 218/06, and to a perceptible increase in the average tariffs following the reduction in the volumes distributed. This effect is actually the natural consequence of the prevailing gas distribution tariff structure, based on consumption brackets associated with variable amounts that decrease in accordance with the increase in volumes.

The consolidation perimeter for 2007 also includes also Aspes Multiservizi. Reported below are the consolidated revenues from gas transport, distributed volumes and average revenue per unit for the Hera Group. Compared to what we said above regarding the legal framework, we note that Aspes Multiservizi did not benefit from incentives recognised by AEEG to Hera Spa in relation to the scheduled productivity recovery rate.

Hera consolidated gas distribution - transport revenues	2006	2007	change %
Revenue (millions of euro)	124.2	124.5	0.20%
Volumes (millions of cubic metres)	2,312	2,150	-6.8%
Average revenue per unit (Euro cents per cubic metre)	5.38	5.79	7.80%

2. Electricity distribution: tariff framework

2007 was the last year of the second regulatory period regulating the tariff system for electricity distribution, which involved, through the publication of AEEG resolutions 156/07 and 157/07 starting form the second half of 2007, the completion of the deregulation process which had begun in 2000.

The final stage of the deregulation process regarded the domestic customer segment whose distribution tariffs were revised by AEEG by resolution 135/07 in order to permit the complete separation of the roles.

The revision of the tariff system further defined and separated the roles of the distributor and seller providing for the transfer of all the tariff components associated with sales activities to the sales company who will become the reference for the customers as regards everything pertaining to the supply relationship.

As a result of that, and unlike the first three years of this second regulatory period, there were numerous and substantial changes made during 2007, and more specifically:

- *Resolution 275/06 that provided for a change in the metering revenue amounts and allocated a portion of these amounts to the repayment of the investments in low voltage electronic counters installed up to 31 December 2005*
- *Resolution 135/07 that provided for the removal of the sales component from the distribution tariff for domestic clients, which component was transferred to the sales tariff by resolution 156/07 (PCV component) and only applied to the customers in the most protected market;*
- *The confirmation of the general standardisation of revenues, obtained by the application of the D2 and D3 tariffs to domestic customers, using, the theoretical D1 tariff as reference;*
- *The confirmation of the scheduled productivity recovery level (X-factor) equal to 3.5% pa. for distribution and 2.5% p.a. for transmission.*

Against this tariff backdrop the revenues from electricity distribution in 2007 were equal to about Euro 50.5 million with distributed volumes equal to about 2,248 Gwh with an average revenue per unit of Euro cents 2.25 per kwh.

Hera consolidated Electricity distribution – revenue	2006	2007	change %
Revenue (millions of euro)	43.5	50.5	16%
- Volumes (Gwh)	1,880	2,248	20%
Average revenue per unit (Eurocents per kwh)	2.32	2.25	-3%

In order to compare this with 2006 it should be noted that although the bases were alike at 31/12 and so the former Enel networks were included in both years, they were only actually acquired at the start of the second half-year period in 2006 and were therefore only present for half the year.

The change in the reduction of the average revenue per unit was due to the combined effect of resolutions 275/06 and 135/07 which partially reduced the positive effects of 203/06 regarding the adjustment of the tariff parameters applicable to 2007 distribution tariff options, and the effects of higher volumes and differing distribution mixes.

3 Integrated Water Service: tariff framework

The tariffs decided by the environmental agencies (Aato) were applied in 2007 for the integrated water services and the tariff convergence route, begun in 2005, continued. This will lead to full application of the standardised method over the next few years as provided by Dpgr 49/2006 among other things.

For Hera Spa, revenues from tariffs for the management of the integrated water cycle in 2007 came to Euro 327.8 million against 230.6 million cubic metres of water sold, a drop of 1.1% from the previous year, with an average tariff of Euro 1.421 per cubic metre.

In comparison with the previous year, average revenue per unit was up 5.1% due to application of the tariffs resolved by Aato.

Integrated water service (excluding the Aspes group)	2006	2007	Increase %
Revenues (millions of euro)	315.3	327.8	4.00%
Volumes (million of cubic metres)	233.1	230.6	-1.10%
Average revenue per unit (Euro cents per cubic metre)	135.3	142.1	5.10%

Thanks to the consolidation of the ASPES Group, the revenues from the integrated water service recorded by the Hera Group for 2007 amounted to Euro 343.7 million, with 241.1 million cubic metres of water sold from the waterworks, a drop of 1.1% in total volume sold from the integrated water cycle service.

Integrated water service (consolidated with Aspes Group)	2006	2007	Increase %
Revenues (millions of euro)	330.5	343.7	4.00%
Volumes (millions of cubic metres)	243.6	241.1	-1.10%
Average revenue per unit (Euro cent per cubic metre)	135.6	142.5	5.10%

4 Urban sanitation: tariff framework

In 2007 the urban sanitation service (including the consolidation of the Aspes Group) was provided to 145 municipalities. Of these, 50% (72 municipalities) adopted the tariff system in accordance with Presidential Decree 158/99 covering 64% of the population in the areas served. During the year the service boundaries increased significantly, affecting total consideration, both as regards the quality of service such as separate waste collection for example, and as regards the increased coverage of the area.

Hera Spa data only is provided below to compare it with the years prior to 2006:

Hera Spa (excluding the Aspes Group)	2006	2007	change %
Revenues (Millions of euro)	295	321	9.1%
Population served (/000)	2,305	2,327	1.1%
Average revenue per unit (Euro per inhabitant)	127.8	138.1	8.10%

The Aspes Group was consolidated into the Hera Group in 2006 and the consolidated data of the Hera Group is as follows:

Integrated urban sanitation (consolidated with Aspes Group)	2006	2007	change %
Revenues (Millions of Euro)	310	338	9,00%
Population served (/000)	2.436	2.462	1,10%
Average revenue per unit (Euro per inhabitant)	127,2	137,1	7,80%

With the consolidation of Aspes, there was a 9% increase in revenue in 2007 over 2006 for the urban sanitation service provided to the authorised municipalities, adjusted for the sake of comparison. This result was mainly due to an approximate growth of 1.1% in the population served, an increase in revenue per unit of about 2.7%, the recovery of revenues for unpaid or partially paid charges, and the changes in services for the remaining part.

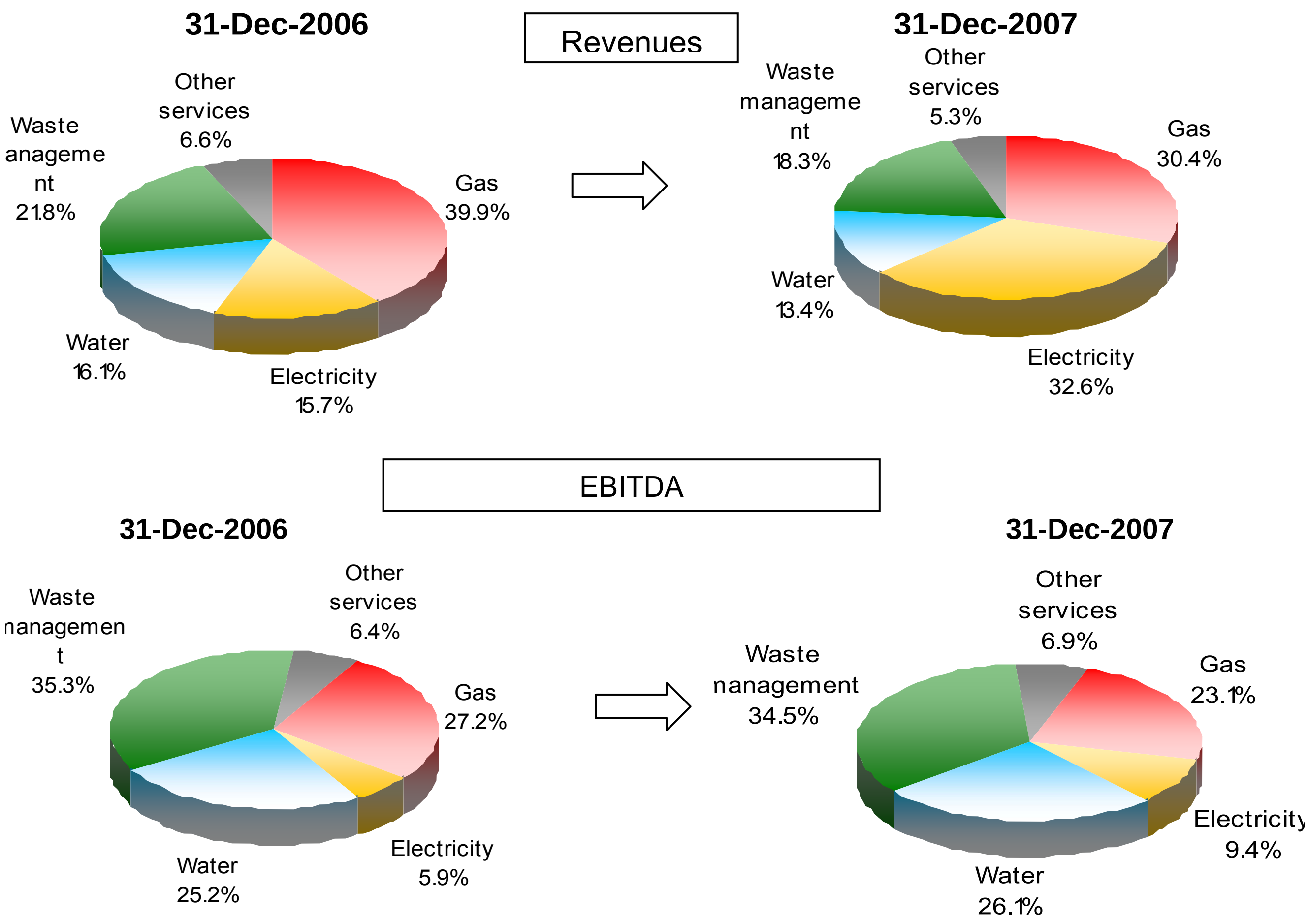
2.01.02.04 *Analysis by business segment*

An analysis of the operating results achieved in the business segments in which the Group operates is presented below: (i) distribution and sale of methane gas and LPG, (ii) distribution and sale of electricity, (iii) integrated water cycle (aqueduct, purification and sewerage), (iv) waste management (waste collection and treatment), and (v) other activities (district heating, public lighting, heat management and other minor services).

The business segments did not undergo any substantial change in 2007 compared to 2006: with regards to the contribution towards EBITDA, there was an increase in the water cycle, electricity and other services, and a decrease in the contribution of the gas and waste management segments. In addition, the percentage importance of the gas segment decreased as regards revenues, especially for the volumes sold and distributed, while the importance of the electricity segment increased steadily mainly thanks to the acquisition of the former Enel networks in Modena and the commercial development made possible by the start up of the new plants.

In order to provide the necessary details on performance in 2007, analyses are shown of the various business segments that the Group operates in compared with 2006. The breakdown and development in the two years in terms of revenues and EBITDA are shown in the graphs below:

Breakdown of the business portfolio



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

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

Analysis of the gas segment

The importance of the gas segment, including sales and distribution, decreased by over four percentage points in terms of contribution to profits between 2006 and 2007.

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

(mln/€)	31-Dec-2006	31_Dec-2007	Change	Change %
Area EBITDA	**116.1**	**104.7**	**-11.4**	**-9.8%**
Group EBITDA	426.7	453.4	+26.7	+6.3%
Percentage weight	*27.2%*	*23.1%*	*-4.1 p.p.*	

The abnormal weather conditions this year continued as they had started in the last quarter of 2006: the increase in average temperatures significantly affected all the operators on the market, further reducing volumes distributed and sold.

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-2006	07-Jan-00	Change	Change %
Number of customers (thousand units)	**1,003.1**	**1,018.7**	**+15.6**	**+1.6%**
Volumes distributed (millions of cubic metres)	2,312.3	2,150.4	-161.9	-7.0%
Volumes sold (millions of cubic metres)	2,491.4	2,414.2	-77.2	-3.1%
- of which trading volumes	*267.4*	*300.6*	*+33.2*	*+12.4%*

Due to the weather, distributed volumes decreased from 2,312.3 million cubic metres in 2006 to 2,150.4 in 2007, a drop of 7.0%.

Trends were positive in terms of volumes sold, which meant that volume losses were reduced to 3.1%, notwithstanding the above mentioned adverse weather conditions: this result is due to the greater volumes traded and the customers acquired outside the traditional area of the Group.

In addition to the effect of the weather, gas results were also negatively affected by the electricity and gas authorities (Aeeg) who reduced sales tariffs (resolution No. 134/06) effective as of 1 October 2006.

These two factors contributed to the financial results summarised below:

Income statement (mln/€)	31-Dec-2006	Inc%	31-Dec-2007	Inc%	Change	Change %
Revenues	987.6		922.0		-65.6	-6.6%
Operating costs	(856.9)	-86.8%	(810.5)	-87.9%	-46.4	-5.4%
Personnel costs	(44.1)	-4.5%	(39.5)	-4.3%	-4.6	-10.4%
Capitalised costs	29.5	3.0%	32.7	3.5%	+3.2	+10.8%
EBITDA	**116.1**	**11.8%**	**104.7**	**11.4%**	**-11.4**	**-9.8%**

Revenues in the gas segment decreased by 6.6%, falling from Euro 987.6 million in 2006 to Euro 922.0 million in 2007, due to lower volumes distributed and sold.

With respect to the previous year, the Group recorded a Euro 11.4 million decrease in EBITDA in this segment, falling from Euro 116.1 million to Euro 104.7. million.

It should be pointed out that profitability in this segment benefited from the increase in average distribution tariffs, also as a result of the lower volumes distributed, in addition to benefitting from a reduction in labour costs, mainly related to the lower absorption of sales costs in the business segment.

In light of the above, the percentage profitability fell from 11.8% in 2006 to 11.4% in 2007.

Analysis of the energy segment

The electricity segment has become the most important segment in the Group in terms of revenues, contributing to about a third of overall Group business, as a result of the merger with Meta, and the acquisition of the former Enel network in the province of Modena, thereby increasing sales to end clients and trading activities.

Between 2006 and 2007, the importance of this area also increased in terms of its overall contribution to the EBITDA by over 3.5 percentage points, increasing from 5.9% in 2006 to 9.4% in 2007. We note that the percentage weight was less than 3.0% prior to the acquisition of the Modena network.

(mln/€)	31-Dec-2006	31-Dec-2007	Change	Change %
Area EBITDA	**25.2**	**42.7**	**+17.5**	**+69.4%**
Group EBITDA	426.7	453.4	+26.7	+6.3%
Percentage weight	*5.9%*	*9.4%*	*+3.5 p.p.*	

An analysis of the electricity segment results is given below:

Income statement (mln/€)	31-Dec-2006	Inc%	07-Jan-00	Inc%	Change	Change %
Revenues	389.4		989.2		+599.8	+154.0%
Operating costs	(362.1)	-93.0%	(945.1)	-95.5%	+583.0	+161.0%
Personnel costs	(16.0)	-4.1%	(20.0)	-2.0%	+4.0	+25.0%
Capitalised costs	14.0	3.6%	18.6	1.9%	+4.6	+32.9%
EBITDA	**25.2**	**6.5%**	**42.7**	**4.3%**	**+17.5**	**+69.4%**

Sales revenues more than doubled, increasing from Euro 389.4 million in 2006 to Euro 989.2 million in 2007 as a result of the above-mentioned factors.

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

(millions of Euro)	31-Dec-2006	Inc%	31-Dec-2007	Inc%	Change	Change %
Sales revenues	271.4	69.7%	412.0	41.6%	+140.6	+51.8%
Distribution revenues	43.4	11.1%	50.5	5.1%	+7.2	+16.6%
Trading / other	74.6	19.2%	526.7	53.2%	+452.1	+606.0%
Total revenues	**389.4**	**100.0%**	**989.2**	**100.0%**	**+599.8**	**+154.0%**

Raw material costs have stayed high since 2006.

Operating costs increased as a result of (i) the higher quantity of energy sold, (ii) activities linked to the acquisition of the former Enel grid, (iii) higher sales costs.

Labour costs increased considerably due to the greater absorption of sales costs in the gas area, and for the contribution of the former Enel network personnel for the entire year.

The quantitative data for the area shows volume trends related to the afore-mentioned management policies:

Quantitative data	31-Dec-2006	31-Dec-2007	Change	Change %
Number of customers (thousand units)	**263.7**	**273.2**	**+9.5**	**+3.6%**
Volumes sold (Gw/h)	3,133.1	4,334.7	+1,201.6	+38.4%
Volumes distributed (Gw/h)	1,879.6	2,247.9	+368.3	+19.6%

The increase in volumes is related to (i) the acquisition of the former Enel network and (ii) the higher sales volumes which were made possible by the higher availability of energy supplied by the plants started up during 2007.

We should note that the electricity sales market was fully de-regulated on 1 July 2007, just as had previously been done for the gas market: this de-regulation did not have any significant effects on the 2007 results.

The EBITDA increased by 69.1%, increasing from Euro 25.2 million in 2006 to Euro 42.7 million in 2007.

Analysis of the activities related to the integrated water cycle

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

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

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

The integrated water cycle segment demonstrated improved results compared to last year, and its percentage weight has increased as can be seen in the table below:

(mln/€)	31-Dec-06	31-Dec-07	Change	Change %
Area EBITDA	**107.5**	**118.5**	**+11.0**	**+10.2%**
Group EBITDA	426.7	453.4	+26.7	+6.3%
Percentage weight	25.2%	26.1%	+0.9 p.p.	

The results at the end of 2007 disclose a trend in line with expectations, involving an increase in revenues linked to the tariff structure approved by the agencies.

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

Income statement (mln/€)	31-Dec-2006	Inc%	31-Dec-2007	Inc%	Change	Change %
Revenues	398.4		407.6		+9.2	+2.3%
Operating costs	(319.2)	-80.1%	(342.0)	-83.9%	+22.8	+7.1%
Personnel costs	(85.3)	-21.4%	(89.8)	-22.0%	+4.5	+5.3%
Capitalised costs	113.6	28.5%	142.7	35.0%	+29.1	+25.6%
EBITDA	**107.5**	**27.0%**	**118.5**	**29.1%**	**+11.0**	**+10.2%**

Revenues of Euro 407.6 million were achieved in 2007, up 2.3% from 2006 in relation to the increased tariffs mentioned. A detailed analysis can be found in the specific section of this report. A reduction in the amount of work carried out compared to the previous year affected the amounts in the opposite direction.

The increase in overall costs amounts to Euro 27.3 million. Taking into consideration the increase in capitalised costs for Euro 29.1 million, operating costs decreased due to the fact that less raw material was purchased, and efficiency was increased.

The increase in capitalised costs was for the increase in investments in the water cycle, as detailed in the paragraph on this, and was entirely realised by the local operating companies (Sot) within the Group organisation.

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

Quantitative data	31-Dec-2006	31-Dec-2007	Change	Change %
Number of users (thousand units)	982.4	1,015.0	+32.6	+3.3%
Volumes sold (millions of cubic metres)				
Aquduct	243.6	241.1	-2.5	-1.0%
Sewerage	215.0	216.0	+1.0	+0.5%
Purification	216.5	216.2	-0.3	-0.1%

The above-mentioned weather trends and the consequent decrease in precipitation led to reduced availability of the sources that were generally used by the Group, especially the Ridracoli Dam owned by Romagna Acque. There was also an increased awareness by society in general that water resources should be used responsibly. The effect was a fall in the average per head consumption, quite significantly in some cases.

The EBITDA at the end of 2007 increased by Euro 11.0 million, increasing from Euro 107.5 million in 2006 to Euro 118.5 million in 2007.

It should be noted that the increase in gross margin is connected to the increase in investments, required by the agreements signed with the agencies, and the consequent increase in amortisation/depreciation that is particularly sensitive in this business segment.

Analysis of the waste management area

The EBITDA in waste management is up, confirming last year's trends, and the percentage influence on Group results has lessened due to the growth in other segments.

(mln/€)	31-Dec-'06	31-Dec-'07	Change	Change %
Area EBITDA	**150.4**	**156.3**	**+5.9**	**+3.9%**
Group EBITDA	426.7	453.4	+26.7	+6.3%
Percentage weight	35.3%	34.5%	-0.8 p.p.	

For some time now, the Hera Group has been the most important integrated operator in the sector due to the fact that it has over 70 treatment and disposal plants for municipal and special waste.

The Group operates through 7 Aato's in the provinces of Ravenna, Forlì-Cesena, Rimini, Bologna, Ferrara Modena and Pesaro in the area of urban sanitation services including, sweeping, collection, and disposal of municipal waste, just as for the water cycle services. The definition of agreements pursuant to current legislative provisions has also been finalised for this sector.

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

Income statement (mln/€)	31-Dec-2006	Inc%	29-Jun-2005	Inc%	Change	Change %
Revenues	539.7		553.6		+13.9	+2.6%
Operating costs	(275.5)	-51.1%	(289.4)	-52.3%	+13.9	+5.0%
Personnel costs	(126.7)	-23.5%	(129.1)	-23.3%	+2.4	+1.9%
Capitalised costs	13.0	2.4%	21.3	3.8%	+8.3	+63.8%
EBITDA	**150.4**	**27.9%**	**156.3**	**28.2%**	**+5.9**	**+3.9%**

The revenues at the end of 2007 disclosed an increase of 2.6%, rising from Euro 539.7 million in 2006 to Euro 553.6 million in 2007. The increase in sales is related to the higher revenues in urban sanitation services due to the adjustment of tariffs and the greater number of services provided.

Separate waste collection, 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 approximately five percentage points, increasing from 33.5% at the end of 2006 to 38.4% in 2007, thus confirming the Group's commitment towards reducing its environmental impact.

As can be seen in the following table, the quantity of waste disposed of decreased by 2.6%.

The classification of the volumes treated, relating to the 2006 accounting period, has been aligned to the criteria for the current year.

Quantitative data (thousand tonnes)	31-Dec-2006	Inc%	31-Dec-2007	Inc%	Change	Change %
Municipal waste	1,678.2	37.2%	1,666.5	37.9%	-11.7	-0.7%
Market waste	1,453.9	32.2%	1,384.5	31.5%	-69.4	-4.8%
Special waste from plant by-products	1,014.1	22.5%	961.5	21.9%	-52.6	-5.2%
Direct customers-subsidiary companies	369.6	8.2%	385.8	8.8%	+16.2	+4.4%
Waste treated by type	**4,515.8**	**100.0%**	**4,398.3**	**100.0%**	**-117.5**	**-2.6%**
Landfills	1,589.2	35.2%	1,522.6	34.6%	-66.6	-4.2%
Waste to energy plants	597.6	13.2%	599.1	13.6%	+1.5	+0.3%
Selection plants	244.4	5.4%	257.6	5.9%	+13.2	+5.4%
Compost plants	335.2	7.4%	339.8	7.7%	+4.6	+1.4%
Stabilisation and chemical-physical plants	908.2	20.1%	848.2	19.3%	-60.0	-6.6%
Other	841.2	18.6%	831.0	18.9%	-10.2	-1.2%
Waste treated by plant	**4,515.8**	**100.0%**	**4,398.3**	**100.0%**	**-117.5**	**-2.6%**

The above noted analyses of the quantitative data shows lower use of the landfills and the chemical-physical stabilisation plants and greater use of the selection and composting plants.

The EBITDA in the waste management segment increased from Euro 150.4 million in 2006 to Euro 156.3 million in 2007, with an increase of 3.9%.

Note that the EBITDA was negatively affected by the discontinuance of the Cip/6 subsidies for electricity produced from the Rimini plant and Ecologia Ambiente of Ravenna, and the reduced volumes of electricity produced following maintenance on the old waste to energy lines in operation once the new plants started up: it should be noted that the new waste to energy plant in Ferrara started operations in 2007, and the Forlì disposal plant was completed during the first quarter of 2008.

Analysis of the other services segment

The other services segment, which includes public lighting, district heating, heat management and energy services weighs in at about 6.9% on the overall EBITDA of the Group, slightly up from the previous year.

(mln/€)	31-Dec-2006	31-Dec-2007	Change	Change %
Area EBITDA	**27.4**	**31.2**	**+3.8**	**+13.8%**
Group EBITDA	426.7	453.4	+26.7	+6.3%
Percentage weight	6.4%	6.9%	+0.5 p.p.	

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

Income statement (mln/€)	31-Dec-2006	Inc%	31-Dec-2007	Inc%	Change	Change %
Revenues	163.1		160.4		-2.7	-1.7%
Operating costs	(135.6)	-83.1%	(129.6)	-80.8%	-6.0	-4.4%
Personnel costs	(24.5)	-15.0%	(22.6)	-14.1%	-1.9	-7.8%
Capitalised costs	24.4	15.0%	23.0	14.4%	-1.4	-5.7%
EBITDA	**27.4**	**16.8%**	**31.2**	**19.5%**	**+3.8**	**+13.9%**

The revenues are down from the previous year, mainly due to the lower district heating volumes distributed.

As far as the rationalisation and reorganisation of the area carried out over the last years is concerned, which led to the progressive discontinuation of services not linked to the Group's core business activities, enabling it to focus on the efficiency and market development of the remaining business activities, it is worth mentioning the continuous increase in industrial micro generation projects as noted in the section regarding investments. These increases led to an increase in profits in the segment of Euro 31.2 million, despite the significant impact of the lower volumes of heat and electricity from district heating sold due to the particularly mild winter season already mentioned above.

The quantitative data of the main services carried out by the Group are summarised in the following table:

Quantitative data	31-Dec-2006	31-Dec-2007	Change	Change %
District heating				
Heat volumes distributed (Gwht)	425.9	391.5	-34.4	-8.1%
Public lighting				
Light units (thousand)	309.1	319.1	+10.0	+3.2%
Municipalities served	57	60	+3	+5.3%

2.01.03 Commercial Policy and Customer Care

The commercial policy for 2007 as well was basically broken down into two major programmes:

- Commercial development
- Optimisation of customer management

Commercial Development

During 2007 there was an increase of the supply points on all services (as pointed out in the table)

Supply points	2006	2007	Delta (06-07)
Gas	1.003,1	1.018,7	15,6
Electricity	263,7	273,2	9,5
TIA	758,6	779,9	21,3
Water	982,4	1.015,0	32,6

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

- ✓ Multi-service: simplifying customer management by offering a sole contact and a sole bill for energy services (Gas and Electricity), and also for those licensed (water and TIA) in the districts Hera manages.
- ✓ Proximity to the customer: this means 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.
- ✓ Economic advantage and openness: proposing offers that are always competitive and clear, suited to the needs of all customers (over thirty offers are available, many of which can be further personalised).

The pillars of the sales strategy are otherwise based on the following types of customers:

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

During 2007 we particularly witnessed the opening of the electricity market for families, which have been able to freely choose also their electricity supplier since 1 July.
It was starting on that date that the "Savings Formula" offer was launched. It offers a 4% savings on the raw material component established by the Authority for Electrical Energy and Gas (AEEG) (applied to all customers who have not switched to the free market).

Optimisation of Customer Management

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

- Group invoicing and collection system
- Management channels

Group Invoicing and Collection System

During the first half of 2007 the group invoicing systems were standardized, leading to the progressive elimination of all the systems used by the various companies that during these five years since the group's establishment have joined Hera. Today we have a system that sends more than 13 million bills a year.

The second half of 2007 on the other hand brought with it a revised layout of our bill. We confirmed the multi-service bill strategy with this renewal that allows our customers to simplify the administrative portion and reduce the costs for payments by introducing:

- ✓ a simplified and easier-to-read bill;
- ✓ dynamic messaging in order to promptly communicate with customers based on contingent needs to achieve better service terms and effectiveness;
- ✓ specific information about the offers the customer chooses.

As far as the methods of payment are concerned, in 2007 we added payment at Sisal and Lottomatica offices and online payment by credit card to the more traditional methods, such as bank domiciliation and payment at post offices and banks.

Another method for the customer to communicate his own reading of the meter was put into use in 2007 as well, added to the telephone communication already available: in fact, now it is possible to send an SMS communicating the self-reading by following the instructions printed on the bill, to the side of each service.

Management Channels

In 2007 the Hera Group continued its policy of strengthening the channels through which customers can contact it with the goal of making contact increasingly simple and quick.
The Group has 5 separate contact channels:

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

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

Average waiting time at the contact center (sec.)	2005	2006	2007
residential customers	70,2	34,5	46,2
business customers		43,9	26,8
Number of calls to the contact center (no.)	**2005**	**2006**	**2007**
residential customers	1.394.458	1.991.264	2.375.823
business customers		59.686	105.447
Percentage of calls to the contact center successfully resolved (%)	**2005**	**2006**	**2007**
residential customers	87,10%	94,10%	94,20%
business customers		89,00%	97,60%
Waiting and operation time at the branch (min.)	**2005**	**2006**	**2007**
Average	26,89	23,85	21,88

During 2007 we witnessed substantial improvement of all the accessibility parameters except for the average waiting time at the contact center, which in the aftermath of the increased traffic due to the change of IT systems in Modena and Ferrara increased, but in any case remained at basically lower levels than those of 2005.

Today the Group has 8 major branches located in the largest cities served, another 34 secondary branches managed by Hera personnel and 43 branches run by third parties.

A project envisaging modernizing the layout of the Group's chief branches started in 2007. It follows architectural lines that communicates the concepts of territoriality, neighbourhood and respect for the environment, and reconciles them with degree of accessibility, liveability and service efficiency. The layout – optimised based on the results of special focus groups – was for the first time put into effect at the main Bologna branch, inaugurated in September 2007.

The plan provides for the Cesena and Forlì branches to be renewed in 2008.

2.01.04 Trading and Procurement Policy

Business Analysis – Macroeconomic Scenario

International economic performance during the first half of 2007 was sustained by the high pace of expansion of the emerging economies, particularly in Asia.
The sub-prime mortgage crisis that took place in the United States during the summer upset the international setting, generating great tension in the financial markets.
The U.S. and European central banks were forced to inject cash several times in an effort to bring the conditions on the financial markets back to normal.
On the other hand, the continuation of the turbulence and possible tightening of the criteria for the granting of credit could entail additional risks of an economic slowdown.
This is why the Federal Reserve has repeatedly cut the cost of money during 2007, as it has also done at the beginning of 2008.

On the European level, the positive trend triggered off in 2006 continued during the first six months, even if to a slightly lower extent.
The turbulence taking place on the financial markets and the tension in the oil prices had a negative impact on performance of the second half of the year. The growth rate for 2007 should settle at about 2.5%.
Following the U.S. summer mortgage crisis, the policy of raising rates adopted by the central bank since the end of 2005 came to a halt – at least temporarily.

In Italy, the economy in the first half of 2007 showed lower growth than the trend recorded at the end of 2005. The short-term slowdown during the second half of the year, however expected, in any case was stronger than what the forecasting models had predicted owing to the instability of the financial markets, the high price of raw materials and the weakness of the U.S. dollar, which affects Euro Zone exports.

Reference Scenario

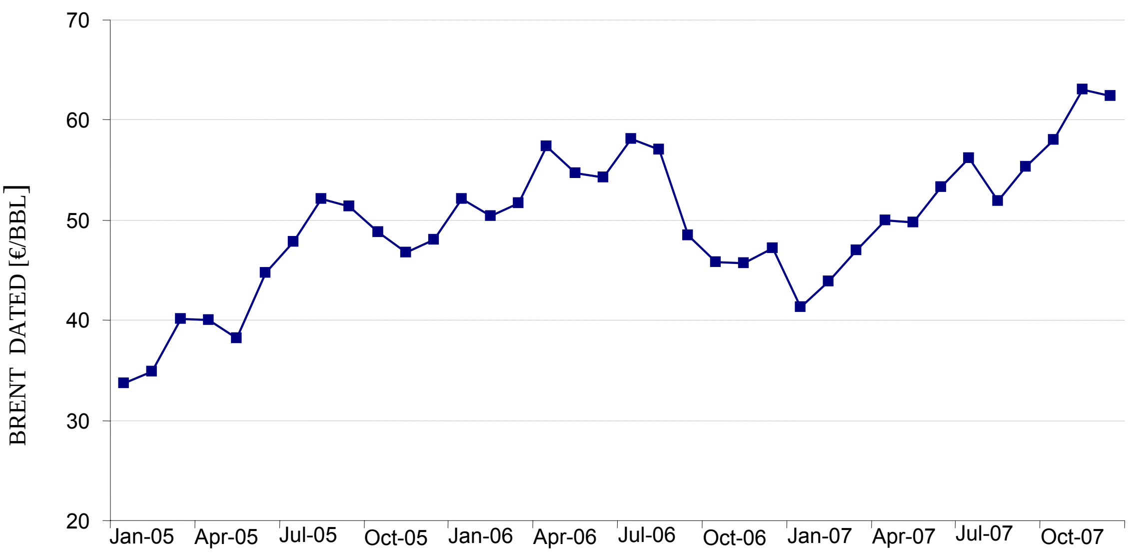
	2007	2006	Change %
Price of Brent oil $/bbl	72.52	65.14	11.30%
$/euro exchange rate	1.37	1.26	8.70%
Oil price euro/bbl	52.9	51.7	2.30%

With regard to exchange rates, throughout 2007 we witnessed a new gradual strengthening of the euro over the dollar. The average 2007 exchange rate was USD 1.37 per Euro, with an increase (+8.7%) over that recorded in 2006, which was 1.26.

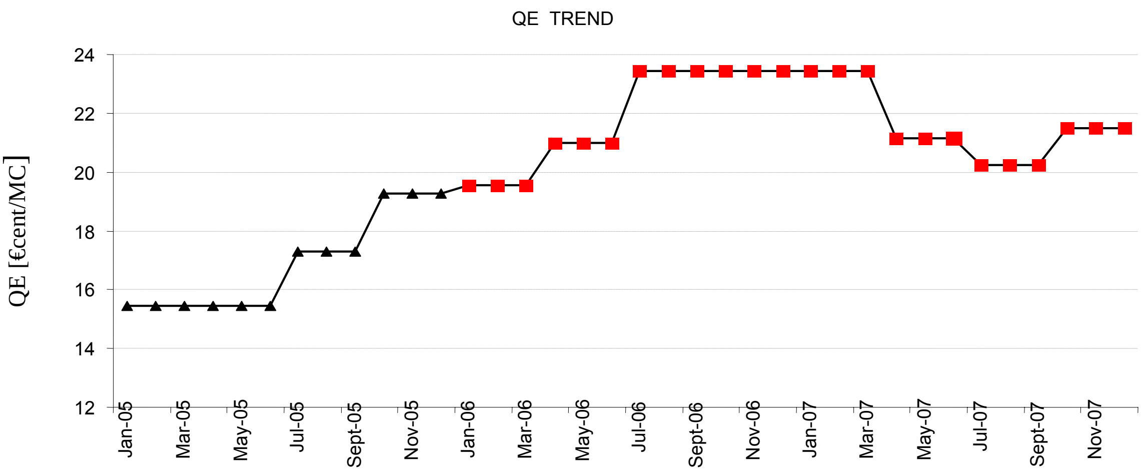
Then as far as the oil market is concerned, the price of Brent crude oil in 2007 – which significantly affects both gas supply costs and thermoelectric production – was posted at average values definitely higher than those of 2006, leaping from $ 65.14 to $ 72.52 per barrel, with a peak of $ 92.62 per barrel in November 2007.

The causes of this price increase, the effects of which have however been lessened by the concurrent appreciation of the Euro compared to the U.S. dollar, are attributable to the reduction progressively recorded by U.S. reserves, despite the fact that the Organisation of the Petroleum Exporting Countries (OPEC) has announced a 500,000-barrel increase in production.

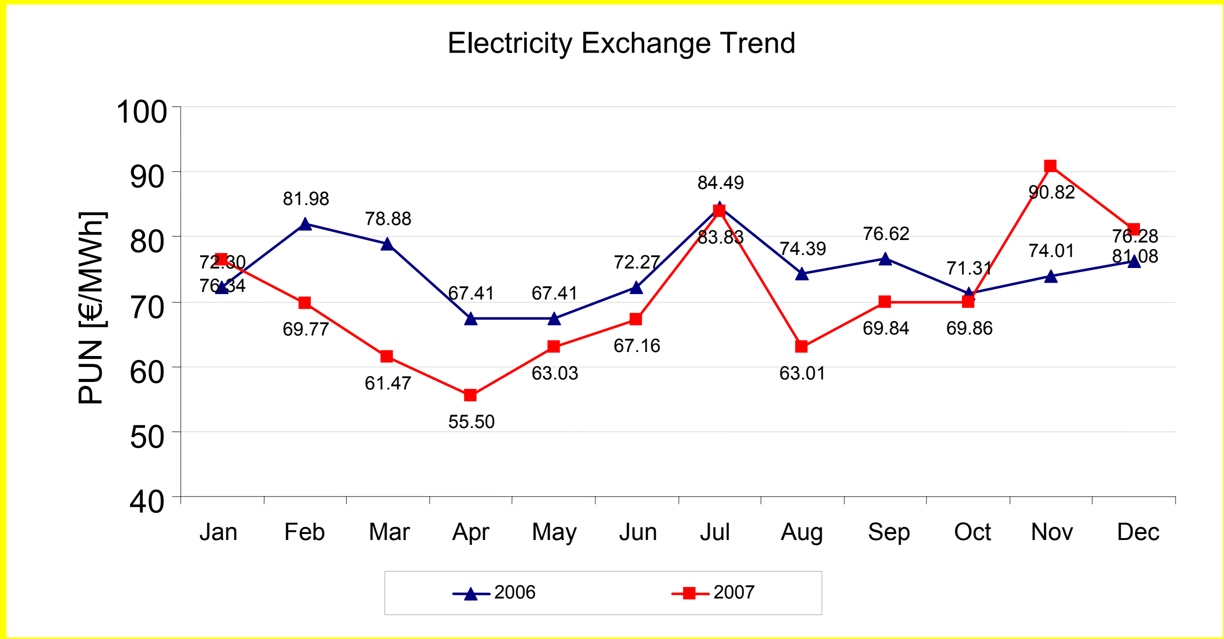
Crude Oil Trend



In this context, with regard to gas, the average value of the energy rate (QE) in 2007 (calculated referring to the Authority for Electrical Energy and Gas (AEEG) resolution no. 134/06) was Euro 21.58 cents per cubic meter compared to an average value of Euro 23.45 cents per cubic meter in 2006 and an expected value of Euro 26.70 cents per cubic meter for 2008. As can be deduced from these data, the oil price increase recorded during the second half of 2007 has not yet entirely worked its way through to gas prices, and is destined to have repercussions mostly during 2008. This is naturally due to the effect of the delays associated with the formulas for updating gas prices.



As far as electricity was concerned, the average exchange sales price (PUN) in 2007 came to Euro 71.00/MWh, involving an increase of 5.1% when compared with the Euro 74.80/MWh in the previous year.
During November, the highest average price since the launch of the electricity exchange in April 2004 was recorded (average monthly PUN of Euro 90.82/MWh).



Gas Area – Legislative/Regulatory Framework

Authority for Electrical Energy and Gas (AEEG) resolutions no. 248/2004,134/2006 and 79/2007.

With resolution no. 79/2007 regarding *"Re-calculation of the economic supply conditions for the period falling between 1 January 2005 and 31 March 2007 and criteria for updating the natural gas supply conditions"*, the conditions for curtailing the uncertainties that particularly characterised the wholesale market in 2005 and 2006 regarding calculation of the sale prices of the gas intended for the protected market were in actual fact created. These uncertainties came about owing to the administrative cases brought by the operators, particularly with regard to resolutions no. 248/2004 and 134/2006.

GAS RELEASE ENI 2

With its measure no. 16530 dated 6 March 2007, the Italian Anti-Trust Authority (IAA) made the obligations Eni Gas & Power proposed to actuate a new two-year gas release for an amount of 2 billion cubic metres/year mandatory. Eni's proposal was aimed at mitigating/preventing any possible IAA sanction following the proceedings currently in progress to verify alleged abuse of a dominating position in operating the Panigaglia re-gasification plant.

2007-2008 WINTER GAS EMERGENCY

In August, the Italian Ministry of Economic Development adopted specific measures which envisage the operator's obligation to maximize imports and for STOGIT to maximize stock volumes, with the intention of implementing action in advance so as to reduce the risk of a possible gas emergency in the following winter months. Incentives for interrupting industrial users were also envisaged.

Significant Events

MANAGEMENT OF THE UNUSUALLY MILD 2006-2007 WINTER

In the early months of 2007, the exceptionally mild winter surely had a significant impact and gave rise to widespread gas surpluses throughout Europe hence a fall in prices. In short, many operators found it difficult, if not impossible, to treat the gas accumulated in storage reservoirs with ensuing damages resulting from reduced sales and the devaluation of any gas left over.

In the case of Hera Trading, a shrewd management of position based on the early acquisition of the summer market totalling more than 50 million cubic metres starting from the second quarter of 2007 in actual fact reduced a potential significant negative impact on the financial statements to a physiological level.

2007-2008 THERMAL YEAR STORAGE CAPACITY

During March, the contracts with Stogit and Edison Stoccaggi for the modulation storage service for the 2007-2008 thermal year were renewed.

GAS RELEASE ENI 2

During the second quarter, Hera Trading Srl – also with the support of Hera Comm Srl - took part in the award procedure for the sale of natural gas volumes in the period covering 1 October 2007 – 30 September 2009 actuated by ENI Gas & Power pursuant to Italian Anti-Trust Authority provision no. 16530 of 6 March 2007, acquiring 3 lots for a total of 120 million cubic metres/year.

FINALISATION OF NEW PROCUREMENT CONTRACTS

In May a new contract lasting from June 2007 to September 2008 for a total of 415 million cubic metres of Russian gas was finalised. In June contracts expiring were renewed for another 180 million cubic metres/year upon acquisition via auction of transport capacity over Transitgas.

Still in May and June, upon purchase via auction of the relevant capacity, spot contracts were finalised for the importation of summer gas for a total of 65 million cubic metres.

In October winter transport capacity over the Transitgas pipeline was then acquired (November 2007-March 2008). It is used for spot winter procurement transactions concerning the weather trend actually recorded and for brokerage activities with third-party operators.

CONTRACT RENEGOTIATION PURSUANT TO RESOLUTION NO. 79/2007

In compliance with the provisions of the cited resolution no. 79/2007, in June 2007 Hera Trading Srl renegotiated contracts in force in the period of 1 January 2006 – 30 June 2006 for both procurement and sale. In detail, the gas release contract with Eni Gas & Power was renegotiated for procurement, and contracts with Hera Comm Srl, Aspes Gas Srl, World Energy and Entra were renegotiated for sale. As a result of these renegotiations, Hera Trading Srl found itself in the position to collect Euro 1,020,000 from Eni Gas & Power and to disburse Euro 1,304,000 to its customers Hera Comm Srl, Aspes Gas Srl and World Energy. On the other hand, confirmation of the amounts stated above remains subordinate to the positive conclusion of the administrative cases pending between the Authority for Electrical Energy and Gas (AEEG) and several operators as far as what has already been respectively collected and paid conditionally is concerned.

STOGIT'S DECLARATION OF FORCE MAJEURE

As it had not received the envisaged permits from the Ministry for Economic Development regarding operation of the Settala storage reservoir in overpressure (operation done the previous year), in July 2007 Stogit declared itself to be in a state of force majeure and proportionally reduced the storage capacities already assigned to the operators. Afterwards, in September the Italian Ministry for Economic Development issued the permit, but at a lower level of pressure than requested. Stogit therefore was able to reassign – although only in part – the previously withdrawn capacities.

For Hera Trading Srl this event entailed storage space reduced by 9% of what was originally assigned.

OPERATIONS ACTIVATION OF FLAME ENERGY AT THE VIRTUAL POINT OF EXCHANGE

Operations of Flame Energy were activated on the Italian market in October. Its operations are currently restricted to the virtual point of exchange and will be extended to regulation and measurement stations starting with the next thermal year.

Electricity Area – Legislative/Regulatory Framework

REGULATION OF THE MARKET FOR DESPATCHING SERVICES (MDS)

The Authority for Electrical Energy and Gas (AEEG) established special methods for remunerating the electricity despatching activity with its resolution no. 348/2007. Moreover, with its resolution no. 351/2007 it defined bonus and penalty mechanisms to create incentives for Terna in carrying out this function. Said mechanisms will become operative starting in 2008.

START-UP OF A FORWARD ELECTRICITY ACCOUNT (FEA) PLATFORM OF THE ELECTRICITY MARKET OPERATOR (EMO)

With its resolution no. 111/2006, the Authority for Electrical Energy and Gas (AEEG) set out a new procedure for recording forward electricity purchase and sale contracts. As tools for negotiating future energy, this resolution also provides for the creation of a forward electricity accounts (FEA) plan and a system of guarantees. The Electricity Market Operator consequently started up an FEA platform, an electricity accounts platform (EAP) on which Hera Trading Srl has been given permission to operate.

AUCTIONS FOR FORWARD PROCUREMENT OF RESOURCES FOR THE MARKET FOR DESPATCHING SERVICES (MDS)

After the Authority for Electrical Energy and Gas (AEEG) passed resolution no. 130/2007, Terna started auctions for the forward procurement of resources for the despatching service (active power reserve and reactive reserve products). The examination procedure was implemented for services rendered starting in October and running until 31 December 2007 following extensions for clarifying several technical procedures. Hera Trading Srl, through Set (Teverola), was awarded 50 MWh of active power reserve for the months of November and December.

CIP6 ENERGY PRICES APPLIED BY THE ELECTRICAL SERVICES OPERATOR (ESO)

With resolution no. 82/2007, following a consulting process, the Authority for Electrical Energy and Gas (AEEG) set out the methods for updating the price of energy from CIP6 plants sold by the Electrical Services Operator (ESO) to market operators.

The resolution confirmed correlation between the national standard price and Cip 6 price trend as it is already provided for in the Ministry for Economical Development decree of 14 December 2006, and it established that as far as the Cip 6 price is concerned, the update is made based on the trend of the quarterly average of the national standard price. Resolution no. 331/2007 confirmed said methods also for 2008.

EMISSION TRADING

On 11 December 2007 the national committee for managing and implementing European Parliament directive 2003/87/EC issued the new draft of a national allocation plan applicable to the 2008-2012 period. At the same time it defined the methods for adapting to the decisions of the European Commission. According to the new scheme, the total quantity assigned is equivalent to 201.57 million tons/year, of which 86.58 to the thermo-electric sector and 15.65 to an undifferentiated reserve for the new plants falling within the period. This new scheme, which follows the same assignment criteria included in the first draft presented in 2006, does not foresee assignments for a consideration, and keeps to the limits set by the European Commission regarding use of flexible mechanisms.

As far as the Sparanise and Teverola plants are concerned, they are to be considered as among the new ones being added.

COMPLETION OF THE OPENING OF THE ELECTRICITY MARKET

Liberalisation of the electricity market in Europe was completed on 1 July 2007 in implementation of European Union directive 54 of 2003. As a consequence, as of that date domestic customers in Italy as well can choose their supplier based on market criteria.

The reform of 1 July 2007 also establishes that the old tariff system be overcome, switching to an electricity service development system for the end customer that sums up free and administered prices. While the market freely determines the price of subtended energy, the non-competing services (energy transport, distribution and measurement) and the general system charges are still subject to rates set by the Authority for Electrical Energy and Gas (AEEG).

A sales service of greater consumer protection has however been guaranteed for those customers that in any case do not choose a vendor on the free market. It ensures that the supply is made at fair prices and adequate commercial quality (for domestic customers and small companies receiving low voltage (LV)).

New unit payments that replace the previous components are applied to the electricity the customer withdraws.

Consistent with this reform, the free market sale contracts with indexing at the old tariff have been actually renegotiated or associated with the trend of the new parameters starting from last July.

SOLE PURCHASER AUCTIONS

In order to procure the energy necessary for serving its customers (greater consumer protection), during 2007 the Sole Purchaser called three auctions for bilateral physical contracts regarding the years 2008-2010. Hera Trading Srl took part in some of these auctions, and was given the award for the supply of 20 MWh base load in 2008.

Significant Events

CONSOLIDATION OF THE ELECTRICITY TRADING ACTIVITY

The electricity trading and environmental certificates activity was definitely consolidated in 2007.

In the meantime, the exposure to risk control and correct representation of the business in the financial statements applying the IAS principles (Fair Value and Mark Two Market (M2M)) procedures started running smoothly.

ACTIVATION OF THE ASSET MANAGEMENT STRUCTURE

Together with the commercial start-up of the Teverola and Sparanise plants, a new business unit (asset management) was formed in the electricity segment by internalising new resources in charge of managing the logistics/despatching of energy produced by the plants and the management/optimisation of the power purchase agreement (PPA) contracts regarding the plants.

PPA FINALISATION AT THE TEVEROLA POWER PLANT

Drafting of the contract for the supply of electricity produced by the Teverola power station concerning Hera (PPA) was completed in April. It went into force with the commercial operation of the plant the following month, May, at the end of the start-up stage.

ATEL CONTRACT MANAGEMENT

The (PC)/lambda sensor product (price of sale to customers of the non-eligible market) was renegotiated in the name of and on behalf of Hera Comm Srl in July.

In December also the 70 MWh base load product and the former PC/lambda product transformed into another 70 MWh base load were renegotiated, adding the possibility for Hera Trading Srl to cover the cost component regarding the green energy certification via production of the necessary certificates. The signed addendum 5 shall be valid for the years 2008 and 2009.

NEGOTIATION OF AN ADDENDUM TO THE SPARANISE PPA

Addendum 1 to the PPA was negotiated with EGL in 2007, aimed at simplifying and supplementing/clarifying its operational procedures. In light of the difficulties of coming to an agreement on the operational procedures of the envisaged gas option, at the same time it was agreed to overcome it with EGL paying a consideration and Hera Trading Srl's recovering the possibility of supplying its own quota of gas.

PARTICIPATION IN THE ENEL VIRTUAL POWER PLAN (VPP) PROCEDURE

At the end of December Enel set up a procedure for assigning virtual capacity in the southern area in connection with a specific request of the Italian Antitrust Authority (AGCM) aimed at limiting Enel's dominant position. Hera Trading Srl took part in this procedure, being awarded 10 MWh of base load capacity and 15 MWh of peak capacity.

Risk Management

During 2007, operating management of commodity and/or currency risk, was implemented in a "hedging" capacity, aimed at establishing the margins provided by the budget of the commercial transactions effected in both the Gas and Energy Divisions.

From the organisational viewpoint, the activity is centralised in one sole function (risk management), allocated in the Gas Division, with the goal of carrying out both the coverage activities of that area and those of the Energy Division.

This approach, based on the creation of a concentrated risk portfolio without generating a duplication of competences, enables the unitary management of homogeneous risks of the two divisions and, based on macrohedging instead of using specific hedging formulas, has made it possible to attain certain advantages, such as:

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

The activity carried out in the Concentrated Risk area, based on derivative financial instruments – even if done only with hedging aims – does not meet the requirements of IAS 39 for applying hedge accounting. Consequently, the result attained and the perspective value of the derivatives in the portfolio are put back into the operating result of the Gas Division.

Relations with other investee companies

GALSI Spa

Hera Trading Srl still holds shares in Galsi Spa. 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 November the new intergovernmental agreement that specifies the obligations of the Algerian and Italian governments in detail for supporting the pipeline transport capacity authorisation, construction and management activities was finalised in Alghero. It also includes the environmental and tax aspects.

Also in November, Galsi Spa signed a Memorandum of Understanding (MOU) with Snam Rete Gas regarding the definition of the entry point (Cagliari), and assessments for reaching the definition of the final agreement concerning how to build the natural gas pipeline section part of the national transport network (Cagliari-Tuscany) were started.

The capital increase of Euro 25,000,000 previously decided in 2006 was initiated in 2007. Additional Euro 5,000,000 were paid in January 2008.

The shareholders' meeting then passed a resolution in December 2007 for another capital increase of Euro 20,000,000.

The shareholding structure of this company is:

- Sonatrach 36%
- Edison Gas 18%
- Enel Power 13.5%
- Wintershall 13.5%
- Hera Trading 9%
- SFIRS 10%

Completion of the executive design of the gas pipeline is scheduled sometime in 2008, whereas completion of the authorisation procedures, the final investment decision and execution of the auctions are expected during the first six months of 2009.

Lastly, the work is scheduled to go into operation within 2011.

FLAME ENERGY GmbH

The joint shareholding of Hera Trading Srl and Vng-Erdgascommersz GmbH in the trading company Flame Energy, headquartered in Vienna, continues. In 2007 a capital increase to Euro 3,000,000 was started, previously decided 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 avails itself of services rendered by its shareholders for its operations. It has been active in the wholesale trade of gas since September 2006, and became operational on the Italian market as well starting in October 2007 at the virtual point of exchange.

DYNA GREEN Srl.

Hera Trading Srl continues to hold shares in Dyna Green Srl, a company whose purpose is 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 it paid in Euro 120,000 as shareholders' loan going to 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

- In adapting the renewable sources incentive system, Italian Finance Bill 2008 has established an increased mandatory quota of input of energy produced by renewable sources equivalent to 0.75% in the period 2007-2012. This obligation regards electricity producers and importers from traditional sources.
- On 23 January the European Commission set a goal for Italy equal to 17% consumption of energy produced from renewable sources on the total of national consumption within the sphere of allocating continental energy and environmental policy goals. This goal is binding, and must be attained by 2020.
- In January 2008 the Council of State admitted the claim of the Authority for Electrical Energy and Gas (AEEG) against cancellation of resolution no. 249/2006, which revised the avoided fuel cost acknowledged to producers, bringing about a significant cutback. The avoided fuel cost established by resolution no. 249/2006 that varies, depending on the date the plants go into operation, between Euro 53.10 per MWh and Euro 60.50 per MWh, will have to go into effect starting in 2007. This will bring about a reduction of the price of sale paid to Cip 6 producers, until now calculated applying an avoided fuel cost of Euro 73.20 per MWh, and a reduction of the price of the green certificates pertaining to the electrical services operator issued in 2007, estimated at about Euro 13.50 per MWh (new price equal to about Euro 124 per MWh).
- Public consultation on the National Allocation Plan for 2008-2012 scheme was concluded on 24 January.
- On 13 February the Galsi shareholders formalised the pro-quota purchase of the shares held by shareholder Wintershall, which had previously expressed its desire to leave the company. Now Hera Trading Srl's shareholding in Galsi Spa has reached 10.4%.

2.01.05 Financial Policy and Rating

During 2007 various financial transactions were carried out in order to guarantee an increasingly sound financial structure and a cost of money at levels as competitive as possible, in spite of the broadening of the spreads following the problematic international market conditions. The financial policy objectives which the Company had already set for itself at the start of the year 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.
2. **Debt Quality**: consolidation of the short-term debt in favour of the long-term portion.
3. **Credit Lines**: 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 2007:

1. **Interest-rate Risk**: all hedging transactions in place are perfectly consistent with the underlying debt and in compliance with IAS standards. The long-term transactions were swapped at a fixed rate.
2. **Debt Quality:** in 2007 re-financing transactions were carried out in order to consolidate long-term debt and to reduce charges. The most important ones of these are explained below:
   - on 17 May 2007 a put bond was issued by Hera Spa with an "A" rating given by S&P for a total of Euro 100 million, entirely subscribed by Deutsche Bank AG London, The bond – the first launched in Italy in the market of reference – for the firs three years is regulated by Euribor 3 months reduced by 29 points. If the put option is not exercised by the bond holder at the end of the third year, the bond shall be regulated for an additional 10 years at a fixed rate of 4.593% in addition to the Hera credit spread. In this case Hera shall be entitled to exercise a call option on the entire amount in the remaining period. If instead the put option is exercised at the end of third year, the bond shall be repaid at the same amount.
   - On 2 August 2007 a Euro 200 million extendable put bond with a Standard & Poor's rating of "A" was issued and entirely subscribed by Bnp Paribas. For the first 5 years, the bond cannot be called, and it has a variable rate quarterly coupon indexed to the 3-month Euribor less a 45-cent spread. For the following 15 years, the couple will have a fixed rate of approximately 4.85%, increased by the two-year Hera credit spread. Holders of the bond will be able to request reimbursement every two years at par value or continue for the following two years at the above-mentioned conditions. Hera will always have the right to provide early redemption at market price.

- On 13 November 2007 an extendable step-up put loan was entered into with Royal Bank of Scotland Plc for a total of Euro 50 million for the first three years, which can be later increased to Euro 70 million through another disbursement of Euro 20 million for the next 10 years, at the bank's discretion. The transaction will be regulated for the first three years with a quarterly coupon deferred at variable rate calculated based on the 3-month Euribor less a 0.45% spread. If the bank does not exercise the put option requesting repayment on equal footing, the coupon will be regulated at a fixed rate of 4.41% increased by the two-year Hera credit spread for the next ten years (with a 0.45% cap). The bank can ask for repayment of the loan on equal footing at the end of the third year and every two years that follow. Should the put option not be exercised, the rate will still be the one stated above. After the first three years Hera Spa can repay the loan, coinciding with every date of payment of the interest at the market price.
- On 28 November 2007 a loan entirely similar to the previous one was entered into with Barclays Bank Plc, the only difference being that the spread less than the Euribor for the first three years is 0.46%, while the fixed rate for another 10 years, if needed, is 4.44% (again increased by the two-year Hera credit spread with a 0.45% cap).

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

Lastly, it is not believed that the potential implicit refinancing risk in case the put option is not exercised by the lenders can be considered as such in so far as

- the loans in question can be considered similar to 3- or 5-year loans with bullet repayment
- their expiration dates are not concurrent, but vary over time
- the business plan that Hera Spa's BoD approved does not show a worsening of its credit, and therefore shows no difficulty in entering the capital markets over the next few years
- Hera Spa has at its disposal some back-up, committed and available lines of credit totalling Euro 250 million in order to be able to in any case deal with potential due dates.

These line are however currently being increased to a total of Euro 300 million and with repayment in advance for another 3 years.

3. **Credit Lines**: the credit facilities and the related financial activities are not concentrated on any specific financial backer but are distributed equally among leading Italian and international banks

with a use lower than 30% of the total available. Liquidity as at 31 December 2007 amounted to Euro 211 million.

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

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

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

Hera Spa maintained an "A1 stable" long-term rating from Moody's and an "A stable" 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.

2.01.06 Research and Development

The Hera Group's research activities in 2007 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 during 2007 were:

CO2 Project. This project was started up in 2005, with the objective of reducing sludge from wastewater treatment and greenhouse gas emissions, and increase the production of biogas. It involves experimentation of an innovative technology for capturing CO2 issuing from exhaust gas produced by combustion processes and its use in the process of anaerobic digestion of sewage sludge. In 2006, the initial phase was completed with positive results: Conclusive tests demonstrated the capacity to capture up to 70% of CO_2 in emissions treated; Conclusive tests on the production of natural gas were run in 2007 with results going beyond all expectations: with respect to an expected 30% increase, there was actually a 160% increase. Additional experimental activities aimed at assessing the possibility of treating different organic matrixes and increasing process yields are currently in progress.

Emerging Pollutants Project. The term "Emerging Pollutants" (EP) means various biologically active substances of anthropic origin such as medicines, psychoactive substances associated with drug addiction, their metabolites, and personal care products. That of the interfering endocrines is an unusual and transversal category compared to those listed above. The presence of these substances in the water is considered to be one of the most important environmental problems in the last decade. The problem is perceived both in Europe and in the United States. These pollutants enter the water systems through the residue of human or animal metabolism or their direct use in industry and agriculture. These are the reasons why Hera started a research project in 2007 aimed at identifying the major EPs in the water systems (with particular reference to the natural water allocated for purification for drinking), at developing analytical methods for determining their quantities, at performing surveys on the presence of these substances in the water systems involved, and at evaluating the removal effectiveness of current treatment systems (potability and purification). Hera takes an active part in the study group "Interfering endocrines and water intended for human consumption" (www.edinwater.com) promoted by the AMGA Foundation of Genoa (www.fondazioneamga.it). Other Italian multiutilities, various university departments and the Italian Institute of Health are members of the study group.

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.

Electro-osmotic reclamation of sewage sludge. 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. The initial tests carried out on a micro-prototype produced significant results in terms of removal of pollutants.

The tests run on the higher-scale prototype, developed and used in 2007, are currently in the assessment phase. Provisional results show good capabilities of removing several organic and inorganic pollutants with substantial energy commitments.

Ferrara Waters Project. 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. An optimization model to plan actions for the refurbishment of the waterway network instead was set up in 2007.

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.

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 schematization 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 (England) and various European multiutilities take part in it.

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

2.01.07 Human Resources and Organisation

Human Resources

At 31 December 2007 the Hera Group had 6,114 employees (consolidated companies), with the following breakdown by role: managers (109), middle managers (286), employees (2,700), and workers (3,019). This workforce was the result of the following changes: new recruits (114), leavers (227). It should also be noted that hiring was essentially aimed at changing the employee mix by increasing the number of qualified staff. Lastly, there was an overall increase in the number of employees with university degrees of 34 units as compared to 2006 (from 621 units, or 10% of total indefinite-term employees, to 655 units, or 11%).

Organisation

Sat's integration in Hera came to a conclusion in 2007, with operations commencing on 1 January 2008. The integration will allow Hera to extend its services to 6 municipalities previously under Sat management, i.e. 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.

Extension of the implementation of the Sap-Isu IT system was completed in the first half of 2007 together with the consequent integration of the customer processes, management of the works and the billing in the last two remaining areas, namely Modena and Ferrara.

Moreover, important activity rationalization projects are being finalised and, due to their technical, technological and management complexity require a long-term implementation phase. Specifically:

- rationalization of laboratory analysis: this involves the centralisation of the analysis activities, presently decentralized throughout the territory, within three laboratories with specializations in: water, sludge and atmospheric emissions and special waste;
- remote-control centralization: this involves creating a single remote control centre for all of the Hera Group's fluid networks (water cycle, gas, and district heating) at the Forlì plant (scheduled during the early months of 2008), and managing the remote control of electricity grids in the Modena centre.

Consistent with the implementation of a single remote control centre for the fluid networks, in October 2007 the new on-call service model for the fluid networks was shared and approved by the Coordination Committee of the Territorial Operative Companies. It will actually be implemented in the territories during 2008.

During 2007, with the aim of improving the effectiveness and efficiency of the Group's procurement processes, a project was implemented for the introduction of an e-procurement system whose issuing stage was planned for 2008.

Furthermore, the business unit called Consumption Control, part of the Services Division, was centrally set up in 2007 with the aim of guaranteeing direct control over the management and governance of the consumption control process.
Lastly, with the aim of guaranteeing the supervision and integrated formulation of the Quality, Safety and Environment System, in line with the organizational development of the Hera Group, in the first months of 2007 the integration of the Quality, Safety and Environment Division within the Head Office Personnel and Organisation Division was completed.

Industrial Relations
Trade union activity continued along the course instructed by the Supplementary Collective Labour Agreement of 22 March 2006. It is basically focussed on goals of organisational alignment and implementation of the Social Responsibility plans.
To be pointed out amongst its main activities are:
the labour union negotiation concerning the rationalisation of the Group's analytical laboratories for water and environmental services was completed with the signing of a special agreement. The main objective of the project was to reorganise the Group's twelve laboratories, that are presently decentralised, and create a structure subdivided by matrices hence centralise analytical activities in three laboratories. Another aim is to better qualify the processes with ensuing development and specialisation of the personnel involved.
Another union agreement regarding the homogenisation of the working hours in the Environment Division, involving both white- and blue-collar staff, was signed as well. From the 13 different working hour types in effect for white-collar staff, only two are now in effect, whereas only one working hour schedule has been established for blue-collar staff instead of the prior three. Other agreements on this topic were drawn up, including the one in the Large Plants Engineering and Electricity Grid Coordination Division and the one for Hera Ravenna. The negotiation for defining the rules governing the National Collective Labour Agreements currently in force with regarding the goods/products sectors managed was completed. Implementation is already under way and will be completed by the end of the first six months of this year.
A new On-Call Organisational model for managing emergency services on fluid networks and plants was also presented to the Group's union representatives. Its aim is to ensure better and more uniform protection of the safety of workers, plants and the community. The model will consequently start to be applied in the TOCs, taking into account the peculiarities of each territory, through preliminary trade union talks on the local level.
A Tender Contracts Management Manual was defined, also based on the provisions of the Group Supplementary Collective Labour Agreement. The manual is a operational tool through which not only are the commitments undertaken by the Supplementary Contract implemented, but above all the measures and methods for starting up and controlling regular execution of the tendered works are made applicable, especially in order to observe the safety measures established for staff safety.

Training

In 2007 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.

As part of the programs for consolidating and developing the trades school model the training of internal trainers was extended to all territories more specifically with regard to trades that were the subject of the first "work sites" set up in 2006 (e.g. operation of special RSU vehicles, maintenance of gas-water networks, waste sampling…). Also new "work sites" concerning other characteristic trades of the company (e.g. electricity distribution stations; emergency services; running purification and potable water treatment plants; branch and call center activities, etc.) were set up.

In the sales, marketing and customer management area the project based on the *integrated management of business processes* which involved all personnel from the mass market area was finally completed, the update on the resolutions by the AEEG (Italian Authority for Electricity and Gas) continued and, as a result, a complex training activity was carried out on the liberalisation of the electricity market and the commercial offer for residential customers and VAT numbers.

Training activity supporting implementation and reinforcing of the new company IT system and the activity regarding quality, safety and environmental issues continued throughout the year. Specifically, consistent with the relevant company programs, a specific project backing up the OHSAS 18001 certification programme was put into effect. It involved QSA personnel in standard update activities and training for the role of RSPP and of internal auditor of OHSAS 18001 management systems. A seminar to raise awareness of the responsibilities required by the 18001 management system and on the advisability of integrated safety management addressed to function managers was also held.
Lastly, continuity was given to the activity of training in carrying out legal obligations (fire-fighting, first aid, etc.).

Plenary meetings were organised, additional Improvement groups were set up and Focus Groups were started with regard to the Sustainability Report, the new Ethical Code and internal communication instruments, as part of the initiatives undertaken to involve and listen to workers.

Following approval of the Code of Ethics in September, the process of circulating its contents and principles started up. Brief seminars for management, and training courses for managers having the function of facilitator were held, and starting in January 2008 the activities of cascade circulation to all workers will become operative.

Further one-to-one coaching 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 initiatives and to support development processes of management and managerial competences. A collaboration with the Fondazione Alma Mater was also started. The first edition of the training course on "regulation and market in public utility services" for newly appointed middle managers who have joined the job market in recent years was organised with the foundation.

In 2007 there were 150,126 training hours (+15.5% of the envisaged target, +22.5% compared to 2006), which involved more than 5,600 people (~90% of the employees). The per capita hours are 24.3 hours, compared to the scheduled target of 21.3.

Investment for the period, net of costs for non- production, stands at more than Euro 1,083,000.

Training Programme	Man Hours
Professional training and specialised courses	77,556
Quality, Safety and Environment	15,800
Managerial training	20,540
Information technology	36,230
Total	150,126

2.01.08 Information systems

In 2007 the information systems operated with the view to increasingly build synergy within the Hera Group. The efforts put forth ended up channelled into two major general themes: homogenisation and integration of the functional architecture and database, and a partial reassessment of the processes and internal structures in order to find management and operational procedures increasingly functional integrated with the Group's main processes.

One important indicator for quantifying the support provided by the information systems to the corporate business activities is represented by the following volumes regarding the most important information processed by the systems:

- approximately 2 million customers handled;
- roughly 14 million bills issued;
- a total of about 1,800,000 contacts handled for more than two million requests for service through four channels: call center – roughly one million contacts handled for more than 1,300,000 requests for service; physical branches – more than 500,000 contacts handled for more than 600,000 requests for service; via web – more than 100,000 contacts handled for more than 120,000 requests for service; by mail – more than 40,000 contacts handled for more than 50,000 requests for service.

Going into detail, the information systems were involved in developing numerous projects aimed at supporting the customer management process, such as tariff adjustments and offers of sale, implementations tied to new developments in the standards or to maximise efficiency of the billing system and management of the active cycle.
Mentioned in order of importance:

- completing the rollout of the Group's management systems in the Modena territory, with start-up in the municipality of Sassuolo;
- completing the rollout of the customer management systems in the Ferrara territory;
- adapting the gas distributor system to the network code regulations and improving communication functions with third-party vendors;
- redeveloping the database pertaining to customer information on the Sap-Isu system, the main goals being standardisation of contractual accounts supporting the multi-service bill, adaptation in managing the regional postal structure in compliance with the new Poste Italiane regulations concerning mass mailings, and optimisation of the reading and billing processes.
- reassessing the bill printing process aimed at standardisation and rationalisation objectives and a new layout;
- implementing structures necessary for managing the new liberalised electricity market on the system, from massive installation of electronic meters on the Hera Spa distribution networks to offer management and billing;

- developing integration between the CRM and the Hera Group management system to implement new on-line methods of payment to Hera (payment at receiving offices, on-line payment with credit cards, payment at ATMs);
- acquiring about 1600 new customers at the environmental hygiene tariff following the decision of the municipality of Marradi to switch from Tarsu to Tia.

Other important projects are worthy of mention. They are not directly tied to the main lines of company business, but are aimed at optimising and improving the internal operational processes, such as:

- implementation of the new SRM (Supplier Relationship Management) system, able to improve efficiency of the entire purchasing process in terms of automation, streamlining and procedure traceability;
- integration in the system of all plant and real estate maintenance activities in the various territories currently managed with different procedures within the Hera Group;
- different projects connected with evolution of the reporting system, particularly with commercial and financial planning aims.

For the sake of completeness and importance it is worth mentioning a number of technological projects carried out to guarantee the Group the necessary processing and storing power and reliability, namely:

- strengthening and reinforcing of the technological infrastructure, particularly aimed at improving the backup system and increasing processing performance of the central systems;
- completing the rollout of centralised authentication, file serving and electronic mail system standardisation in the territories.

2.01.09 Quality, Safety and Environment

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

The activity of updating and integrating quality, safety and environment management procedures continued with the issuing of new Group procedures on the major topics required by the standards, with special attention paid to defining common criteria for assessing workers' health and safety risks.

In collaboration with the organisation function, a plan that has led to the review and redefinition of the integrated corporate document management system has taken shape.
After having developed a model of reference, it has been experimentally applied to several cases significant in terms of complexity and structure, proving the effectiveness and consistency of the model with respect to the pre-established objectives.

The contract management system and supplier surveillance procedures were reassessed in collaboration with the tender procurement management during the second half of the year, also after the recent standard updates. Numerous training sessions on the topic were also held in order to raise awareness amongst Hera management of the quality, environment and safety issues.

The year 2007 was the year in which the issue of shared procedures on the major subjects of workers' health and safety were given a big boost on the Group level. The activity of updating and integrating quality, safety and environment management system procedures was carried on.

The Group training plan (2007-2007) continued, also in order to raise motivation and a sense of identification of the staff involved. Training on technical subjects concerning the certification activities in progress was also guaranteed.

Inspections made by the certification company to renew the ISO 9001 quality certification and for the first maintenance of the ISO 14001 environmental certification were also passed with positive results during the second half of 2007, for both Hera Spa and all the TOCs. On this occasion, Hera Modena's ISO 9001 certification was extended to the water service and its ISO 14001 certification was extended to the environment area, thus bringing all TOC activities under the same roof of the management system.

The DNV certification company carried out preliminary documentary inspections in October and November to attain (expected in the second half of 2008) certification of the safety management system according to the OHSAS 18001 standard.

As to the Emas programme of the waste disposal plants of the environment division, the Ecoaudit committee issued registration of three new sites (Coriano waste-to-energy plant, Galliera landfill, Forlì chemical-physical plant) and the DNV certification company validated the environmental declaration of another two sites (Ravenna West Sector, Imola Tre Monti landfill).

An important specific goal was achieved by the Hera Ferrara Territorial company which extended its field of application for the Emas registration to the integrated water service, obtaining from the certification company the validation of the environmental declaration which is being examined by the Ecoaudit interministerial committee so that all company's activities be recorded in the Emas register.
Based on this result, the activities and time schedules of the Ferrara territorial company will be planned so as to evaluate the methods and timelines for developing a plan to extend Emas registration to the entire Group.

"Treatment of personal data"

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

2.01.10 Annual Report on Corporate Governance

Introduction

This report explains the methods and procedures with which Hera Spa (hereinafter "Company") assimilates the rules of the new 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 Chairmen;

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

(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 Manager 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 (quorum for constitution and for resolutions of the Shareholders' Meeting and rights of veto) and 17 (procedures for the 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 2007.

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:

First name and surname	Office	Position
Tomaso Tommasi di Vignano	Chairman	Executive director
Maurizio Chiarini	Managing Director	Executive director
Giorgio Razzoli	Deputy Chairman	Independent non-executive director
Mara Bernardini	Director	Independent non-executive director
Filippo Brandolini	Director	Independent non-executive director
Luigi Castagna	Director	Independent non-executive director
Pier Luigi Celli	Director	Independent non-executive director
Piero Collina	Director	Independent non-executive director
Pier Giuseppe Dolcini	Director	Independent non-executive director
Giuseppe Fiorani	Director	Independent non-executive director
Vander Maranini	Director	Independent non-executive director
Nicodemo Montanari	Director	Independent non-executive director
Fabio Roversi Monaco	Director	Independent non-executive director
Roberto Sacchetti	Director	Independent non-executive director
Luciano Sita	Director	Independent non-executive director
Lanfranco Maggioli (1)	Director	Independent non-executive director
Stefano Zolea	Director	Independent non-executive director
Bruno Tani (2)	Director	Independent non-executive director

(1) Member appointed directly by the Municipality of Rimini pursuant to Article 2449 of the Italian Civil Code on 11 July 2006, in replacement of the out-going director Ermanno Vichi.
(2) Member appointed directly by the Shareholders' Meeting on 26 April 2006 on the basis of the list presented by minority shareholders in compliance with the provisions of Italian Law No. 474/94 .

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 in 28 April 2005, 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 and on which he shall be obliged to report jointly with the Chairman;
4. to represent the Company before third parties and in court with the power to appoint attorneys and lawyers;
5. 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;
6. to represent the company in relations with the shareholding public authorities;
7. 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;
8. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
9. 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;
10. to be responsible for the organisation of the services and offices under his authority and also for the subordinate employees;
11. to make, in association with the Managing Director, any urgent decision reserved for the Board of Directors, which the Board shall be notified of in the first meeting thereafter;
12. to supervise operations of the Company and of the subsidiaries, reporting to the Board of Directors;
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 limit relating to the annual premium;

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.

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. to take, in association with the Chairman, any urgent decision reserved to the Board of Directors, of which the Board shall be notified in the first meeting thereafter;
3. to implement corporate and Group strategies, within the context of directives established by the Board, and to exercise the powers delegated thereto, and in particular those listed hereunder, in compliance with said strategies and directives;
4. to propose to the Board all the initiatives that he 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 500,000.00 (Euro five hundred thousand) for

each transaction; said limit shall not apply to transactions related to participation in tenders; issue, accept and endorse credit instruments;

16. to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
17. to participate, as far as his 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 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 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 2007. All the directors and all the standing auditors participated in 2 meetings, while in the other 10 meetings almost all the directors and the entire Board of Statutory Auditors participated.

The General Manager of the company is invited to attend the meetings of the Board of Directors and during 2007 attended all 12 meetings.

As for the current financial year, as at 27 March 2008 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 27 March 2008. 4 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

The Board of Directors, as provided by Article 23.3 of the Articles of Association, in the meeting of 16 January 2006, set up an Executive Committee, appointing the following members:

- Tomaso Tommasi di Vignano – Chairman;
- Giorgio Razzoli - Vice Chairman;
- Maurizio Chiarini - Member.

With regards to the annual definition of the Group Industrial Plan 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 met 5 times during 2007, and all the members attended all the meetings.

Nomination and Remuneration of Directors

Article 17 of the Articles of Association attributes to the local authorities holding shares the faculty to nominate, pursuant to Article 2449 of the Italian Civil Code, 14 members of the Board of Directors.
In practice this means that the Municipality of Bologna has the right to appoint 4 directors; the Municipality of Casalecchio di Reno, including on behalf of another 46 municipalities, has the right to appoint 1 director; the Municipality of Cesena, including on behalf of another 25 municipalities, has the right to appoint 1 director; Con.Ami has the right to appoint 1 director; the Municipality of Forlì has the right to appoint 1 director; the Municipality of Ravenna, including on behalf of another 11 municipalities, has the right to appoint 1 director; the Municipality of Rimini, including on behalf of another 26 municipalities, has the right to appoint 1 director; the Municipality of Ferrara, including on behalf of another 9 municipalities, has the right to appoint 1 director; the Municipality of Modena, including on behalf of another 29 municipalities, has the right to appoint 3 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 be also be required.
These lists will be 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 entitled to effect direct nominations pursuant to Article 2499 of the Italian Civil Code must abstain from presenting lists and voting.

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 are two consultation pacts that provide for clauses on the composition of the Board of Directors and in particular:

1) pact of consultation signed on 27 October 2006 by 5 minority shareholders of Hera Spa;
2) pact of consultation signed on 11 July 2006 by 41 local authorities holding shares in Hera Spa.

The Shareholders' Meeting of 28 April 2005 awarded the directors a fixed annual remuneration.

The Board of Directors, during the meetings held on 30 May 2005 and 6 February 2006, resolved to assign the Chairman and the 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 (in this case the remuneration committee linked the variable annual sum to the Company's achievement of set indexes for EBITDA, net profit and NFP of the Hera Group).

In its meeting of 16 January 2006, the board of directors passed a resolution to pay the Deputy Chairman a fixed annual consideration including the fee owed thereto as director and any other remuneration for offices held in group companies.

In the meetings of 11 May 2005, 16 January 2006, 5 June 2006 and 24 July 2006, 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.

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 is composed of Giorgio Razzoli (appointed on 16 January 2006) as Chairman, Pierluigi Celli (appointed on 11 May 2005), Piero Collina (appointed on 11 May 2005) and of Nicodemo Montanari (appointed on 11 May 2005). 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 2007, 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 2006, the 2006 Remuneration Policy for the fixed variable portion for Directors, Directors of subsidiary companies and Hera Group Executives, the 2007 assignment to the Chairman and Managing Director, and the Balanced Scorecard for 2008 directors and executives.

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 comprises Giorgio Razzoli (appointed on 16 January 2006), as Chairman, Luigi Castagna (appointed on 24 July 2006), Stefano Zolea (appointed on 11 May 2005) and Vander Maranini (appointed on 11 May 2005). 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 5 times in 2007; 3 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 Nominations

A Committee for the proposal of nominations to the office of Director has not been set up as pursuant to the Articles of Association the nomination of 14 directors is the responsibility of the local authorities as per Article 2449 of the Italian Civil Code and that of the other 4 directors is the responsibility of the remaining shareholders through the list vote system.

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 it is made up of two Hera Spa directors – Giorgio Razzoli and Luciano Sita – and an executive who is a social responsibility expert.

The Ethics Committee met once during 2007, and all members attended the meeting. The chairman of the committee was designated during the meeting, Giorgio Razzoli, and the committee also set out the internal rules of the committee and the corporate employee awareness campaign on the Code of Ethics.

Handling of Corporate Information

As from 1° April 2006, date when the new legislation concerning internal came into force, disciplined by Article 114 of the FCA and by Articles 152-sexies, 152-septies and 152-octies of Issuer Regulations no. 11971 of 14 May 1999, introduced with Consob resolution 15232 of 29 November 2005, the "Internal Dealing" Code of Conduct adopted by Hera Spa during the meeting of the board of directors of 10 March 2003 ceased to be effective.

Consequently, in pursuance of the new procedure adopted by Hera Spa 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 Spa'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 Spa Hera Spa 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 Spa 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, approved during the meeting of 27 May 2003 and also in consideration of Consob resolution no. 14990 of 14 April 2005 that amended the same notion of related party, the board of directors of Hera Spa in its meeting of 10 October 2006 approved the new guidelines on significant operations, operations with related parties and operations in which a director 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 compliance with articles 1 and 9 of the new Code of Conduct.

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 Spa'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 Spa'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 Spa, these are as follows:
    a. the parties subject, directly or indirectly, to the sole or joint control of HERA Spa, and the companies associated with HERA Spa;
    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 Spa 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 Spa'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.

5. 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 is composed of three standing members. Two alternative members have also been appointed. The Board of Statutory Auditors will remain in office until approval of the financial statements for the year ended 2007.

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.

<u>Composition of the Board of Statutory Auditors</u>

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

(*) appointed by the Shareholders' Meeting on 28 April 2005 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 will be 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 held 14 meetings which were attended by all the members.

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 are also three consultation pacts that envisage clauses on the composition of the Board of Statutory Auditors and in detail:

1) pact of consultation signed on 27 October 2006 by 5 minority shareholders of Hera Spa
2) pact of consultation signed on 11 July 2006 by 41 local authorities holding shares in Hera Spa

3) pact of consultation signed on 11 July 2006 by 42 local authorities holding shares in Hera Spa

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 updated – 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 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 6 times in 2007; all the meetings were attended by all the members.
The Supervision Board provided for the revision of the organisational model which was extended to the other Group companies. The Supervisory 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 Supervisory Board drew up a schedule of measures for checking compliance with the protocols adopted.

Table 1: Structure of the BoD and of the Committees for 2007

Board of Directors							Internal Control Committee •		Remuneration Committee ♦		Appointment Committee (if any) ◊		Executive Committee (if any)	
Office	Member	Executive	Non-executive	Independent	****	Number of other positions **	***	****	***	****	***	****	***	****
Chairman	Tomaso Tommasi di Vignano	X			100%	1					Not		X	100%
Managing Dir.	Maurizio Chiarini	X			100%	-					present		X	100%
Dep. Chairman	Giorgio Razzoli		X	X	91%	-	X	100%	X	100%			X	100%
Director	Mara Bernardini		X	X	91%	-								
Director	Filippo Brandolini		X	X	91%	-								
Director	Luigi Castagna		X	X	100%	-	X	100%						
Director	Pier Luigi Celli		X	X	66%	-			X	50%				
Director	Piero Collina *		X	X	66%	1			X	100%				
Director	Pier Giuseppe Dolcini *		X	X	100%	-								
Director	Giuseppe Fiorani		X	X	100%	-								
Director	Lanfranco Maggioli		X	X	91%	-								
Director	Vander Maranini		X	X	100%	-	X	80%						
Director	Nicodemo Montanari		X	X	100%	-			X	100%				
Director	Fabio Roversi		X	X	58%	2								
Director	Roberto Sacchetti		X	X	100%	-								
Director	Luciano Sita		X	X	83%	-								
Director	Bruno Tani		X	X	83%	-								
Director	Stefano Zolea		X	X	91%	-	X	80%						

• Summary of the reasons for any absence of the committee or composition other than that pursuant to Code recommendations:

♦ Summary of the reasons for any absence of the committee or composition other than that pursuant to Code recommendations:

◊ Summary of the reasons for any absence of the committee or composition other than that pursuant to Code recommendations: the Committee was not formed in so far as according to the Articles of Association, the appointment of 14 directors lies with the local authorities as per art. 2

Number of meetings held during the year of reference	BoD: 12	Internal Control Committee: 5	Remuneration Committee: 2	Appointment Committee: /	Executive committee: 5

NOTES

* The presence of asterisks indicates whether the director was 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 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	Percentage attendance of Board meetings	Number of other positions **
Chairman	Antonio Venturini	100%	-
Standing auditor	Fernando Lolli	100%	-
Standing auditor *	Sergio Santi	86%	1
Alternate auditor *	Stefano Ceccacci	-	-
Alternate auditor	Roberto Picone	-	-
Number of meetings held during the solar year:14			
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 Corsortiums established in pursuance of Article 31 of Italian Legislative Decree			

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 approving 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	The appointments of the directors presently in office date to financial year 2005, and at the time the Articles of Association did not envisage the obligation to file declarations of independence. The current Articles of Association, amended during the shareholders' meeting of 26 April 2007, require that together with the lists, any declaration stating they have the independence requisites established for the auditors be filed
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 / telefono 051 287737 / fax 051 287224 / e-mail ir@gruppohera.it.		

2.01.11 Performance of the Parent Company in 2007

In application of the national laws concerning the implementation of the EU regulation no. 1606 of 19 July 2002, the financial statements of the parent company Hera Spa were drawn up in accordance with the IFRS principles starting from 2006. As a result, the Company prepared the figures related to 2007 by applying the IFRS, to enable comparison with the figures for the same period of the previous year. The last financial statements drawn up in accordance with Italian accounting principles refer to the accounting period ended 31 December 2005

The chief results attained during the year are presented hereunder.

(mln/€)	31-Dec-06	31-Dec-07	Change	Change %
Revenues	1,802.3	1,821.6	19.3	1.1%
EBITDA	224.6	229.0	4.4	2.0%
EBIT	79.6	58.2	(21.4)	-26.9%
Net Profit	68.1	91.6	23.5	34.5%

The interpretation of the results must also take into consideration the current economic set-up of the Group, which sees the distribution of the total result between the parent company and the various sales, operational and maintenance companies and specific business units. 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 the EBITDA.

A summary is presented below of the reclassified balance sheet and financial position as at 31 December 2007, shown on a comparative basis with the balances as at 31 December 2006:

Analysis of capital employed and sources of financing (mln/€)	31-Dec-06	%	31-Dec-07	%	Change	Change %
Net fixed assets	2,564.1	102.0%	2,766.7	100.1%	202.6	7.9%
Net working capital	206.0	8.2%	227.5	8.2%	21.5	10.5%
Gross capital employed	**2,770.0**	**110.2%**	**2,994.2**	**108.3%**	**224.2**	**8.1%**
Provisions	(255.6)	-10.2%	(229.3)	-8.3%	26.3	-10.3%
Net capital employed	**2,514.4**	**100.0%**	**2,764.9**	**100.0%**	**250.5**	**10.0%**
Total shareholders' equity	1,424.7	56.7%	1,437.4	52.0%	12.7	0.9%
Net financial indebtedness	1,089.7	43.3%	1,327.5	48.0%	237.8	21.8%
Sources of financing	**2,514.4**	**100.0%**	**2,764.9**	**100.0%**	**250.5**	10.0%

The net capital employed increased as at 31 December 2007 by Euro 250.5 million, rising from Euro 2,514.4 million to Euro 2,764.9 million.

Net non-trading assets as at 31 December 2007 amount to Euro 2,766.7 million, an increase by Euro 202.6 million compared with 31 December 2006. The change is connected with the investments made, which are more fully described in the Group's report on operations.

Net working capital stands at Euro 227.5 million.

Other provisions dropped from Euro 255.6 million to Euro 229.3 million, resulting in a Euro 26.3 million decrease.

The shareholders' equity increased from Euro 1,424.7 million to Euro 1,437.4 million.

In relation to the afore-mentioned change, the net financial position went up from Euro 1,089.7 million as at 31 December 2006 to Euro 1,327.5 million at the end of 2007.

2.01.12 Holdings of Directors, Statutory Auditors and General Managers (Article 79 of the Consob Regulations)

Name and surname	Offices at Hera Spa	Investee company	Number of shares held as at 31-Dec-2006	Number of shares bought during the year	Number of shares sold during the year	Number of shares held as at 31-Dec-2007
Tomaso Tommasi di Vignano (1)	Chairman	Hera Spa	8,000			8,000
Maurizio Chiarini	Managing Director	Hera Spa	-	-	-	-
Giorgio Razzoli	Deputy Chairman	Hera Spa	-	-	-	-
Mara Bernardini	Director	Hera Spa	-	-	-	-
Filippo Brandolini	Director	Hera Spa	-	-	-	-
Luigi Castagna (1)	Director	Hera Spa	1,950	-	-	1,950
Pier Luigi Celli	Director	Hera Spa	-	-	-	-
Piero Collina	Director	Hera Spa	-	-	-	-
Pier Giuseppe Dolcini	Director	Hera Spa	2,750	-	-	2,750
Giuseppe Fiorani	Director	Hera Spa	3,700	-	-	3,700
Lanfranco Maggioli (1)	Director	Hera Spa	500	-	-	500
Vander Maranini	Director	Hera Spa	-	-	-	-
Nicodemo Montanari	Director	Hera Spa	-	-	-	-
Fabio Alberto Roversi Monaco	Director	Hera Spa	-	-	-	-
Roberto Sacchetti	Director	Hera Spa	-	-	-	-
Luciano Sita	Director	Hera Spa	-	-	-	-
Bruno Tani	Director	Hera Spa	-	-	-	-
Stefano Zolea	Director	Hera Spa	-	-	-	-
Antonio Venturini	Chairman of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Fernando Lolli	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Sergio Santi	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Roberto Barilli	General Manager	Hera Spa	-	-	-	-
(1) indirect ownership through spouse.						

2.01.13 Significant Events after Year-End

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 conferral of their assets consisting of gas distribution pipes.

Hera Modena Srl

Taking effect on 1 January 2008, Hera Spa gave Hera Modena Srl, a territorial operative company totally controlled by Hera Spa, the line of business whose purpose is to carry out the operational activities regarding the Waste Management, Gas Distribution and Integrated Water segments concerning the territory that Sat Spa previously served. Consequent to this transaction, the share capital of Hera Modena Srl went up from Euro 1,000,000 to Euro 1,150,000.

Acantho Spa

On 24 January 2008 Acantho Spa, a company operating in the telecommunications sector and held 47.457% by Hera Spa, passed the resolution to increase its share capital from Euro 15,875,781 to Euro 17,375,781.

Galsi Spa

On 13 February 2008 Hera Trading Srl, a company totally held by Hera Spa, increased its share capital holding in Galsi Spa by raising it 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 shareholding held by the outgoing shareholder, Wintershall AG.

MOdena NETwork Spa

On 19 February 2008 Hera Spa sold 900,000 shares of Modena Network Spa, a company operating in the telecommunications sector, to Acantho Spa, corresponding to 30% of the share capital of Modena Network Spa.

Satcom Spa

Hera Spa plans to sell a shareholding in Satcom Spa, a company totally controlled by Hera Spa that operates in the telecommunications sector, to Infracom Italia Spa and Con.Ami by the end of March 2008. The shareholding equals 47.5% and 5% of the share capital, respectively, of Satcom.

Megastrade Srl

Hera Comm Srl is scheduled to purchase the entire share capital of Megastrade Srl by the end of March 2008. Marche Multiservizi Spa holds 70% of Megastrade, and Megas Net Spa holds the remaining 30%. The purpose of the company is to sell the end customers in the natural gas and by-products sector.

Ecologia Ambiente Srl

Going into effect starting on 1 April 2008, Ecologia Ambiente Srl – a company operating in the waste management sector – is scheduled to receive from its sole shareholder Hera Spa the line of business of Hera regarding the special waste treatment, reclamation of polluted sites and waste brokerage activities carried out in the Ravenna territory.

2.01.14 Resolutions concerning the Parent Company's 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 2007 which closes with a net profit of Euro 91,580,790.78;

resolves

a) to approve the Financial Statements as at 31 December 2007 of Hera Spa and the Directors' Report prepared by the Board of Directors;

b) to allocate the net profit of the financial year 1 January 2007-31 December 2007, equivalent to Euro 91,580,790.78 as follows:
   - Euro 4,579,039.54 to the legal reserve;
   - Euro 82,619,016.16 per dividend to the shareholders, corresponding to Euro 0.08 per share, allocating the highest distributable dividend regarding any own shares in portfolio as at the registration date to extraordinary reserve;
   - Euro 4,382,735.08 as "retained earnings"

c) to start paying the dividend on 5 June 2008, with detachment of coupon no. 5 on 2 June 2008.

2.02 – Financial statements – Explanatory notes - Tables

2.02.01 Income Statement

Income statement	€ /000	*Note*		*2007*	*2006*
Revenues		4		2.863.298	2.311.450
Change in stock of finished goods					
and work in progress				-4.249	2.699
Other operating income		5		46.038	50.295
Use of raw materials and consumables					
(net of change in stock of raw materials and stocks)		6		-1.613.916	-1.146.683
Costs for services		7		-724.694	-642.544
Personnel costs		8		-300.912	-296.598
	of wich recurrent		5.278		
Amortisation, depreciation and allocations		9		-232.797	-195.358
Other operating costs		9 bis		-50.399	-46.457
Capitalised costs		10		238.212	194.516
Operating profit				220.581	231.320
Portion of profit (loss) pertaining to associated companies		11		1.235	1.849
Financial income		12		28.599	47.702
Financial charges		12		-107.875	-101.624
Pre-tax profit				142.540	179.247
Taxes for the period		13		-32.637	-79.009
	of wich recurrent		32.930		
Net profit for the year				109.903	100.238
Attributable to:					
Shareholders of Parent Company				96.246	90.105
Minority shareholders				13.657	10.133
Earnings per share		13.1			
base				0,095	0,089
diluted				0,095	0,089

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate income statement format outlined in paragraph 2.03 of this consolidated financial statement

2.02.02 Balance Sheet

Balance sheet	€ /000	Note	31-Dec-2007	31-Dec-2006
Activity				
Non-current assets				
Tangible fixed assets		14	2,546,028	2,120,445
Intangible fixed assets		15	219,305	231,248
Goodwill and differences from consolidation		16	316,621	398,927
Equity Investments		17	121,729	123,543
Financial assets		18	6,802	19,474
Deferred tax assets		19	45,080	47,778
Financial instruments - derivatives		20	9,685	7,877
			3,265,250	2,949,292
Current assets				
Inventories		21	49,992	44,590
Trade receivables		22	1,005,692	1,000,322
Long-term contracts		23	18,407	23,593
Financial assets		24	15,214	17,462
Financial instruments - derivatives		20	8,309	4,587
Other current assets		25	200,362	107,051
Cash and cash equivalents		26	211,014	213,629
			1,508,990	1,411,234
Total assets			4,774,240	4,360,526

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate balance sheet format outlined in paragraph 2.03 of this consolidated financial statement

Equity and liabilities			
Share capital and reserves	27		
Share capital		1.016.752	1.016.752
- Reserve for treasury shares at par value		-617	-115
Reserves		376.365	368.982
- Reserve for treasury shares value exceeding par value		-1.211	-237
Reserves for derivative instruments valued at fair value		4.365	648
Retained earnings (losses)		0	0
Profit (loss) for the period		96.246	90.105
Group shareholders' equity		1.491.900	1.476.135
Minority interest share		46.692	40.208
Total shareholders' equity		1.538.592	1.516.343
Non-current liabilities			
Loans - maturing beyond the next year	28	1.396.693	937.243
Employee leaving indemnity and other benefits	29	102.876	113.050
Provisions for risks and charges	30	182.048	152.551
Deferred tax liabilities	31	121.050	134.624
Payables for financial leases - maturing beyond the next year	32	13.904	31.004
Financial instruments - derivatives	20	1.836	7.838
		1.818.407	1.376.310
Current liabilities			
Banks and other borrowings - maturing within the next year	28	248.481	443.846
Payables for financial leases - maturing beyond the next year	32	5.637	9.485
Trade payables	33	889.416	746.482
Income taxes payable	34	66.687	86.362
Other current liabilities	35	198.512	174.831
Financial instruments - derivatives	20	8.508	6.867
		1.417.241	1.467.873
Total liabilities		3.235.648	2.844.183
Total equity and liabilities		4.774.240	4.360.526

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate balance sheet format outlined in paragraph 2.03 of this consolidated financial statement

2.02.03 Consolidated explanatory and supplementary notes

Introduction

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 2007 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 observance of the international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union. They are also compliant with the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005. When speaking of the IFRS, this means including also all reviewed international accounting standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) previously called Standing Interpretations Committee (SIC).

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.

When comparing the figures of the balance sheet and of the income statement, the changes in the scope of consolidation, outlined in the summary statement after these notes, are to be taken into account.

The data of these financial statements are comparable with the same data of the previous financial year. The non recurrent cost, income items have been highlighted. With respect to the previous period, part of the "portions of profits and losses pertaining to associated companies" has been reclassified, as detailed under note 11 of the income statement.

The formats used for the Income Statement provide for costs to be classified according to their nature, as this is deemed to best represent corporate 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 is presented with distinction between current and non-current assets and liabilities. The cash flow statement has been drawn up using the indirect method.

These consolidated financial statements as at 31 December 2007 were approved by the board of directors at the meeting held on 27 March 2008.

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 2007 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 operating policies of a company in such a way as to benefit from its activities.

Subsidiary companies whose size is insignificant, where the voting rights are subject to serious and long term restrictions are excluded from the scope of line-by-line consolidation and are valued at their cost.

Investments representing non-current assets in associated companies whose size is significant are carried at equity. Those of an insignificant size are instead carried at cost.

The companies held exclusively for the purpose of their disposal are excluded from consolidation and assessed at the lower between cost and fair value. These investments are recorded as separate items.

There are no companies consolidated under the proportional method.

The list of companies included within the scope of consolidation, including the changes with respect to the previous year, is illustrated at the end of these notes.

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.

The difference between the book value of the equity investments and the corresponding portion of shareholders' equity is recorded in the consolidated shareholders' equity. In the case of acquisitions, the above-mentioned difference is allocated to the assets and liabilities. Any remaining difference, if negative, is recorded under the consolidation reserve item, and it refers exclusively to acquisitions made prior to 31 March 2004, (or, if it is the result of expected unfavourable economic results, in the account "consolidation provision for future risks and charges"); if it is positive, the difference is recorded as an asset under "consolidation differences". 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 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 assets – Tangible 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. 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.

As of the date of changeover to the IFRS – 1 January 2004 – the Group adopted the criteria of fair value as a replacement for cost *(fair value as deemed cost)* for tangible fixed assets, applying it selectively to certain categories of assets; the additional value which emerged was credited directly to reserves. The adoption of the fair value occurred on the basis of an expert appraisal carried out by an independent expert which made it possible, amongst other things, to identify the individual plant and machinery components of a significant amount and with a different useful life, in accordance with the approach for components envisaged by IAS 16.

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 include 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 useful lives 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 constructions	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 equipment	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 plants	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/Installations	3.33	6.67
Lifting plant	6	12
Laboratory equipment	5	10
Network	2.5	5
Electrical substations	3.5	7
Equipment	5	10
Forniture	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
Electrical 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 unit	4.5	9
- Boilers	1.43	2.86
- Heat exchangers	2.5	5
- Expansion tanks	1.66	3.33
Pumping stations		
- Electrical substations	2	4
- Generators	2.75	4.55
- Pumps	3.33	6.67
- Electrical 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 - Building/Civil work	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
- Reservoirs	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
Reservoirs	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-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
Electrical substations - Specific plant	3.5	7
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

Environmental	Min %	Max %
Land	0	0
Buildings	1.50	3.00
Secondary building units	1.50	3.00
General plants	7.50	15.00
Specific IIR plant	5.00	10.0
- land	0	0
- buildings	1.0 – 1.2	2.0 – 2.5
- fixed plant with real estate	1.6 – 2.0	3.3 – 4.0
- external building	1.6	3.3
- electricity generation	2.00	4.00
- general plants	2.50	5.00
- waste-to-energy post combust. Furn.boiler and fume	2.50	5.00
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity generation	2.50	5.00
- waste-to-energy line control systems	5.00	10.00
lSpecific BIOGAS plant, storage + IRE	5.00	10.00
- land	0	0
- buildings	1.00 – 1.25	2.00 – 2.50
- Fixed plant with real estate	1.66 – 2.00	3.33 – 4.00
- external building	1.66	3.33
- electricity generation plant	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 – deactivation plant – storage reservoirs	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 with real estate pertinency	1.66 – 2.00	3.33 – 4.00
- external building	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	6.67-10.0
- 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
- wighing plant	2.25	5.00
- dioxidization / organic treatment systems	3.33	6.67
- second maturing	5.00	10.00
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of	10.00	20.00
Waste containers and	5.00	10.00
General equipment	5.00	10.00
Snow service equipment	5.00	10.00
Sanitary equipment	5.00	10.00
Light constructions	5.00	10.00
Automobiles	12.50	25.00
Controlled landfills		

Land is not depreciated. Landfills are depreciated on the basis of the percentage filled.

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.

In the year in which the asset is acquired the rates are reduced by 50%, as this is deemed to provide a reasonable approximation of the distribution of acquisitions over the year.

For assets subject to amortisation/depreciation with a unit cost of less than Euro 516 and for which the possible use at maximum efficiency will not extend beyond the financial year, the amortisation/depreciation schedule has been prudently calculated providing for a single instalment of amortisation/depreciation equal to the cost of the asset in consideration of the rapid wear and high probability of damage.

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

Research and development costs for new products and/or processes are essentially booked, if the multi-year use requirement is absent, to the income statement in the period they are incurred.

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 – IFRS 3 is applicable to the business combinations which have come about as from 31 March 2004. The company has applied this standard for the acquisitions of the Agea Group, the Meta Group and the Geat Distribuzione Gas Group.

IFRS 3 envisages that the business aggregations be recorded in accordance with the acquisition method. Specifically, the acquisition cost is determined by the sum total of the current values, as of the date of exchange, of the activities given, the liabilities incurred or undertaken and the financial instruments issued by the group in exchange for control over the company acquired, in addition to the costs directly attributable to the combination; the only exception is represented by non-current assets which are classified as "held for sale" in compliance with IFRS 5 and stated and valued at current values less the sales costs.

The goodwill deriving from the acquisition is recorded as an asset and initially valued at cost, represented by the additional value of the acquisition cost when compared with the Group portion of the current values of the identifiable assets, liabilities and potential liabilities recorded. If, after the re-calculation of these values, the Group portion of the current values of the identifiable assets, liabilities and potential liabilities exceeds the acquisition cost, the surplus is recorded via the income statement.

Availing itself of the faculty envisaged by the IRFS, the Group has not retroactively applied IFRS 3 to the business combination transactions which took place before the date of changeover to the IAS/IFRS Standards; these transactions have been recorded at the same values determined on the basis of the previous accounting principles.

IFRS 3 was also applied to the other purchase transactions that did not generate as many extraordinary transactions for the parent company.

Goodwill deriving from consolidation represents the additional value of the acquisition cost with respect to the percentage due to the Group of the assets and liabilities, stated at fair value, of the subsidiary, associated or jointly controlled investee companies as of the acquisition date.

Goodwill deriving from the acquisition of an associated company is included in the book value of the investee company.

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". 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 that can be adjusted if there are losses in value.
If the reasons for the write-down cease to exist, the investments carried at cost are 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 explained afterwards, financial assets which 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.

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

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.

Trade receivables – Trade receivables are recorded at par value, reduced by an appropriate write-down in order to reflect the expected realisable value. Said value corresponds to the "amortised cost".

Financial assets – Financial assets are recorded and reversed from the financial statements on the basis of the date of transaction and are initially valued at cost, inclusive of the charges directly associated with the acquisition. As of subsequent balance sheet dates, the financial assets which the Group intends and is able to hold until maturity are recorded at cost, amortised/depreciated on the basis of the effective interest rate method, net of the write-downs made in order to reflect any losses in value. Financial assets other than those held until maturity, are classified as held for trading purposes or available for sale and are valued at fair value at each period end, with recognition to the income statement or shareholders' equity.
This item includes securities destined for long-term holding, usually for investment purposes, which differ from those represented by the shares that comprise equity investments. These securities, entered at amortised cost, are mainly made up of government bonds. The cost is written down to reflect any impairment.

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 which are readily convertible into cash and are subject to an insignificant risk regarding their change in value.

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

Employee leaving indemnity and other employee benefits – The liabilities relating to the defined-benefits plans (such as employee leaving indemnities - 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, and are discounted back when the effect is significant and the necessary information is available. In such an event, the provisions are determined by discounting back the future cash flows at a pre-taxation discount rate which reflects the current market valuation and takes into account the risk associated with the business activities. When the discounting back is carried out, the increase in the provision due to the passing of time is recorded as a financial charge. 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 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 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 the handling price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, are substantiated in 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", while those which, despite being entered into for hedging purposes, do not satisfy the requisites required by the standards, are classified as "trading".

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.

In relation to the instruments classified as cash flow hedges 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 shareholders' equity. If the hedging transaction is not valid (e.g. due to extinction of the underlying element), assessment of the derivatives is charged to the income statement by releasing the specific cash flow hedge reserve. The underlying element is valued according to the policies of reference.
The changes in the fair value of the derivative instruments which are not classified as hedging are recorded in the income statements for the period in which they are calculated. The ineffective portion of the derivative is also valued at year-end and recorded in the income statement.

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:

- 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 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, on the other hand, they come from distribution of the investee company's reserves prior to acquisition, or from distribution of capital reserves, these dividends are entered to reduce the cost of the investee company.

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".

Deferred taxes are calculated having regard to the temporary differences in taxation, and are recorded under item "deferred tax liabilities". When a positive component emerges, a prepaid tax asset is recorded, entered under the item "deferred tax assets", only if there is reasonable certainty of existence in the years in which the deductible temporary differences will be reversed of taxable income no lower than the amount of the differences that will be mutually offset. The amount of the prepaid taxes will be reviewed each year in order to verify that there is still reasonable certainty of achieving future taxable income, such as to recover the prepaid taxes in full.

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. Such variations are recognised in the income statement or in shareholders' equity with regard to the original recognition of the difference in question.

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.

New accounting standards

The following international accounting standards and interpretations previously published in the European Community Official Gazette, which made an impact only on the content of the explanatory notes, have been applied since 2007.

- IFRS 7 “Financial instruments: additional information”, which requires full disclosure with reference to the type and methods of managing credit, liquidity and market risks; said disclosure is provided inside the present explanatory notes;
- IFRIC 8 “Area of application of IFRS 2”, which states that accounting standard IFRS 2 "Share-based payment" is not applicable to the company;
- IFRIC 9 “Revaluation of incorporated derivatives”, which governs several aspects of handling derivatives incorporated in the framework of IAS 39 "Financial instruments: recording and evaluation", is not applicable to the company;
- IFRIC 10 “Interim financial reporting and lasting reduction of value”, which clarifies that losses due to lasting reduction of value recorded for goodwill and some financial assets highlighted in the interim financial reporting must not be eliminated in subsequent interim financial reporting or year-end financial statements. Said standard was not applied as there were no writedowns made during the interim periods.

Please also note that the following accounting standards and interpretations were published, and are applicable in the financial periods to come. The company is therefore evaluating conditions and terms of application.
- IFRS 8 “Operating sectors”, applicable starting on 1 January 2009, to replace IAS 14 “Segment reporting”.
- IFRIC 11 “Transactions with treasury and group shares”, applicable starting on 1 January 2008.

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 needs, oriented toward medium-term loans, and the presence of margins of liquidity on lines of credit, make effective liquidity risk management possible.

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 raw material purchasing transactions 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, and manages these risks through the use of derivative financial instruments, in accordance with the provisions of its risk management guidelines. Within the context of these guidelines, 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 has been necessary for the directors to use estimates and valuations, with regard to the balance sheet figures, based on historical data and on the forecasts of punctual 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.

Provisions to Employee Leaving Indemnities (TFR).

The estimate of employee leaving indemnities calculations as at 31 December 2007 considers the effects of the amendments to the regulations, implemented by Law no. 296 of 27 December 2006 (Finance Bill 2007) and subsequent decrees and regulations issued in the first few months of 2007, as well as the indications provided by the Italian Standard Setter (OIC), the Italian Bankers' Association (ABI) and the National Council of Actuaries. Specifically, the provisions were restated at 31 December 2006, adopting the new methodological framework, i.e., applying the hypothesis that for all Group companies with more than 50 employees, the quotas matured starting from 1 January 2007 were defined contribution benefit plans and thus, are not included in the calculation of the provisions. Thus curtailment, the item in the income statement which represents the impact of the reform on the calculation of the provisions as at 31 December 2006, was calculated as the difference between the provisions as at 31 December 2006 pre-reform and post-reform. Consequently, the actuarial gains/losses were transferred to the income statements regarding financial periods 2004, 2005 and 2006, and were calculated based on application of the "corridor method" as required by IAS 19.

The assessment of the provisions for employee leaving indemnity as at 31 December 2007 was performed with the support of an actuary who issued a specific report.

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

	31-Dec-2007	31-Dec-2006	Change
Revenues from sales and services	2,863,298	2,311,450	551,848
Change in inventories of work in progress, semifinished and finished products	-635	53	-688
Change in Contract work in progress	-3,614	2,646	-6,260
Other income and revenues	46,038	50,295	-4,257
Total	**2,905,087**	**2,364,444**	**540,643**

The analysis of the sales performance by business sector is presented in the report on operations.

5 Other operating income

	31-Dec-2007	31-Dec-2006	Change
Insurance reimbursements	3,307	2,052	1,255
Sale of materials and stock to third parties	751	676	75
Portion of capital grants	2,883	2,865	18
Portion of operating grants and from separate waste collection	8,444	10,130	-1,686
Leases	4,078	1,916	2,162
Use and re-assessment of provisions	4,067	2,575	1,492
Profits from the sale of assets	902	7,657	-6,755
Costs reimbursed	1,381	1,010	371
Other	20,225	21,414	-1,189
Total	**46,038**	**50,295**	**-4,257**

Item "insurance reimbursements" shows, compared with the year 2006, an increase of Euro 1,255 thousand, mainly due to:

- as for Euro 370 thousand, to the insurance reimbursement following the fire occurred in the Ostellato plant of the subsidiary Recupera Srl;
- as for Euro 410 thousand, to the reimbursement related to the extraordinary repairs to the sewerage network of the subsidiary Hera Bologna Srl, in the municipality of Bologna;
- as for Euro 146 thousand, to the reimbursement of the advisory expenses incurred following the tragic event occurred in the municipality of San Benedetto del Querceto in December 2006 concerning the subsidiary Hera Bologna Srl;

Item "operating grants and grants for separated waste collection" shows a decrease, compared to 2006, equal to Euro 1,686 thousand, mainly due to the combined effect of:

- a decrease of approximately Euro 2,000 thousand due to:

- lower revenues invoiced in 2007 to municipalities within the Modena area following expired contracts;
- a change due to the finalisation in 2006 of the new 2004-2008 Anci – Conai agreement, which allowed the entering into of the conventions between Hera Spa and the Consortiums of the Conai Chain (Cial, Can, Comieco, Corepla, Rilegno) for the separated waste collection and Energy recovery, agreement which generated greater revenues during 2006, non-repeatable in 2007;

- an increase (for approximately Euro 500 thousand) consequence of higher volumes and compensations paid by the Consortiums of the Conai Chain in 2007 with reference to the sale of the materials deriving from the separated waste collection.

The change in the "leases receivables" item, for Euro 2,162 thousand, is due mainly to a different classification in 2007, compared with 2006, of the rentals for telecommunication services (classified as "revenues for other services provided"). Like the others stated in these explanatory notes, this reclassification was made so the financial statements would be better explained.

The change in item "use and re-assessment of provisions" equal to Euro 1,492 thousand, is mainly ascribable to the recording in the income statement of the surplus in the provisions for the post-closure of landfills of the subsidiary Sotris Srl totalling Euro 1,251 thousand.

The decrease registered in item "ordinary capital gains from transfer of assets", equal to Euro 6,755 thousand, is attributable to the fewer disposals of Group assets (mostly buildings and land) than those in 2006.

Item “others”, equal to Euro 20,225 thousand, is essentially comprised of

- 2,271, for the recovery of the majority of the leases expenses of the subsidiary Ecologia Ambiente Srl with reference to the agreement for the “new biological towers”. This agreement was terminated during 2007;
- 2,890 for brokerages of the subsidiary Recupera Srl for waste treatment at partner third party plants;
- 2,746 energy efficiency bonds (white certificates);
- 2,487 refunds against costs related to the 2007 water emergency;
- 1,072 income from rainwater management service;
- 1,952 miscellaneous revenues against third party entities;
- 180 income from electricity service continuity;
- 500 recovery related to utilities not subject to sewerage/purification system;
- 517 revenues generated from enforcements of guarantees;
- 251 income related to the financed “door-to-door” project of Aato Rimini for the separated waste collection;
- 423 income related to the compensation fund for proceeds from bad debts of the electric segment;
- 100 recovery of tarsu (tax on solid municipality waste) evasion/elusion regarding the year 2007

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

	31-Dec-2007	31-Dec-2006	Change
Methane ready for sale and LPG net of inventory charges	687,459	715,815	-28,356
Income and charges from derivatives	-10,154	33,343	-43,497
Fuel for heat generation	2,486	3,859	-1,373
Electricity ready for sale	808,330	263,098	545,232
Water	19,551	24,425	-4,874
Maintenance materials: handling and spare parts net of change in stock	57,608	53,903	3,705
Electricity	15,527	17,013	-1,486
Fuels and lubrificants	11,929	11,265	664
Methane for industrial use	3,928	3,015	913
Water for industrial use	525	746	-221
Chemical products	11,512	11,053	459
Consumables and sundry materials	5,215	9,148	-3,933
Total	**1,613,916**	**1,146,683**	**467,233**

The analysis of the trend in costs for raw materials and consumables is presented in the information contained in the management report**.** We would like here to highlight the sharp increase, compared with the previous financial year, in the costs related to the “electricity ready for sale”; increase connected to the increase in sales revenues.

7 Costs for services

	31-Dec-2007	31-Dec-2006	Change
Domestic usage (water, methane, heat and energy services)	3.274	7.401	-4.127
Work and maintenance	240.306	214.711	25.595
Energy transport and storage	125.310	80.691	44.619
Insurance	12.965	12.272	693
Cleaning and security	5.168	5.009	159
Waste transportation, disposal and collection	127.157	113.879	13.278
Announcements, advertising and disputes	8.221	7.229	992
Transport	3.922	1.627	2.295
Technical, organisation, legal and tax assistance consultancy	28.217	28.594	-377
Remuneration of Directors and Statutory Auditors	5.065	4.947	118
Meter reading	3.048	3.580	-532
Postal and telephone costs	16.457	16.401	56
Recruitment, training and other staff costs	9.643	9.211	432
IT and CED services	13.216	19.365	-6.149
Laboratory analyses	3.353	2.451	902
Bank fees and charges	5.022	5.057	-35
Fees paid to local authorities	66.402	66.183	219
Rents and leases payable	15.856	18.072	-2.216
Fees payable	3.706	5.164	-1.458
Other	28.386	20.700	7.686
Total	**724.694**	**642.544**	**82.150**

The changes in the main operating costs with respect to the previous year are outlined in the report on operations.

8 Personnel costs

	31-Dec-2007	31-Dec-2006	Change
Wages and salaries	214,800	208,077	6,723
Social security contributions	69,884	70,043	-159
Employee leaving indemnities	-4,115	9,501	-13,616
Other costs	20,343	8,977	11,366
Total	**300,912**	**296,598**	**4,314**

Personnel costs should be assessed in their entirety, and not by individual item, having taken into account the new classifications imposed by the new regulations governing the employee leaving indemnity. Especially as regards the “employee leaving indemnity” item (also discussed in paragraph 29 of this notes), the positive impact on the income statement for the financial year derives from the value of the curtailment (with a positive balance of Euro 16,816 thousand), net of any unrecognised actuarial differences accumulated in previous years (actuarial gains/losses), in accordance with the corridor method (with a negative balance of Euro 11,538 thousand), for a final result of a non-recurrent net impact of Euro 5,278.

As regards the increase in “other costs”, reference is made to the same regulations which led to the recording of higher costs for supplementary pension schemes and INPS treasury.
The average number of employees in the periods in question, analysed by category, is as follows:

	2007	2006	Variazioni
Dirigenti	110	110	0
Quadri	277	270	7
Impiegati	2.692	2.606	86
Operai	3.130	3.279	-149
Numero medio	**6.209**	**6.265**	**-56**

In aggregate, the average pro capita labour cost for the 2007 financial year was equal to Euro 48 thousand, up 2.1% compared to the figures registered as at 31 December 2006.

As at 31 December 2007, the actual number of employees is equal to 6,114 units. This figure is up by 113 units compared with the previous financial year.

9 Amortisation, depreciation and provisions

	2007	2006	Changes
Depreciation of tangible assets	134,674	129,731	4,943
Amortisation of intangible assets	41,499	35,932	5,567
Writedowns of current assets	26,481	7,508	18,973
Provisions for risks and others	30,143	22,187	7,956
Total	**232,797**	**195,358**	**37,439**

Please refer to the comments on the items “tangible assets”, “intangible assets”, “trade receivables” and “provisions for risks and charges” for a break-down of the items.
The increased depreciation of tangible assets takes into account the allocation of the consolidation difference to the assets regarding the acquisition of Hera Rete Modena Srl.

9 bis Other operating costs

The breakdown of other operating costs is as follows.

	31-Dec-2007	31-Dec-2006	Change
State property rents	9,288	4,624	4,664
Taxation other than income taxes	15,050	16,888	-1,838
Membership fees and other contributions	2,463	2,052	411
Special landfill levy	13,685	14,654	-969
Losses on the sale of assets	458	756	-298
Losses on receivables	65	244	-179
Other minor charges	9,390	7,239	2,151
Total	**50,399**	**46,457**	**3,942**

Item “state rentals” contains an increase against the prior financial year equal to Euro 4,664 thousand, mainly due to a different classification in financial year 2007 compared with 2006, of costs related to “telecommunication services”. These costs, in financial year 2006, were recorded under item 7 “works and maintenance”.

Item “special landfill levy” includes a decrease compared to the prior financial year equal to Euro 969 thousand, due to the reduction in the volumes of waste allocated to landfills, in favour of energy recovery from waste incineration and an increase in the separate waste collection.

Item “other minor charges” shows an increase compared with the prior financial year of Euro 2,151 thousand, due, mainly, to the costs for poor contributions of gas and water services.

10 Capitalised costs

This item is analysed as follows.

	31-Dec-2007	31-Dec-2006	Changes
Increases for internally-constructed fixed assets	238,212	194,516	43,696
Total	**238,212**	**194,516**	**43,696**

This item is recognised against investments made directly by the operating local companies and is for the most part made up of costs borne by these companies. The item also includes personnel costs and financial charges of the parent company, totalling Euro 3,969 thousand and Euro 6,998 thousand, respectively. For the relevant analysis, reference is made to the notes to the balance sheet assets (intangible and tangible fixed assets) and to the Directors' Report.

11 Portion of profit (loss) pertaining to associated companies

	31-Dec-2007	31-Dec-2006	Change
Quotas of profits	1,361	2,234	-873
Quotas of losses	-126	-385	259
Total	**1,235**	**1,849**	**-614**

Portions of "profits/losses from associated companies" include the effects generated by the assessment under the net equity method; compared with the previous financial year, there is an overall decrease of this item, consequence of the worsening of the results achieved by certain companies

It should be highlighted, once again with reference to this item, that the 2007 income statement has been re-classified; specifically, "other portions of profits/losses" and "dividends from other companies" were re-classified in note 12, related to financial charges/income, as detailed in the table below.

	31-Dec-2006	31-Dec-2006 re-classified	Change
Other quotas of profits/losses	75		-75
Financial charges - write-downs from equity interests		-217	217
Financial charges - losses from trading of equity interests		-1,163	1,163
Financial income - gains from trading of equity interests		1,305	-1,305
Dividends from other companies	-2,539		2,539
Financial income - dividends from equity interests in other companies		2,539	-2,539
Total	-2,464	2,464	0

12 Financial income and charges

Income	31-Dec-2007	31-Dec-2006	Change
Bank interest income	4,266	4,228	38
Interest income on other short term receivables	543	564	-21
Interest charged to customers	159	770	-611
Financial income generated by derivatives on commodities	2,907	22,927	-20,020
Financial income generated by derivatives on rates	16,929	9,831	7,098
Financial income - gains from trading of equity interests	22	1,305	-1,283
Dividends from equity interests in other companies	1,909	2,539	-630
Other financial income	1,864	5,538	-3,674
Total financial income	**28,599**	**47,702**	**-19,103**

Financial charges	31-Dec-2007	31-Dec-2006	Change
Interest expense on bank current account overdrafts	13,628	10,422	3,206
Interest expense charged by banks for medium/long term loans	31,183	22,533	8,650
Financial charges generated by derivatives on commodities	2,827	22,933	-20,106
Financial charges generated by derivatives on rates	14,108	6,200	7,908
Financial charges generated by the application of IAS 19	4,411	3,754	657
Financial charges generated by the application of "other international accounting standards"	10,746	10,965	-219
Write-downs of equity interests	326	217	109
Losses from trading of equity interests	180	1,163	-983
Other	30,466	23,437	7,029
Total financial charges	**107,875**	**101,624**	**6,251**

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

The financial income item "dividends from equity interests" is comprised of dividends declared by the subsidiary Energia Italiana s.p.a.

The item “other financial charges” is comprised of Euro 27,880 thousand of charges related to certain bond issues of the parent company. The latter include approximately Euro 910 thousand related to the differential between nominal interests and interests deriving by the application of the amortised costs with reference to four new loans obtained in 2007 (please see comment on the notes). With reference to these loans, it should be specified that, in applying the amortised cost method, the maximum duration of the loan was assumed, thus assuming that no put option would be exercised during the entire expected life of the loans at the due dates contractually scheduled..

As regards commodity derivatives, both charges and income register some changes, against the 2006 financial year, of a virtually identical amount.

As regards interest rates hedging derivatives, income are virtually on line with the charges.

Item “financial charges determined by the application of other international principles”, for Euro 10,746 thousand, is comprised as follows:

- IAS 17 “financial leasing” for Euro 1,220 thousand;
- IAS 37 “discounting landfill post-closure provision” for Euro 4,455 thousand;
- IAS 37 “discounting of provisions for restoration of third party assets” for Euro 5,071 thousand.

This item is, in 2007, virtually in line with 2006 figures.

13 Income taxes

This item is made up as follows

	31-Dec-2007	31-Dec-2006	Change
Current, deferred and prepaid taxes	32,637	79,009	-46,372
Total	**32,637**	**79,009**	**-46,372**

In this period, the overall impact of taxes on the before tax results is equal to 22.9%, compared with 44% in 2006.

The considerable improvement of the tax rate is due to the positive effect derived from the application of the substitute taxation, and from the recording in the income statement of the ires and irap rate differentials (from 37.25% to 31.4%) calculated on credits for deferred tax assets and on debits for deferred tax liabilities recorded in the financial statements.

These effects, non recurring, totalled in aggregate Euro 32,930 thousand.

Specifically, as regards substitute taxation, it should be noted that certain companies in the group availed themselves of the election provided for under art. 1, subparagraph 48 of Law no. 244 dated 24 December 2007, for the application of a substitute Ires and Irap tax on deducted surpluses, under art. 109, subparagraph 4, letter b), of the Consolidation Act on Income Taxes with regard to tangible and intangible fixed assets, in compliance with the implementation provisions of the ministerial decree dated 3 March 2008. This led to a net positive effect on the results from the financial year equal to Euro 24,649 thousand, due to the amount of the substitute taxation, equal to Euro 24,488 thousand and to the release of deferred taxes on disalignments as at 31 December 2007 for Euro 49,137 thousand.

As regards the “rate differential”, the overall effect is equal to Euro 8,281 thousand.

It should be noted that, in accordance with the legislative decree no. 10 dated 15 February 2007, converted into Law no. 46 dated 6 April, which governs the procedures for the refund of State aids declared as unlawful under decision no. 2003/193 dated 5 June 2002 of the EU commission, on 6 April 2007 the notices-injunctions issued by the Revenue office competent for the relevant jurisdiction were notified to Hera Spa, requiring from the latter the payment of an aggregate amount of Euro 22,312,964 for the four tax periods involved in the recovery of the direct taxes. On 31 May 2007, the Company filed with the provincial tax commission (*commissione tributaria provinciale*) of Bologna the appeals against the aforementioned notices-injunctions, at the same time requesting the suspension of said order for payment. On 6 July 2007 the provincial tax commission of Bologna issued the orders with which it granted the suspension requests filed by the company, setting the hearing for the discussion of the matter on 13 December 2007; as of today, the communication with the operative part of the judgement has not been received yet.

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. Hence HERA SpA did not make any provisions in this respect. In compliance with the foregoing, the municipal shareholders pledged appropriate collateral in favour of the Company through the payment of funds as advance for the amounts which might become due by Hera in the unlikely event that the appeals for the cancellation of the notices-injunctions would not be successful

As regards the former Meta, it should be noted that the 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 The company filed, on 6 June 2007, applications for the amendment ("*istanze di autotutela*") of such notices-injunctions. The Revenue Office of Modena, on 11 June 2007, partially granted the requests of the company for an amendment of the notices-injunctions, ordering the company, in settlement of the entire issue, to pay an irrelevant amount related, however, to the disclaimer of some withholding taxes paid."

The same decree cited above (legislative decree no. 10 of 15 February 2007, converted into law no. 46 on 6 April 2007) envisaged recovery of claimed government grants in connection with the mortgage loans taken out with the Bank for Deposits and Loans by several companies and several consortiums that then converged into Hera S.p.a. Following the special communication received from the Minister of Economy and Finances, Hera S.p.A. was particularly asked to return the difference between taxes applied and taxes of reference indicated by the European Commission, in addition to adapting its amortisation plans for the mortgage loans in question. Eighteen tax assessment notices for recovering a total of Euro 1,469,641.86 plus interest, costs and penalties were sent in response to the request on 6 June 2007 and 3 July 2007. On 16 October 2007 and 20 December 2007 another 11 tax assessment notices regarding recovery of benefits for the failure to adapt the amortisation instalments until the loans come due for a total of Euro 237,705.61 plus interest and costs were sent. An appeal opposing the first 18 tax assessment notices was presented to the tax commissions, at the first obtaining suspended payment. After the provision was revoked on 14 January 2008, these tax assessment notices were paid. On 10 January 2008, the 5 tax assessment notices sent on 16 October 2007 were also paid, while another 6 tax assessment notices will fall due on 24 April 2008. All together, the amount paid totals Euro 2,759,921.71, which includes penalties, interest and costs. As of today, repeals in first instance are pending against all the tax assessment notices. Considering the opinion of the legal advisers as well, it was decided to not set aside any allocation as the possibilities for a positive outcome of the requests made exist.

13.1 Earnings per share

	FY 2007	FY 2006
Group profits (losses) for the period (A)	96,246	90,105
Weighed average number of shares in circulation for the purposes of calculating earnings (losses) per share:		
- base (B)	1,016,123,788	1,013,931,574
- base (C)	1,016,123,788	1,013,931,574
Earnings (losses) per share (in Euro)		
- base (A/B)	0.095	0.089
- base (A/C)	0.095	0.089

The base earnings per share is calculated on the economic result attributable to holders of ordinary shares of the parent company. The diluted earnings per share is equal to the base earnings in that no share categories exist other than ordinary shares and there are no instruments convertible into shares. The average weighted number of the issued shares during the 2007 financial years, compared with the previous period, remained virtually unchanged following purchases and sales for significant countervalue.

14 Tangible fixed assets

Tangible fixed assets are stated net of the related accumulated depreciation and can be broken down as follows:

		Land and buildings	Plant and machinery	Other moveable assets	Work in progress	Total tangible fixed assets
ACQUISITION COST						
Balance as at	**31/12/2006**	**313,576**	**1,883,003**	**277,905**	**305,011**	**2,779,495**
Increases		**8,507**	**189,090**	**21,518**	**361,864**	**580,979**
Disposals		**- 1,851**	**- 14,594**	**- 14,305**	**- 10,731**	**- 41,481**
Change in scope of consolidation		**-**	**-**	**-**	**-**	**-**
Other changes		**8,105**	**126,076**	**- 2,006**	**- 131,586**	**589**
Balance at	**31/12/2007**	**328,337**	**2,183,575**	**283,112**	**524,558**	**3,319,583**
ACCUMULATED DEPRECIATION		**-**	**-**	**-**	**-**	
Balance at	**31/12/2006**	**47,326**	**449,589**	**162,135**	**-**	**659,050**
Depreciation for the year		**6,654**	**104,537**	**23,483**	**-**	**134,674**
Disposals		**- 114**	**- 5,171**	**- 12,254**	**-**	**- 17,539**
Change in scope of consolidation		**-**	**-**	**-**	**-**	**-**
Other changes		**79**	**- 2,705**	**- 5**	**-**	**- 2,631**
Balance at	**31/12/2007**	**53,945**	**546,250**	**173,359**	**-**	**773,554**
Net value						
Balance at	**31/12/2006**	**266,250**	**1,433,414**	**115,770**	**305,011**	**2,120,445**
Balance at	**31/12/2007**	**274,393**	**1,637,325**	**109,752**	**524,558**	**2,546,028**

Reference should be made to the management report for an analysis of investments in the period.

The item plant and machinery shows an increase over the previous year, which takes into account the allocation of the consolidation difference generated after the acquisition of Hera Rete Modena s.r.l.

15 Intangible fixed assets

Intangible assets comprise:

	Patents	Licences, trademarks, and similar rights	Other	Work in progress and advances	Total intangible assets
ACQUISITION COST					
Balance at 31/12/2006	**94,786**	**236,191**	**37,473**	**28,677**	**397,127**
Increases	**10,352**	**119**	**10,332**	**18,222**	**39,024**
Disposals	**-157**	**-478**	**-567**	**-36**	**- 1,238**
Change in scope of consolidation	**0**	**0**	**0**	**0**	**0**
Other changes	**19,355**	**-1,871**	**-5,441**	**-20,602**	**- 8,559**
Balance at 31/12/2007	**124,336**	**233,961**	**41,797**	**26,261**	**426,354**
ACCUMULATED AMORTISATION	**0**	**0**	**0**	**0**	
Balance at 31/12/2006	**45,450**	**101,593**	**18,836**	**0**	**165,879**
Amortisation for the year	**22,203**	**14,446**	**4,850**	**0**	**41,499**
Disposals	**-46**	**-151**	**-291**	**0**	**- 488**
Change in scope of consolidation	**0**	**0**	**0**	**0**	**-**
Other changes	**-47**	**-689**	**895**	**0**	**159**
Balance at 31/12/2007	**67,560**	**115,199**	**24,290**	**-**	**207,051**
Net value	**0**	**0**	**0**	**0**	
Balance at 31/12/2006	**49,336**	**134,598**	**18,637**	**28,677**	**231,248**
Balance at 31/12/2007	**56,774**	**118,761**	**17,507**	**26,261**	**219,303**

"Patents and know-how" equal Euro 56,774 thousand as at 31 December 2007 mainly relate to costs sustained for the purchase and implementation of the Sap R3 and Sap/Isu IT systems. Such costs are amortised over a period of five years.

"Licences, trademarks and similar rights" equal Euro 118,761 thousand as at 31 December 2007 comprise licenses for Euro 114,060 thousand, of which:

- Euro 112,512 thousand for the licences held by the parent company Hera Spa for gas, water, and purification plants. The decrease in this item is mainly due to the changeover from licence to ownership of the assets relating to the purification services in the municipalities of Argelato, Castel D'Aiano, and Ozzano Emilia, as provided under the related contracts on reaching the expiry dates of said licenses;
- Euro 1,548 thousand following the agreement with GRTN for 20 Mw CIP 6/92 purchase by the subsidiary Fea Srl. This amount will be depreciated in accordance with the length of the incentive period of the agreement.
- licences, trademarks and similar rights equal to Euro 4,691 thousand mainly regard the parent company.

The “other intangible fixed assets” equal to Euro 17,507 thousand at 31 December 2007 refer to costs for improvement to third party assets, map-making expenses, the territorial information system (sit), and various other charges that can be capitalised.

“Work in progress”, equal to Euro 26,261 thousand as at 31 December 2007 essentially represents the costs incurred for still incompleted IT projects. The decrease from last year is due to the fact that the orders regarding implementation of the Sap R/3 and Sap/Isu computer systems were completed and amortisation began during the year.

16 Goodwill and consolidation differences

	31-Dec-2007	31-Dec-2006	Change
Goodwill	262,488	261,078	1,410
Consolidation differences	54,133	137,849	-83,716
Total	**316,621**	**398,927**	**-82,306**

As at 31 December 2007, "goodwill" and "consolidation differences" totalled Euro 316,621 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 from the integration of Agea Spa in 2004 of 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. Specifically, with regard to the fair value of the Hera SpA shares issued following the increase in capital from the merger by absorption of Agea, in accordance with IFRS 3, the share value was calculated starting from the date that control was taken of Agea SpA;
- goodwill and consolidation differences relating to the Meta Group merger by absorption of Euro 118,064 thousand. This goodwill, recorded as an asset and initially valued at cost, represents the additional value of the purchase cost with respect to the Group portion in the current values of the recorded assets and liabilities. Specifically, with regard to the fair value of Hera SpA shares issued following the increase in capital from the merger by absorption of Meta SpA, this value was calculated as of the end of 2005, essentially 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 transaction was effective as of 1 January 2006, calculated as the effective date that Hera SpA took control. 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.

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

- Aspes Multiservizi Spa, Euro 24,758 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.

The decrease of Euro 83,716 thousand from last year is due to the allocation of the consolidation difference of the acquisition of Hera Rete Modena Srl to the tangible fixed assets. The remaining goodwill and consolidation difference items refer to minor operations.

As noted, in accordance with IAS 36, "goodwill" and "consolidation differences" are subject to impairment testing. The following table shows the allocation of these items 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.

Amounts in millions of Euro	31-Dec-2007
Gas	77
Electricity	41.9
Integrated water cycle	26.6
Waste management services	155.6
Other services	12.5
Structure	3
Total goodwill	316.6

The impairment test was therefore carried out on the gas, electricity, integrated water cycle, waste management, and other services business segments. The recoverable value was verified using the current operating cash flows from the three year plan put in place by the Group. 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 that vary according to the different segments and are based on expected growth in the respective generating unit sectors. The calculations and budget data on which these parameters are applied are calculated by the Group management on the basis of past experience and considering the expected future growth of the markets. The test results did not result in any changes having to be made to the recorded values.

17 Equity investments

		31-Dec-2007	31-Dec-2006	Change
Subsidiaries				
Attivabologna Srl in liquidation		1411	0	1411
Calor Più Italia Scrl		6	6	0
Calor Più Modena Scrl		7	7	0
Consorzio Energia Servizi		5	5	0
Consorzio Frullo		4	3	1
Sbi Srl		0	51	-51
Seas Srl in liquidation		3	0	3
		1,436	**72**	**1,364**
Associated companies				
Acantho Spa		5,928	5,898	30
Agea reti Srl		7,797	7,759	38
Other minority interests		418	503	-85
Attivabologna Srl in liquidation		0	1,777	-1,777
Dyna Green Srl		271	156	115
FlamEnergy Trading Gmbh		1,626	263	1,363
Modena Network Spa		736	724	12
Refri Srl		2,516	1,655	861
SAT SpA		35,310	35,803	-493
SET Spa		30,269	30,087	182
SGR Servizi Spa		8,986	5,687	3,299
	Total	**93,857**	**90,312**	**3,545**
Other companies				
Other minor companies		941	1,020	-79
Ambiente Mare		300	300	0
Calenia		9,073	6,505	2,568
Energia Italiana Spa		13,233	24,695	-11,462
Galsi		2,889	639	2,250
	Total	**26,436**	**33,159**	**-6,723**
Total equity investments		**121,729**	**123,543**	**-1,814**

<u>Equity investments in non-consolidated subsidiaries</u>

Illustrated below are the changes with respect to 31 December 2006.

Sbi Srl, in liquidation since 24 January 2005 was wound up on 23 March 2007.

Attivabologna Srl, in liquidation since 19 July 2005, valued at equity as at 31 December 2006, was measured at cost in these financial statements.

Seas Srl, in liquidation since 4 July 2006, consolidated on a line-by-line basis as at 31 December 2006, was measured at cost in these financial statements.

<u>Equity investments in associated companies</u>

Illustrated below are the main changes with respect to 31 December 2006.

On 13 January 2007, the increase in capital of Flame Energy from Euro 400 thousand to Euro 3,000 thousand was agreed and paid. The shareholder Hera Trading Srl paid Euro 1,300 thousand for its 50% holding.

On 18 September 2007 Refri Srl resolved to increase its capital from Euro 2,800 thousand to Euro 6,800 thousand. The shareholder Hera Spa paid its share on the basis of its 20% percentage holding, equal to Euro 800 thousand.

Hera Comm Srl increased its holding in Sgr Servizi Srl from 20% to 29.6% through the assignment of 100% of Gas Riccione Srl effective as of 1 January 2007.

During 2007 the parent company paid a further Euro 741 thousand towards future share capital increases of the subsidiary Set Spa.

Equity investments in other companies

On 2 October 2007 the ordinary shareholders' meeting of Energia Italiana resolved to distribute part of the share premium reserve to the shareholders. The parent company thus collected Euro 11,462 thousand, which were recorded to decrease the value of the relevant investment.

We note another payment for the future increase in capital of the subsidiary Calenia Energia Spa (Euro 2,568 thousand) for the completion of the building project of a combined cycle electricity power station in the municipality of Sparanise.

On 31 March 2007, Galsi Spa increased its share capital (from Euro 838 thousand to Euro 25,838 thousand); Hera Trading Srl subscribed and paid its portion of Euro 2,250 thousand.

18 Financial assets

Financial assets break down as follows:

	31-Dec-2007	31-Dec-2006	Change
Receivables for loans to associated companies and others	6,620	19,239	-12,619
Receivables for mortgages to be collected	162	215	-53
Fixed income securities	21	20	1
Total	**6,803**	**19,474**	**-12,671**

The "receivables for loans to associated companies" comprises:

- an interest bearing loan to Set Spa for Euro 4,815 thousand;
- an interest bearing loan to Oikothen Scarl for Euro 1,804 thousand. Following sale of the company branch, Ares Spa, at carrying value, the parent company took over that loan on 9 November 2007.

The reduction of Euro 12,619 thousand compared to 31 December 2006 is due to:

- the associated company Set Spa for Euro 14,424 thousand. In January 2007, the parent company provided a further Euro 3,900 thousand as a loan, while on 26 July 2007 the company paid back part of the loan, for a total of Euro 18,324 thousand;
- a reclassification of Euro 1,805 thousand which had been part of current assets in 2006.

Receivables for mortgages to be collected of Euro 162 thousand concern the parent company.

19 Deferred tax assets

The deferred tax assets break down as follows:

	31-Dec-2007	31-Dec-2006	Change
Receivables for pre-paid taxes	41,236	36,767	4,469
Receivables for pre-paid taxes IAS/IFRS	3,844	11,011	-7,167
Total	**45,080**	**47,778**	**-2,698**

As at 31 December 2007 they amount to Euro 45,080 thousand (Euro 47,778 thousand as at 31 December 2006). The receivables for prepaid tax assets are generated from the temporary differences between the balance sheet profit and the taxable income, mainly on the taxed provision for bad debts, write-down of investments, amortisation of goodwill and taxed provisions for risks and charges. As more fully described in note 13 on income tax, the above mentioned receivables were adjusted to the new Ires and Irap rates in effect since 1 January 2008. Any losses or gains from this were put back into the income statement.

20 Financial instruments - derivatives

Non current assets/liabilities	No. Contracts	Fair value asset	Fair value liability
Interest rate hedging derivatives			
Interest rate swap	16	9,685	
Interest rate swap	10		1,836
Total		**9,685**	**1,836**

Current assets/liabilities	Hedged underlying instruments	No. Contracts	Notional value	Fair value asset	Fair value liability
Hedging derivatives on commodities					
- Swap	Gas formula	1	45.000.000 Smc	294	
- Swap	Energy prices	43	1.159.542 Mwh	3,519	
- Swap	Foreign gas hub	5	780.000 Mwh	3,640	
- Swap	Refined oil products	4	9.000 Ton	856	
- Swap	Energy prices	812	199.381 Mwh		3,953
- Swap	Crude oil	9	180.000 Bbl		760
- Swap	Refined oil products	17	44.000 Ton		971
- Swap	Coal	3	23.000 Ton		87
- Swap	EUR/USD exchange rate	19	68.000.000 Usd		2,737
Total				**8,309**	**8,508**

The derivative financial instruments classified under non-current assets total Euro 9,685 thousand, recording an increase of Euro 1,808 thousand compared to 31 December 2006. They all refer to interest rate derivative instruments. As at 31 December 2006 they amounted to Euro 7,877 thousand, Euro 7,803 thousand of which regarded interest rate derivatives and Euro 74 thousand of which for derivatives on commodities.

The derivative financial instruments classified under non-current assets total Euro 1,836 thousand, recording a decrease of Euro 6,002 thousand compared to last year. They all refer to interest rate derivative instruments. As at 31 December 2006 the derivative financial instruments in the non current liabilities amounted to Euro 7,838 thousand, Euro 5,978 thousand of which regarded interest rate derivatives and Euro 1,860 thousand of which for derivatives on commodities.

The derivative financial instruments classified under current assets amount to Euro 8,309 thousand, up Euro 3,722 thousand over last year, and entirely relating to the positive fair value from the valuation of the derivative contracts on commodities on the date in question.

The derivative financial instruments classified under current liabilities amount to Euro 8,508 thousand, up Euro 1,641 thousand over last year, and entirely relating to the negative fair value resulting from the valuation of the derivative contracts on commodities on the date in question.

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

The derivative financial instruments in being as at 31 December 2007 can be classified as follows:

Interest rate hedging derivatives	Underlying	Notional	Fair Value Assets	Fair Value Liabilities	Income	Charges
- Hedge Accounting	Loans	514.8 mln	8,102	416	4,149	1,057
- Non Hedge Accounting	Loans	230.4 mln	1,583	1,420	12,780	13,051
Total			***9,685***	***1,836***	***16,929***	***14,108***

The interest rate derivatives in the form of interest rate swaps recorded in the hedge accounting have a residual notional amount of Euro 514.8 million against variable rate mortgage loans for the same amount. On 31 December 2007 a hedged loan was being paid off and the associated hedging derivative will have to be renegotiated in 2008, the fair value as at 31 December 2007 was positive.. The profits and losses associated with interest rate derivatives in hedge accounting mostly regard the partial renegotiation of transactions needed to guarantee the hedging relations between the derivatives and the underlying elements in the event of early repayment of loans. All the hedges of the aforementioned derivative contracts and related underlying liabilities are classed as “cash flow hedges”. A specific positive equity of Euro 4.4 million, net of a Euro 1.7 million tax effect, was allocated in the shareholders’ equity.

The remaining interest rate derivatives that are not in the hedge accounting have a residual notional amount of Euro 230.4 million. Most of these contracts derive from mirror transactions made last year as part of the derivative portfolio restructuring.

With regard to the incorporated derivatives, please refer to note 12.

The financial derivative instruments on commodities as at 31 December 2007 can be broken down into the following classes:

Hedging derivatives on commodities	Fair Value Assets	Fair Value Liabilities	Income	Charges
- Hedge Accounting	294		9,088	3,659
- Non Hedge Accounting	8,015	8,508	30,159	25,377
Total	***8,309***	***8,508***	***39,247***	***29,036***

The derivatives on commodities recorded in the hedge accounting are represented by one swap contract on natural gas prices and has a residual notional amount of 45,000,000 Smc. On the whole, in 2007, the derivatives on commodities generated profit of Euro 39,247 thousand, and the losses generated were Euro 29,036 thousand, with a net gain to the income statement of Euro 10,211 thousand. Euro 57 thousand of this comprises the net gain of financial profit / loss, while the difference of Euro 10,153 thousand regards hedge accounting contracts and substantial hedging contracts. Since these contracts cannot form part of the hedge accounting due to strict IAS 39 standards, they generate profit and losses that are offset by greater or lesser purchase costs in the financial period in question, for those that were generated profit or loss in the period, or will do so in upcoming financial periods, for those measured, in being at 31 December 2007.

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

If you hypothesise an instantaneous reduction of 1% in the interest rate level, the potential loss of fair value to the derivative financial instruments in being as at 31 December 2007 would amount to about Euro 19.5 million.

Similarly, if you hypothesise an instantaneous increase of 1%, you would have a potential increase in fair value of about Euro 16.8 million.

These changes in fair value would not have effects on the income statement, except for the potential amount of ineffectiveness, as they fully refer to derivative financial instruments in hedge accounting. The effects of the fair value changes on the income statement of the instruments not in hedge accounting – as they almost all 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.

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 do not always comply with the strict requirements of IAS 39 and cannot be accounted for in the hedge accounting.

Sensitivity Analysis

If you hypothesise an instantaneous variation of 10 dollars a barrel in the Brent price, with Euro/Dollar exchange rates being equal, the fair value variation of the derivative financial instruments on commodities in being as at 31 December 2007 would amount to about Euro 2.6 million (negative if the Brent price rises). If you hypothesise an instantaneous variation in the exchange rate of 0.05 dollars per Euro, with Brent prices being equal, the fair value variation of the derivative financial instruments on commodities in being as at 31 December 2007 would amount to about Euro 0.5 million (negative if the exchange rate goes up).

21. Inventories

	31-Dec-2007	31-Dec-2006	Change
Raw materials and stock	48,761	43,528	5,233
Semi-finished goods	808	368	440
Finished products	403	674	-271
Advance payments	20	20	0
Total	**49,992**	**44,590**	**5,402**

The inventories as at 31 December 2007 are stated net of the obsolescence allowance amounting to Euro 938 thousand (Euro 1,155 thousand as at 31 December 2006). Inventories of raw materials and consumables mainly comprise spares and equipment destined primarily for maintenance and operation of existing systems, plus methane stocks held by the subsidiary Hera Trading Srl for a total of Euro 28,099 thousand, up Euro 6,034 thousand from 31 December 2006.

22. Trade receivables

	31-Dec-2007	31-Dec-2006	Change
Receivables from customers	405,689	581,390	-175,701
Receivables from customers for invoices to be issued	564,957	396,324	168,633
Receivables from associated companies	35,046	22,608	12,438
Total	**1,005,692**	**1,000,322**	**5,370**

Trade receivables as at 31 December 2007 amounted to Euro 1,005,692 thousand (Euro 1,000,322 thousand as at 31 December 31 2006) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 31 2007. The balances are stated net of the provisions for doubtful receivables amounting to Euro 44,142 thousand (Euro 26,738 thousand as at 31 December 2006) 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-2006	Allocations	Utilisation	Change in scope of consolidation	31-Dec-2007
26,738	26,481	-8,985	-92	44,142

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). This allocation accounts for the increase in age of the receivables in some segments that are now being evaluated.

The "receivables from associated companies" is up compared to 31 December 2006 by Euro 12,438 thousand mainly due to the increased commercial dealings with the following associated companies:

- Sat Spa for Euro 3,644 thousand;
- Acantho Spa for Euro 4,490 thousand;
- Set Srl for Euro 2,855 thousand.

Credit risk

The carrying amount of trade receivables in the annual report is the theoretical maximum exposure to credit risk of the Group as at 31 December 2007. Even if not standardised, there is a procedure for providing credit to customers that provides for individual evaluations to be made. This modus operandi allows the Group to reduce the concentration and exposure to credit risk both for business customers, and private customers.

Regular analyses are made on the open credit positions to identify any potential critical issues. If the single positions are fully or partially non-recoverable, they will be written down. For receivables that have not been individually written down, allocations are made on the basis of historical analyses of receivables from 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).

Trade receivables from customers as at 31 December 2007 can be divided into the following classes:

	Companies	Business	Mass Market	Total
amount	72,253	162,317	171,119	**405,689**
ratio	18%	40%	42%	**100%**

23. Long-term contracts

	31-Dec-2007	31-Dec-2006	Change
Long term contracts	18,407	23,593	-5,186
Total	**18,407**	**23,593**	**-5,186**

As at 31 December 2007, long-term contracts amount to Euro 18,407 thousand and refer to plant works at third-party sites. As at 31 December 2006 the balance totalled Euro 23,593 thousand.

24. Financial assets

Financial assets break down as follows:

	31-Dec-2007	31-Dec-2006	Change
Receivables from mortgages to be collected	4,528	4,648	-120
Portfolio securities and financial policies	8,828	5,721	3,107
Receivables from associated companies		2,464	-2,464
Receivables for loans granted to others	1,859	4,629	-2,770
Total	**15,215**	**17,462**	**-2,247**

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

The increase in portfolio securities and financial policies is due to the movements occurring during the year .

The reduction in amounts due from associated companies in the amount of Euro 2,464 thousand is due to the collection of the dividends from Energia Italiana Spa.

Receivables for loans given to others (mainly to municipalities) are down from last year by Euro 1,462 thousand. Specifically the following municipalities made repayments of the amounts due in whole or in part:

- Municipality of Coriano, Euro 1,016 thousand;
- Municipality of Cattolica, Euro 723 thousand;
- 4Italy Spa, Euro 277 thousand.

We note the loan to Oikothen Srl of Euro 1,343 thousand last year was reclassified under non-current financial assets. This loan was raised to Euro 1,805 thousand in 2007.

25. Other current assets

	31-Dec-2007	31-Dec-2006	Change
Guarantee deposits	16,688	16,548	140
Direct/indirect taxes	117,806	25,421	92,385
Ires/Irap advances	6,728	4,408	2,320
Witholdings on interest	129	52	77
Sundry tax receivables	1,230	929	301
Grants	6,202	6,891	-689
Advances to suppliers/employees	3,734	7,264	-3,530
Receivables from social security institutions	745	787	-42
Insurance payments	787	17	770
Other receivables	46,312	44,734	1,578
Total	**200,361**	**107,051**	**93,310**

The guarantee deposits include the deposit made in favour of Acosea Impianti s.r.l. for Euro 12,000 thousand, the deposit in favour of the financial technical office for Euro 1,950 thousand, and other lesser amounts in favour of companies and public bodies.

The indirect tax receivables of Euro 117,806 thousand mainly comprises advances paid for excise tax and additional regional taxes for electricity and gas. The significant increase compared to last year is due to the manner in which the financial relations with the financial technical department is regulated, specifically the advance payments that are made during the year are calculated in accordance with the amounts of gas and electricity sold during the previous year. Therefore if the amounts of gas and electricity sold and invoiced in the two years do not match up, the Group will be in a creditor/debtor position with the tax authorities. The differences between one year and another can be significant. Financial year 2007 in particular was affected by the lower amounts of gas invoiced as a consequence of the unusual climatic trend that marked the winter season. The total amount of credit also accounts for the credit positions matured against the "energy sector equalisation fund". In this case, the increase compared to last year should be considered with respect to the slowing down of the invoicing process which affected the Modena area due to migration to the sap/isu computer system.

The credit with the tax authorities for Ires and Irap of Euro 6,728 thousand mainly comprises excess advance payments made with respect to the total amount due. This significant increase should also be analysed in conjunction with the increase in debt.

The "sundry tax receivables" of Euro 1,230 thousand mainly relate to district heating tax receivables and to receivables for investments in underprivileged areas pursuant to Law 388/200.

The "grants" of Euro 6,202 thousand mainly comprise grants disbursed by various entities.

The "advances to suppliers" are down compared to 31 December 2006 by Euro 3,530 thousand following settlement of a dispute involving the subsidiary Fea Srl.

The "other receivables" of Euro 46,312 thousand include the following positions:

- asset companies, Euro 1,733 thousand,
- costs advanced mainly for substitute taxes, Euro 9,024 thousand,
- advance insurance expenses, Euro 2,895 thousand,
- costs advanced for the purchase of raw materials, Euro 926 thousand,
- costs advanced energy efficiency bonds, Euro 1,325 thousand,
- costs advanced for charges, bank commissions, and guarantee expenses, Euro 1,655 thousand,
- Ami Consortium, Euro 1,529 thousand,
- *Acosea Impianti*, Euro 2,628 thousand,
- electric standardisation equalisation fund, Euro 4,294 thousand,
- continuous electricity service income equalisation fund, Euro 822 thousand,
- receivables for white certificates, Euro 2,747 thousand,
- *Cassa Depositi e Prestiti* to purchase vehicles, Euro 451 thousand,
- costs advanced for maintenance of computer systems, Euro 1,020 thousand.

26. Cash and cash equivalents

Cash and cash equivalents totalled Euro 211,014 thousand as at 31 December 2007 (Euro 213,629 thousand as at 31 December 2006) and include cash, cash equivalent effects, bank cheques and drafts held in central and decentralized accounts for a total of Euro 273 thousand, plus bank deposits available for current transactions and post office accounts totalling Euro 210,741 thousand. The decrease with respect to the previous year is due to rationalisation of financial operations.

27. Share capital and reserves

Share capital

The share capital as at 31 December 2007 amounts to Euro 1,016,752,029, is fully paid in and is represented by 1,016,752,029 ordinary shares with a par value of Euro 1 each.

Reserves for treasury shares

The item reserves for treasury shares includes the "reserve for treasury shares at par value" with a negative value equal to Euro 617 thousand. "Reserve for treasury shares exceeding par value" and "reserve for gains on sale of treasury shares" are recorded among the shareholders' equity reserves for a negative value of Euro 1,211 thousand and a positive value of Euro 601 thousand, respectively. These reserves, established in compliance with the accounting standards of reference, reflect the treasury shares owned as at 31 December 2007. The change during the year generated gains amounting to Euro 190 thousand, attributed directly to shareholders' equity reserves.

<u>Reserves</u>

The item Reserves equal to Euro 375,154 thousand includes the following reserves:

- legal for Euro 14,123 thousand
- extraordinary for Euro 13,593 thousand
- revaluation for Euro 2,885 thousand
- share premium reserve for Euro 12,254 thousand
- capital account payments for Euro 5,400 thousand
- retained earnings for Euro 47,690 thousand
- share swap surplus for Euro 42,408 thousand
- IFRS3 reserve for Euro 149,789 thousand, deriving from valuation according to IFRS 3 of the integration operations of Agea Spa, Meta Spa and Geat Distribuzione Gas Spa;
- reserve for treasury shares exceeding par value for Euro –1,211 thousand
- reserve for gains on sale of treasury shares for Euro 601 thousand
- IAS/IFRS reserve for Euro 86,992 thousand, generated after adoption of international accounting standards;
- reserve for dividends received on treasury shares for Euro 28 thousand

<u>Cash Flow-Hedge Reserve</u>

As at 31 December 2007 this reserve totalled Euro 4,365 thousand following changes determined by fair value valuation of hedging derivatives.

The statement of **<u>changes in shareholders' equity</u>** is shown in paragraph 2.04 of these consolidated financial statements.

28. Banks and medium/long and short-term loans

As at 31 December 2007, medium/long term loans totalled Euro 1,396,693 thousand (Euro 937,243 thousand as at 31 December 2006), and mainly relate to mortgages and loans of Euro 598,472 thousand and the bond issues of Euro 798,221 thousand.

Medium/long-term amounts due to banks also include loans subscribed by the subsidiary Fea Srl for a total of Euro 84,339 thousand. These loans, renegotiated during the year, are guaranteed by mortgages and special liens in favour of the pool of banks which subscribed the project financing without recourse. Repayment, expiring on 31 December 2017, 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 2007 is provided below, expressed in thousands of Euro.

Lender	***Residual balance 31-Dec-2007***	***Portion due within 2008***	***Portion due within 5 years***	***Portion due beyond 5 years***
UNICREDIT BANCA	47,500,000.00	3,650,000.00	17,900,000.00	25,950,000.00
BANCA INTESA	19,000,000.00	1,460,000.00	7,160,000.00	10,380,000.00
BANCA OPI	9,500,000.00	730,000.00	3,580,000.00	5,190,000.00
BANCA POPOLARE DI MILANO	19,000,000.00	1,460,000.00	7,160,000.00	10,380,000.00
ACTELIOS	4,116,000.00	4,116,000.00		
CARIFE	23,966.63	23,966.63		
BANCA OPI	7,718,750.00	1,187,500.00	3,562,500.00	2,968,750.00
EFIBANCA	13,746,853.75	1,332,913.79	6,231,655.21	6,182,284.75
BANCA DI ROMAGNA	1,180,542.75	425,560.61	754,982.14	-
CASSA DI RISPARMIO DI CESENA	853,933.90	74,787.08	331,786.36	447,360.46
BANCO DI SARDEGNA	9,969,849.16	748,190.13	2,750,110.78	6,471,548.25
CARIFE	90,896.39		90,896.39	-
CASSA DEPOSITI E PRESTITI	313,304.02	133,666.91	60,437.02	119,200.09
BANCA OPI	1,684,210.24	105,263.14	421,052.56	1,157,894.54
UNICREDIT BANCA	1,040,526.01	689,280.57	351,245.44	-
CARIM S.P.A.	4,416,229.00	360,251.20	1,608,547.65	2,447,430.15
BANCA DELLE MARCHE	10,000,000.00	331,003.89	1,466,805.63	8,202,190.48
CARIFANO SPA	1,162,878.01	155,617.52	643,188.97	364,071.52
BANCA DELLE MARCHE	17,689.89	13,160.87	4,529.02	
B.CR. COOPERATIVO	523,987.93	75,070.22	354,024.00	94,893.71
BANCA NAZIONALE DEL LAVORO	14,250,000.00	1,500,000.00	6,000,000.00	6,750,000.00
BANCA POPOLARE DI RAVENNA	172,538.04	84,376.29	88,161.75	-
BANCA OPI	52,315,612.61	13,549,094.71	27,477,645.11	11,288,872.79
BEI	180,000,000.00		-	180,000,000.00
BANCA DELLE MARCHE	694,044.37	185,532.46	508,511.91	-
BANCO DI SICILIA	117,124.24	117,124.24	-	-
CARISBO	5,449,478.99	819,728.85	2,761,733.18	1,868,016.96
CASSA DEPOSITI E PRESTITI	25,368,628.35	3,500,887.84	9,366,052.83	12,501,687.68
CASSA DI RISPARMIO DI CESENA	2,468,779.07	231,187.83	780,020.63	1,457,570.61
CASSA DI RISPARMIO DI CENTO	638,241.84	419,589.06	218,652.78	-
DEXIA CREDIOP	46,428,571.43	7,142,857.14	21,428,571.42	17,857,142.87
CASSA DI RISPARMIO DI RAVENNA	1,890,419.95	92,049.92	304,539.54	1,493,830.49
FON SPA	4,584,872.16	565,688.62	1,867,068.33	2,152,115.21
BANCA INTESA	72,494,520.00	21,954,940.26	46,676,386.56	3,863,193.18
ISTITUTO SAN PAOLO	1,907,120.60	261,931.25	817,808.07	827,381.28
MONTE PASCHI DI SIENA	8,963,294.07	2,138,832.80	6,824,461.27	-
UNICREDIT BANCA	3,028,745.54	1,699,891.79	1,179,218.79	149,634.96
	572,631,608.94	**71,335,945.62**	**180,730,593.34**	**320,565,069.98**

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.

On 17 May 2007 the parent company Hera Spa issued a put bond for a total of Euro 100 million, entirely subscribed by Deutsche Bank AG London. The bond is regulated by Euribor 3 months reduced by 29 points for the first three years. If the put option is not exercised by the bond holder at the end of the third year, the bond shall be regulated for an additional 10 years at a fixed rate of 4.593% in addition to the Hera credit spread. In this case Hera Spa shall be entitled to exercise a call option on the entire amount in the remaining period. If instead the put option is exercised at the end of third year, the bond shall be repaid at the same amount.

On 2 August 2007 Hera Spa issued a 20-year Euro 200 million bond loan called the Bermudan Extendable Put Bond which cannot be called in the first 5 years. For the first 5 years, the loan will be regulated with a variable rate quarterly coupon indexed to the 3 month euribor less 45 eurocents. For the next 15 years, the coupon will have a fixed rate of 4.85% increased by the Hera Spa two-year credit spread (currently about 10 eurocents). Loan regulations require that the holder will be able to request reimbursement every two year at par value or continue for the following two years at the above-mentioned conditions. Hera Spa will always have the right to provide early redemption of the loan at market price.

During the last two months of 2007 Hera Spa formalised two Extendable Step-up put loans lasting a total of 13 years. Loans. The first one, entered into with Royal Bank of Scotland in November 2007, amounts to a total of Euro 50 million for the first three years and can later be increased up to Euro 70 million with another disbursement of Euro 20 million for the next 10 years, at the bank’s discretion.
The transaction will be regulated for the first three years with a quarterly coupon deferred at variable rate calculated based on the 3-month euribor less a 0.45% spread. If the bank does not exercise the put option requesting repayment on equal footing, the coupon will be regulated at a fixed rate of 4.41% increased by the two-year Hera credit spread for the next ten years (with a 0.45% cap). The bank can ask for repayment of the loan on equal footing at the end of the third year and every two years that follow. Should the put option not be exercised, the rate will still be the one stated above.

In December 2007 the second loan similar to the previous one was entered into with Barclays Capital, the only difference being that the spread less than the euribor for the first three years is 0.46%, while the fixed rate for another 10 years, if needed, is 4.44% (again increased by the two-year Hera credit spread with a 0.45% cap). After the first three years Hera Spa can repay the loan, coinciding with every date of payment of the interest at the market price.

As they have similar features, the above-mentioned 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 entering interest expense equal to Euro 910 thousand.

As at 31 December 2007, the group has no debt positions requiring application of financial covenants; the agreement governing the issue of the bond loan for a par value of Euro 500 million contains a negative pledge clause, in line with international market practices.

As at 31 December 2007, short term loans totalled Euro 248,481 thousand (Euro 443,846 thousand as at 31 December 2006) 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 credit facilities, 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. At the year-end date there are unused credit lines amounting to Euro 1,021,440 thousand.

29. Provision for employee leaving indemnities and other similar benefits

This item represents 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, calculated considering the overall credit which the employees will accrue as of the date they will presumably leave the company, using actuarial techniques and quantifying on an accruals basis the future liability portion discounted back to the balance sheet date.

In accordance with Italian statutory legislation, the employee leaving indemnity is reflected in the financial statements in accordance with a calculation method based on the indemnity accrued by each employee as of the balance sheet date, in the event that all the employees terminate their employment contract as of that date.

IAS 19 by contrast anticipates the adoption of a method by means of which the sum total of the liability for the benefits acquired must reflect the date of expected resignation and must be discounted back.

As already stated in the paragraph "significant estimates and valuations", the estimate of employee leaving indemnities calculations as at 31 December 2007 considers the effects of the amendments to the regulations, implemented by Law no. 296 of 27 December 2006 (Finance Bill 2007) and subsequent decrees and regulations issued in the first few months of 2007, as well as the indications provided by the Italian Standard Setter (OIC), the Italian Bankers' Association (ABI) and the National Council of Actuaries.

Following this, please note the positive impact of the curtailment value (Euro +16,816 thousand) on the income statement. It is net of the value of the actuarial gains/losses accumulated over previous years, not entered in conformity with the corridor method (Euro –11,538 thousand), for a final net amount of Euro 5,278 thousand, non-recurring effect.

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.

	31-Dec-2006	Allocations	Use and other movements	Change in scope of consolidation	31-Dec-2007
Employee leaving indemnities	107,478	-922	-8,856		97,700
Gas discount	3,748	82	-29		3,801
Premumgas fund	1,824	275	-724		1,375
Total	**113,050**	**-565**	**-9,609**	**-**	**102,876**

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

Discounting back rate, average	4.88%
Cost of labour increase rate, average	3.04%

30 . Provisions for risks and charges

The composition and analysis of the changes in provisions for risks and charges is as follows:

	31-Dec-2006	Allocations	Use and other movements	Change in scope of consolidation	31-Dec-2007
Pensions and similar commitments	36	.	- 36	-	-
	-	-	-	-	
Provision for staff disputes and legal costs	12,376	3,104	- 1,496	-	13,984
Landfill closure and post-closure costs provision	65,520	7,761	- 5,000	-	68,281
Provision for the restoration of third party assets	49,328	16,624	47	-	65,999
Other provisions:					
Provisions for risks and charges	21,805	11,579	- 3,011	-	30,373
Tariff reduction provision	3,486	303	- 390	-	3,399
Additional severance fund for agents	-	13	-	-	13
Total	**152,551**	**39,384**	**- 9,886**	**-**	**182,047**

The provision for staff disputes and legal costs amounting to Euro 13,983 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees.

The provisions also include Euro 5,920 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.

As far as involuntary unemployment is concerned, the Group believes that it is not obliged to pay this contribution by virtue of specific contractual clauses which, limiting the power to withdraw of the employer, in fact ensures the stability of the employment relationship with the employees. Requests for exemption have been presented for each Group company in relation to this contribution. In each case where the Ministry has passed sentence rejecting the request, the reject Decree has been contested.

It is particularly pointed out that during 2005 the Ferrara Employment Tribunal issued a favourable judgment exonerating Agea from paying the contribution for involuntary unemployment. In December 2006 the Ravenna Employment Tribunal upheld two petitions against INPS inspection reports and declared the contribution for involuntary unemployment, among others, to be not due. In August 2006 the Employment Ministry issued a decree confirming exoneration from the unemployment contribution for Enel SpA and all Enel Group companies. Considering that the Hera Group’s situation and above all the corporate evolution that led to its incorporation appears very similar to that of Enel Spa, Federutility presented to the Employment Ministry application for exoneration from the unemployment contribution in the name of all group companies.

In the wake of the decree granted to Enel Spa, over the past few months the Ministry has been issuing decrees of exoneration for those service companies that applied for it and that apply the National Collective Labour Agreements in the Hera Group, so there is reason to believe this will also take place for the Hera Group companies.

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 contributions for blue-collar workers’ sick leave, these are considered not due in that, by express clause of the gas, water and electricity National Collective Labour Agreements, the Group assumes responsibility for the entire sick pay liability. This clause has no longer been included in recent contractual renewals, but rather, they state that the company ensures sick leave liability not in full, but through supplements of INPS indemnities. In 2003, a sentence of the Supreme Court however stated the existence of the contributory obligation to the charge of the employer even if the welfare institute is not obliged to provide sickness benefits, referring to a general solidarity principle. Following this change in case law policy, the Hera Group, upon the recommendation of Confservizi, considered it appropriate to pay the sickness contribution as from January 1, 2005, holding out however in the pending dispute relating to previous years. The Bologna Employment Tribunal, with order dated 17 January 2007, combined five lawsuits relating to as many payment requests which also included the sickness contribution and deferred to the Constitutional Court the question of the legitimacy of a norm of the corporative period, Law 138/1943, with regard to the part in which it establishes that the contributions for sickness insurance must be fully paid even by companies who by law or pursuant to collective contract are required to pay sickness benefit directly to employees. Since similar questions of legitimacy have also been referred to the Constitutional Court by the courts of Milan and Bologna, Hera voluntarily took part in these proceedings as its interest is at stake. The hearing before the Constitutional Court was held on 12 February 2008, but the outcome is still unknown on the date these notes are written.

Deferral to the Constitutional Court means that even the judgments on the part that does not concern sickness contributions will also suspended until the final judgment has been delivered, which will probably not occur for a few years.

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.
Wit 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 Moden 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 the involuntary unemployment contribution and temporary lay-off scheme, prudential allocation was made to the provision set forth above, which takes into account the files already paid and any liabilities deriving from the suspended files currently received, amounting to approximately Euro 18.6 million. This fund is deemed to be 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 68,281 thousand, represents the amount set aside by the Group to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently in use. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted back in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component inferred from the discounting back procedure, while the uses represent the effective outlays which came about during the year.

The **provision for the restoration of third party assets**, equal to Euro 65,999 thousand, includes the provisions made in relation to the legal and contractual restrictions encumbering the Group 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 risks and charges**, amounting to Euro 30,373 thousand, comprises provisions made against sundry risks. This provision specifically pertains to:

- Euro 11,818 thousand for waste storage charges, expenses to be borne for the electricity service, costs for restoration of freely transferable assets of the Rosola aqueduct system under concession, litigation expenses for Terna/GSE and other provisions for sundry risks, all of a basically modest amount;
- Euro 7,279 thousand for provision for provisional plans set up in past years to finance investments in sewerage and purification in the water service;
- Euro 5,827 thousand for the provision for future service costs (electricity service). It is a provision for self-certification of electricity tariffs deriving from estimates of “surplus” revenues pertaining to the closing year, 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 a calculation procedure that will be determined by 31 July of the next year, and must then provide for reimbursement to users.

The **tariff reduction provision**, totalling Euro 3,398 thousand, has been provided to cover the charges deriving from the acknowledgement to retired staff of tariff concessions for electricity consumption.

Aside form those considered in these notes, the Group is not involved in other disputes which may generate possible and/or probable liabilities.

31 . Deferred tax liabilities

The deferred tax liabilities break down as follows:

	31-Dec-2007	31-Dec-2006	Change
Deferred tax liabilities	5,108	44,726	-39,618
Other deferred IAS taxes	115,942	89,898	26,044
Total	**121,050**	**134,624**	**-13,574**

Deferred tax liabilities are generated by the temporary differences between the balance sheet profit and taxable income, mostly regarding capital allowance exceeding statutory depreciation and capital gains instalments, etc.

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

- IAS 37 – discounting of the provision for post-mortem landfills and restoration of third party assets for Euro 35,121 thousand;
- IAS 16 – assets and application of the component approach to tangible fixed assets for Euro 70,708 thousand;
- IAS 17 - financial leasing for Euro 4,490 thousand;
- IAS 19 – employee leaving indemnity and other employee benefits for Euro 4,848 thousand;
- IAS 39 – derivatives for Euro 775 thousand.

As already amply described in note 13, “income taxes”, the payables examined further above:

- were adapted to the new IRES and IRAP rates in effect since 1 January 2008;
- take into account the release of deferred taxes on misalignments as at 31 December 2007 consequent to the substitute tax option pursuant to Law no. 214 of 24 December 2007, which the parent company agreed to.

The effects were recorded in the income statement in both cases.

32. Financial leasing payables

As at 31 December 2007, they amount to Euro 19,541 thousand (Euro 40,489 thousand as at 31 December 2006).

	31-Dec-2007	31-Dec-2006	Change
Financial leasing payables	19,541	40,489	-20,948
Total	**19,541**	**40,489**	**-20,948**

This item comprises the recording of payables following the accounting of leasing transactions using the financial method. In addition to the payments made during 2007 totalling Euro 14,322 thousand, the decrease compared to the previous year is due to the extinction of several agreements and the consequent direct purchase of the assets. The balance as at 31 December 2007 is shown below, broken down between the short-term and long-term portions.

	Residual balance	Short-term portion	Long-term portion
Financial leasing payables	19,541	5,637	13,904
Total	**19,541**	**5,637**	**13,904**

33. Trade payables

The trade payables are broken down as follows:

	31-Dec-2007	31-Dec-2006	Change
Due to suppliers	454,525	375,022	79,503
Due to suppliers to cover invoices due	409,607	338,665	70,942
Payables for advance payments received	4,289	3,734	555
Due to non-consolidated subsidiaries	3,097	6,813	-3,716
Due to associated companies	17,897	22,248	-4,351
Total	**889,416**	**746,482**	**142,934**

Payables to suppliers, all of a commercial nature and inclusive of sums set aside to cover invoices due, total Euro 864,132 thousand as at 31 December 2007 compared to Euro 713,687 thousand as 31 December 2006. The

The major amounts due to non-consolidated subsidiary companies are itemized below:

- Attivabologna Srl, Euro 2,110 thousand,
- Calorpiù Italia Scarl, Euro 889 thousand,
- Calorpiù Modena Scarl, Euro 45 thousand,
- Consorzio Energia, Euro 32 thousand.

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

- Acantho, Euro 10,343 thousand,
- FlamEnergy, Euro 426 thousand,
- Set, Euro 5,884 thousand,
- Estense Global Service, Euro 325 thousand,
- Service Imola, Euro 307 thousand.

The decrease with regard to 31 December 2006 is mainly due to the fewer debt positions with Set and Estense Global Service for a total of Euro 7,520 thousand, and to the increased amount owed to Acantho for Euro 3,154 thousand.

34. Income taxes payable

As at 31 December 2007, tax liabilities total Euro 66,687 thousand (Euro 86,362 thousand as at 31 December 2006) and are composed as follows:

	31-Dec-2007	31-Dec-2006	Change
Income taxes due (IRES and IRAP)	2,484	8,576	-6,092
Tax on consumption and regional surtax	25,787	47,009	-21,222
Payables due for employee withholdings	7,749	6,222	1,527
VAT payables	1,739	13,507	-11,768
Substitute tax	24,550	16	24,534
Sewerage charges	617	4,606	-3,989
Other tax liabilities	3,761	6,426	-2,665
Total	**66,687**	**86,362**	**-19,675**

Income tax due as at 31 December 2007, Euro 2,484 thousand, showed a significant decrease compared to 31 December 2006 after fewer taxes for IRAP and IRES became payable for the Group, as described in paragraph 13 of the period's taxes and item 25, other current assets.

Payables due for the excise and additional regional tax of electricity and gas as at 31 December 2007, equal to Euro 25,787 thousand, post a significant drop compared to the previous year due to the slowdowns sustained by the billing processes for the territorial areas of Ferrara and Modena (after switching over to the SAP/ISU system) and because of the altered weather conditions that distinguished 2007 from 2006 (see comments in the Directors' Report).

The VAT payables, totalling Euro 1,739 thousand as at 31 December 2007, reflect the position regarding the Group's VAT. The value as at 31 December 2006 takes into account the advance paid on 27 December 2006 for Euro 9,958 thousand. The decrease of this item can mainly be attributed to billing slowdowns, as previously described.

The substitute tax payables, Euro 24,550 thousand, reflect the option the Group agreed to, which is fully described in note 13, "Income taxes". The substitute tax payable that can be settled within the next year is equal to Euro 7,365 thousand.

The item "other tax liabilities", equal to Euro 3,761 thousand as at 31 December 2007, is mostly made up of the payable for ecotax relating to the last quarter of 2007 paid in 2008.

35. Other current liabilities

	31-Dec-2007	31-Dec-2006	Change
Payables due to social security institutions: INPS	3,895	2,884	1,011
Payables due to social security institutions: INPDAP	5,985	6,057	-72
Payables due to social security institutions: INAIL	298	99	199
Other institutions	6,168	5,645	523
Payables due to employees	19,096	19,333	-237
Debiti due to Directors and Statutory Auditors	248	356	-108
Guarantee deposits	46,949	50,622	-3,673
Payables due to customers	890	562	328
Other	114,982	89,273	25,709
Total	**198,511**	**174,831**	**23,680**

The payables due to INPS and the other social security institutions rose compared to 31 December 2006 by Euro 1,138 thousand, for the most part because the new regulations regarding supplementary welfare introduced by the 2007 Finance Bill were applied. Please see note 29 on “employee leaving indemnities” on this subject.

The payables to employees, totalling Euro 19,096 thousand as at 31 December 2007, take into account holidays accrued and not taken and the productivity bonus.

The item payables for guarantee deposits, equivalent to Euro 46,949 thousand as at 31 December 2007, refers to the deposits customers paid for gas, electricity and water administration agreements.

The item other payables, amounting to Euro 114,982 thousand as at 31 December 2007, is mainly made up of positions with:

- Municipalities, mainly due to "environmental inconvenience" and establishment of guarantees,
- Electricity Equalisation Fund,
- Payables for the provisional plans deferred to the income of future years proportional to the amortisation of the relative fixed assets;
- payables for grants relating to unfinished works.

The Euro 25,709 thousand increase with respect to 31 December 2006 is mostly due to the establishment of guarantees in favour of the parent company by several partner municipalities. These guarantees regard the amounts that Hera Spa would be called upon to pay in the unfortunate circumstance that recourses for cancelling notices/injunctions received for tax moratorium should give a negative result. For a more complete discussion of this problem, please refer to note 13, "Income taxes".

IAS 14: information by business area

INCOME STATEMENT 2007

	Gas	Electr.	Water Cycle	Waste Mgmt	Other serv.	Structure	Total	Cons. Income Statement
Direct revenues	891.5	928.4	390.1	514.2	152.8	28.1	2,905.1	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	232.8
Indirect amort/depr. and prov.	6.7	5.1	11.0	12.0	3.2	-38.0		
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**	**-0.1**	**220.6**	**220.6**

INCOME STATEMENT 2006

	Gas	Electr.	Water Cycle	Waste Mgmt	Other serv.	Structure	Total	Cons. Income Statement
Direct revenues	944.4	335.7	381.3	505.7	157.7	39.7	2,364.4	2,364.4
Infra-cycle revenues	33.0	50.9	6.5	19.9	2.4	1.1	113.7	
Total direct revenues	**977.4**	**386.5**	**387.8**	**525.5**	**160.1**	**40.7**	**2,478.2**	**2,364.4**
INDIRECT REVENUES	10.2	2.8	10.6	14.1	3.0	-40.7	0.0	
TOTAL REVENUES	**987.6**	**389.4**	**398.4**	**539.6**	**163.1**	**0.0**	**2,478.2**	**2,364.4**
EBITDA	**116.1**	**25.2**	**107.5**	**150.4**	**27.4**	**0.0**	**426.7**	**426.7**
Direct amort/depr. and prov.	31.0	10.3	37.4	65.1	14.1	37.5	195.4	195.4
Indirect amort/depr. and prov.	7.2	4.7	10.7	11.6	3.3	-37.5		
Total amort/depr. and prov.	**38.2**	**15.0**	**48.1**	**76.7**	**17.4**	**0.0**	**195.4**	**195.4**
EBIT	**77.9**	**10.2**	**59.4**	**73.8**	**10.1**	**0.0**	**231.3**	**231.3**

BALANCE SHEET AS AT 31 DECEMBER 2007

	Gas	Electr.	Water Cycle	Waste Mgmt	Other services	Structure	Cons. Income Statement
Net working capital	39.0	62.4	-12.4	24.7	6.1		119.8
Net fixed assets	511.1	425.2	863.1	931.8	247.8	269.7	3,248.8
Provisions	-97.9	-71.5	-76.1	-141.1	-17.4	-2.1	-406.0
Hera's net capital invested	**452.3**	**416.2**	**774.6**	**815.4**	**236.6**	**267.6**	**2,962.6**
Shareholders' Equity							1,538.6
Net financial position							1,424.0

BALANCE SHEET AS AT 31 DECEMBER 2006

	Gas	Electr.	Water Cycle	Waste Mgmt	Other services	Structure	Cons. Income Statement
Net working capital	92.2	56.8	-18.5	43.8	-6.3		167.9
Net fixed assets	511.5	334.7	754.6	817.4	231.0	272.8	2,921.9
Provisions	-112.7	-44.0	-74.8	-147.5	-18.9	-2.3	-400.2
Hera's net capital invested	**491.0**	**347.4**	**661.2**	**713.7**	**205.9**	**270.5**	**2,689.6**
Shareholders' Equity							1,516.3
Net financial position							1,173.3

Guarantees granted

The most important guarantees granted to third parties are listed below.

- Mortgages and special liens on land, plants and machinery recorded by the subsidiary Fea Srl in favour of the pool of banks that subscribed the project financing without recourse for Euro 216,909 thousand.
- Mortgages guaranteeing the loan of the subsidiary Nuova Geovis Srl for Euro 7,718 thousand.
- Personal guarantees given by the parent company in favour of Set Spa, connected with the purchase of 39% of the company Set Spa from Raetia Spa equivalent to a total of Euro 121,099 thousand, of which Euro 67,927 thousand are given against loans that Set Spa obtained from a pool of banks and Euro 53,172 thousand against guarantees given to the builder of the power station under construction and to General Electric International.
- Personal guarantees given by the parent company to Set Spa totalling Euro 14,586 thousand on a gas supply contract expiring on 31 January 2008 with the supplier Eni.
- Personal guarantees given by the parent company for Euro 15,000 thousand concerning Acantho Spa with regard to a non-binding letter of patronage against the loan without recourse Acantho Spa obtained from a pool of bank money lenders.
- Letter of patronage issued by the parent company for the value of Euro 4,298 thousand against financial leasing agreements Acantho Spa entered into and letters of patronage backing tenders, again in favour of Acantho Spa, for Euro 86 thousand.
- Personal guarantees given by the parent company for loans totalling Euro 1,363 thousand in favour of Modena Network Spa.
- Guarantees issued by the parent company for Euro 77,515 thousand as guarantee of the post-closure of the landfills and mortgages.
- Guarantee given by the subsidiary Asa to the Province of Bologna to guarantee the environmental impact deriving from the landfill management activity amounting to Euro 19,286 thousand.
- Guarantee given by the subsidiary Aspes Multiservizi Spa in favour of companies to guarantee work in progress for Euro 2,246 thousand.
- Guarantee given by the subsidiary Medea Spa in favour of the municipality of Sassari to guarantee gas network extension work in that municipality for Euro 3,133 thousand.
- Guarantee given by the subsidiary Nuova Geovis Srl in favour of the Province of Bologna to guarantee the environmental impact deriving from the landfill management activity for the amount of Euro 10,136 thousand.
- Guarantee given by the subsidiary Sotris Spa in favour of the Province of Ravenna to guarantee the environmental impact deriving from the landfill management activity for Euro 16,985 thousand.
- Guarantees given by the subsidiaries Hera Comm Srl and Hera Trading Srl for guarantees to suppliers of raw materials in compliance with existing supply contracts totalling Euro 102,812 thousand.

Third party assets used

The major third party assets used are listed below:

- The third party assets used are primarily made up of assets the parent company uses totalling Euro 1,548,175 thousand by way of concession or rental of a line of business.
- The third party assets used by the subsidiary Aspes Multiservizi Spa for Euro 27,111 thousand by way of rental of line of business for the gas service.
- The third party assets used by the subsidiary Medea for Euro 15,690 thousand by way of concession for the gas networks of the municipality of Sassari.

2.02.04 Statement of changes in the shareholders’ equity

	Share capital	Reser-ves	Reserves for deriv. instr. measured at fair value	Profit for the year	Shareholders ' equity	Minority interests	Total
Balance as at 31 December 2005	**1,016,752**	**360,020**	**-4,185**	**80,346**	**1,452,933**	**30,603**	**1,483,536**
GDG merger		323			**323**		**323**
treasury shares in portfolio	-115	175			**60**		**60**
change during period in fair value deriv.		1,320	4,834		**6,154**	815	**6,968**
use of reserves					**0**		**0**
other movements		-2,267			**-2,267**	4,267	**1,999**
Appropriation of profit for 2005					**0**		**0**
- dividends paid out		-19,405		-51,767	**-71,172**	-5,610	**-76,782**
- alloc. of undivided profits to reserves		-7,792		7,792	**0**		**0**
- allocation to other reserves		4,240		-4,240	**0**		**0**
- profits after the impact of IAS		32,131		-32,131	**0**		**0**
Profit for the period				**90,105**	**90,105**	**10,133**	**100,238**
Balance as at 31 December 2006	**1,016,637**	**368,744**	**649**	**90,105**	**1,476,135**	**40,207**	**1,516,342**
	Share capital	**Reser-ves**	**Reserves for deriv. instr. measured at fair value**	**Profit for the year**	**Shareholders ' equity**	**Minority interests**	**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 during period in fair value deriv.		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 profit for 2006:							
- dividends paid out		-78,148		-3,164	**-81,312**	-8,343	**-89,655**
- alloc. of undivided profits to reserves		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**

2.02.05 Consolidated Cash Flow Statement

Consolidated cash flow statement (*)	**31-Dec-2007**		**31-Dec-2006**	
Operating activities				
Cash flow				
Net profit pertaining to Group and minority shareholders	109,903		100,238	
Depreciation and writedowns of tangible fixed assets	135,021		129,731	
Amortisation and writedowns of intangible assets	41,151		35,990	
Total cash flow	**286,075**		**265,959**	
Changes in prepaid and deferred taxation	(10,876)		33,706	
Employee leaving indemnities and other benefits:				
Provisions/ (uses)	(10,174)		12,148	
Provisions for risks and charges:				
Provisions/ (uses)	29,497		32,629	
Total cash flow before changes in net working capital	**294,522**		**344,442**	
Working capital				
Change in trade receivables	(5,370)		(99,388)	
Change in inventories	(216)		(11,744)	
Change in other current assets	(93,311)		66,999	
Change in trade payables	142,934		73,982	
Change in tax liabilities	(19,675)		53,817	
Change in other current liabilities	23,681		1,032	
Change in working capital	**48,043**		**84,698**	
Liquidity generated by operations		**342,565**		**429,140** a)
Investment activities				
Disposal/(investment) in tangible assets, net of net investments/disinvestments	(476,482)		(335,230)	
Disposal/(investment) in intangible assets, net of net investments/disinvestments	(29,208)		(54,390)	
Goodwill	(1,816)		(125,495)	
Investments in equity investments net of disposals	1,814		(31,734)	
(Increase)/decrease in other investments	14,920		31,445	
Liquidity generated/(absorbed) by investment activities		**(490,772)**		**(515,404)** b)
Financing activities				
Medium/long-term loans	459,450		402,726	
Change in shareholders' equity accounts	2,002		9,352	
Change in short-term bank indebtedness	(195,365)		(201,782)	
Dividends paid out	(89,655)		(76,782)	
Change in financial leasing payables	(20,948)		(9,154)	
Change in financial instruments - derivatives	(9,892)		(13,573)	
Liquidity generated/(absorbed) by financing activities		**145,592**		**110,787** c)
		(2,615) (a+b+c)		**24,523 (a+b+c)**
Change in net financial position				
Cash and cash equivalents at the beginning of the year	213,629		189,107	
Cash and cash equivalents at the end of the year	211,014		213,629	
	(2,615)		**24,523**	

(*) Pursuant to CONSOB Resolution no. 15519 of 27 July 2006, the effects of the transactions with related parties on the cash flow statement are illustrated in the cash flow statement provided in the next pages. Further information can be found in paragraph 2.03 of these financial statements.

2.02.06 Net financial position

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:

	(euro/million)	31-Dec-2007	31-Dec-2006
a	**Cash and cash equivalents**	**211.0**	**213.6**
b	**Other current loans**	**10.0**	**12.8**
	Current bank indebtedness	-149.6	-312.4
	Current part of bank indebtedness	-86.1	-109.4
	Other current loans	-7.6	-17.3
	Current financial assets (liabilities) from derivative instruments	-0.2	-2.3
	Financial leasing payables expiring within the following year	-5.6	-9.5
c	**Current financial indebtedness**	**-249.1**	**-450.9**
d=a+b+c	**Net current financial indebtedness**	**-28.1**	**-224.5**
e	**Non current loans**	**6.6**	**19.2**
f	**Non-current financial assets (liabilities) from derivative instr.**	**7.8**	**0.0**
	Non-current bank indebtedness	-475.9	-410.0
	Bonds issued	-798.2	-497.6
	Other non-current financial payables	-122.4	-29.4
	Financial leasing payables expiring beyond the following year	-13.9	-31.0
g	**Non-current financial indebtedness**	**-1,410.4**	**-968.0**
h=e+f+g	**Net non-current financial indebtedness**	**-1,396.0**	**-948.8**
i=d+h	**Net financial indebtedness**	**-1,424.1**	**-1,173.3**

2.03 Related parties – CONSOB resolution no. 15519 of 27 July 2006

2.03.01 Income statement

€/000	*Note*	2007	*of which Related Parties* A	B	C	D	Total	%	2006	*of which Related Parties* A	B	C	D	Total	%
Income Statement															
Revenues	4	2,863,298	23	13,319	79,568	6,688	99,598	3.5	2,311,450	538	6,545	77,976	5,580	90,639	3.9
Change in stock of finished goods and work in progress		-4,249							2,699						
Other operating income	5	46,038	73	2,907	180	158	3,318	7.2	50,295	301	366	1,296	284	2,247	4.5
Use of raw materials and consumables														0	
(net of change in sotck of raw materials and stocks)	6	-1,613,916		-69,975	-233	-18,079	-88,287	5.5	-1,146,683	-25	-20,487	0	-24,178	-44,690	3.9
Costs for services	7	-724,694	-4,337	-18,446	-11,244	-30,819	-64,846	8.9	-642,544	-3,007	-16,713	-10,911	-30,320	-60,951	9.5
Personnel costs	8	-300,912							-296,598					0	
of which recurrent		-5,278													
Amortisation, depreciation and allocations	9	-232,797							-195,358					0	
Other operating costs	9 bis	-50,399	-2	-5,504	-961	-636	-7,103	14.1	-46,457	-0	-4	-970	-407	-1,381	3.0
Capitalised costs	10	238,212							194,516						
Operating profit		220,581	-4,243	-77,699	67,310	-42,688	-57,321		231,320	-2,193	-30,293	67,391	-49,041	-14,136	
Portion of profit (loss) pertaining to associated companies	11	1,235							1,849						
Financial income	12	28,599							47,702						
Financial charges	12	-107,875							-101,624						
Pre-tax profit		142,540	-4,243	-77,699	67,310	-42,688	-57,321		179,247	-2,193	-30,293	67,391	-49,041	-14,136	
Taxes for the period	13	-32,637							-79,009						
of which recurrent		32,930													
Asset disposal															
Net profit for the year	13.1	109,903	-4,243	-77,699	67,310	-42,688	-57,321		100,238	-2,193	-30,293	67,391	-49,041	-14,136	
Attributable to:															
Shareholders of Parent Company		96,246							90,105						
Minority shareholders		13,657							10,133						
base		0.095							0.089						
diluted		0.095							0.089						

Note 4

Under the item "Revenues" we see a total increase of Euro 8,959 thousand compared to financial period 2006, mostly attributable to intensification of trade relations with associated companies (Set Spa, FlameEnergy Trading GMBH, Sat Spa) and with related companies of considerable influence.

Note 6

Under the item "Use of raw materials and consumables", the significant increase over the previous financial period – equal to Euro 43,597 thousand - is mainly due to intensification of trade relations with associated companies Set Spa and FlameEnergy Trading GMGH. In particular, the increased purchases made by Set Spa is tied to the Teverola power plant going into operation.

Legend of headings of related parties columns:

A: subsidiary companies

B: associated companies

C: related companies with considerable influence

D: other related parties

2.03.02 Balance sheet

	Notes	*31-Dec-2007* € /000	A	B	C	D	Total	%	*31-Dec-2006* € /000	A	B	C	D	Total	%
			of which Related Parties							*of which Related Parties*					
Activity															
Non-current assets															
Tangible fixed assets	14	2,546,028							2,120,445						
Intangible fixed assets	15	219,305							231,248						
Goodwill and differences from consolidation	16	316,621							398,927						
Equity investments	17	121,729	1,436	93,857	0	24,745	120,038	98.6	123,543	1,506	88,877		31,303	121,686	94.6
Financial assets	18	6,802		6,620			6,620	97.3	19,474		19,239		0	19,239	98.8
Deferred tax assets	19	45,080							47,778						
Financial instruments-derivatives	20	9,685							7,877						
		3,265,250	1,436	100,477	0	24,745	126,658		2,949,292	1,506	108,116	0	31,303	140,925	
Current assets															
Inventories	21	49,992							44,590						
Trade receivables	22	1,005,692	3,569	35,046	18,858	5,102	62,575	6.2	1,000,322	802	22,608	18,576	8,037	50,023	5.0
Long-term contracts	23	18,407							23,593						
Financial assets	24	15,214							17,462	31				31	0.2
Financial instruments-derivatives	20	8,309							4,587						
Other current assets	25	200,362	31	0	400	712	1,143	0.6	107,051						
Cash and cash equivalent	26	211,014							213,629						
		1,508,990	3,600	35,046	19,258	5,814	63,718		1,411,234	833	22,608	18,576	8,037	50,054	
Total assets		4,774,240	5,036	135,523	19,258	30,559	190,376		4,360,526	2,339	130,724	18,576	39,340	190,979	

Legend of headings of related parties columns:

A: subsidiary companies

B: associated companies

C: related companies with considerable influence

D: other related parties

	Notes	31-Dec-2007 € /000	of which Related Parties A	B	C	D	Total	%	31-Dec-2006 € /000	of which Related Parties A	B	C	D	Total	%
Equity and liabilities															
Share capital and reserves	27														
Share capital		1,016,752							1,016,752						
Reserve for treasury shares at par value		-617							-115						
Reserves		376,365							368,982						
Reserve for treasury shares value exceeding par value		-1,211							-237						
Reserves for derivative instruments valued at fair value		4,365							648						
Retained earnings (losses)									0						
Profit (loss) for the period		96,246							90,105						
Group shareholders' equity		1,491,900	0	0	0	0	0		1,476,135	0	0	0	0	0	
Minority interest share		46,692							40,208						
Total shareholders' equity		1,538,592	0	0	0	0	0		1,516,343	0	0	0	0	0	
Non-current liabilities															
Loans - maturing beyond the newt year	28	1,396,693							937,243						
Employee leaving indemnity and other benefits	29	102,876							113,050						
Provisions for risks and charges	30	182,048							152,551						
Deferred tax liabilities	31	121,050							134,624						
Payables for financial leases - maturing	32	13,904							31,004						
Financial instruments - derivatives	20	1,836							7,838						
		1,818,407	0	0	0	0	0		1,376,310	0	0	0	0	0	
Current liabilities															
Banks and other borrowings - maturing within the next year	28	248,481							443,846						
Payables for financial leases - maturing	32	5,637							9,485						
Trade payables	33	889,416	3,154	18,686	4,671	10,018	36,529	4.1	746,482	6,813	22,248	17,959	15,431	62,451	8.4
Income taxes payable	34	66,687							86,362						
Other current liabilities	35	198,512	12		16,799	1,063	17,874	9.0	174,831			389	2,348	2,737	1.6
Financial instruments - derivatives	20	8,508							6,867						
		1,417,241	3,166	18,686	21,470	11,081	54,403		1,467,873	6,813	22,248	18,348	17,779	65,188	
Total liabilities		3,235,648	3,166	18,686	21,470	11,081	54,403		2,844,183	6,813	22,248	18,348	17,779	65,188	
Total equity and liabilities		4,774,240	3,166	18,686	21,470	11,081	54,403		4,360,526	6,813	22,248	18,348	17,779	65,188	

Legend of headings of related parties columns:

A: subsidiary companies

B: associated companies

C: related companies with considerable influence

D: other related parties

2.03.03 Cash flow statement

Consolidated cash flow statement pursuant to Consob Resolution no. 15519 of 27 July 2006

	31-Dec-2007			of which Related Parties
Operations				
Cash flow				
Net profit pertaining to Group and minority shareholders	109,903			
Depreciation and writedowns of tangible fixed assets	135,021			
Amortisation and writedowns of intangible fixed assets	41,151			
Total cash flow	**286,075**			
Changes in prepaid and deferred taxation	(10,876)			
Provision for employee leaving indemnities and other benefits				
Provisions / (uses)	(10,174)			
Provisions for risks and charges:				
Provisions / (uses)	29,497			
Total cash flow before changes in net working capital	**294,522**			
Working capital				
Change in trade receivables	(5,370)			(12,552)
Change in stock	(216)			
Change in other current assets	(93,311)			(1,143)
Change in trade payables	142,934			(25,922)
Change in tax liabilities	(19,675)			
Change in other current liabilities	23,681			15,137
Change in working capital	**48,043**			
Liquidity generated by operations		**342,565**		
Investment activities				
Disposal/(investment) in tangible assets, net of net investments/disposals	(476,482)			
Disposal/(investment) in intangible assets, net of net investments/disposals	(29,208)			
Goodwill	(1,816)			
Investments in equity investments net of disposals	1,814			1,648
(Increase) / decrease of other investment activities	14,920			12,650
Liquidity generated/(absorbed) by investment activities		**(490,772)**		
Financing activities				
Medium/long-term loans	459,450			
Change in shareholders' equity accounts	2,002			
Change in short-term bank indebtedness	(195,365)			
Dividends distributed	(89,655)			(21,315)
Change in financial leasing payables	(20,948)			
Change in financial instruments - derivatives	(9,892)			
Liquidity generated/absorbed) by financing activities		**145,592**		
			(2,615) (a+b+c)	
Change in net financial position				
Cash and cash equivalents at the beginning of the year	213,629			
Cash and cash equivalents at the end of the year	211,014			
	(2,615)			

2.03.04 Net financial position

	Figures in thousands of €	31-Dec-2007	*of which Related Parties*	31-Dec-2006	*of which Related Parties*
a	**Cash and cash equivalents**	**211.0**		**213.6**	
b	**Other current loans**	**10.0**		**12.8**	
	Current bank indebtedness	-149.6		-312.4	
	Current portion of bank indebtedness	-86.1		-109.4	
	Other current loans	-7.6		-17.3	
	Current financial assets/liabilities from derivative instruments	-0.2		-2,3	
	Financial leasing payables due during the next financial year	-5.6		-9.5	
c	**Current financial indebtedness**	**-249.1**	**0.0**	**-450.9**	**0.0**
d=a+b+c	**Net current financial indebtedness**	**-28.1**	**0.0**	**-224.5**	**0.0**
e	**Non-current loans**	**6.6**	**6.6**	**19.2**	**19.2**
f	**Non-current financial assets/liabilities from derivative instr.**	**7.8**		**0.0**	
	Non-current bank indebtedness	-475.9		-410.0	
	Bonds issued	-798.2		-497.6	
	Other non-current loans	-122.4		-29.4	
	Financial leasing payables coming due after the next year	-13.9		-31.0	
g	**Non-current financial indebtedness**	**-1,410.4**	**0.0**	**-968.0**	**0.0**
h=e+f+g	**Net non-current financial indebtedness**	**-1,396.0**	**6.6**	**-948.8**	**19.2**
i=d+h	**Net financial indebtedness**	**-1,424.1**	**6.6**	**-1.173.3**	**19.2**

2.03.05 Notes

Transactions with Related Parties

Services management

Hera Spa holds concessions of local public services of economic interest (distribution of natural gas via local gas pipelines, integrated water service and waste management services, including sweeping, collection, transport and waste recovery and disposal) in a large amount of its territory of competence and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini). The electricity distribution service has been carried out in the Imola district, in the municipality of Modena and in the municipalities of the province of Modena acquired from the previous operator (Enel Distribuzione) since 1 July 2006.
Other public utility services (including district heating, heat management and public lighting) are provided under market conditions or through specific agreements with the local authorities concerned. Through special agreements with local authorities, Hera is responsible for the waste treatment and disposal service, excluded from the regulatory activity carried out by the environmental authorities (ATOs) set up by Regional Law no. 25/1999, although subject to inspection by the regional public services regulatory agency.

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.

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 enjoys some increased remaining durations envisaged for the operators that have promoted operations of partial privatisation and aggregation. The remaining duration of the distribution licenses is no less than what was provided at the time of the offer.
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 (what is particularly in force at the time of approval of the financial statements, hereto attached, is resolution no. 170/2004 and its subsequent modifications). The territory where Hera provides the gas distribution service is broken down into "tariff areas" in which a uniform distribution tariff is applied to the various customer categories.

As far as electricity is concerned, the concessions (lasting 30 years and renewable pursuant to current legislation) concern energy distribution including, among other things, management of the distribution networks and operation of the connected plants, routine and extraordinary maintenance, and the planning and identification of 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 regulations in force at the time of approval of the annual financial statements attached hereto is resolution no. 348/2007 ("Integrated text of provisions for supplying electricity transmission, distribution and measurement services for the regulatory period of 2008-2011 and provisions governing economic conditions for supplying the

connection service”). This resolution replaced the previous tariff options regulations in force to establish one sole national distribution tariff.

Water sector

Hera manages the integrated water service. Its agreements with the ATOs, of varying durations (but no less than 20 years), cover the water system service or sewer and purification service, or all of the water system, sewer and purification services.
Water system management includes the whole of public tapping, potable treatment, distribution and sale of drinking water for civil and industrial use. The sewer and purification service includes managing the networks and sewage and purification plants.
In some cases 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.
Hera manages the service on an exclusive basis for the territory of the municipalities falling within the various agreements, with the municipality obliged to not allow third parties to place pipelines in the subsoil of its property or domain without the prior consent of Hera.
The agreements also regulate other aspects of the relationship, such as the forms of managing the service and mutual obligations between the parties that mostly regard the charges for executing routine and extraordinary maintenance work on the networks and plants necessary for functioning of the services. Technical and economic guidelines are attached to the agreements, and govern the features of the service, the obligatory standards of quality and operation, and the tariff aspects. The tariffs, established every year (based on long-term economic agreements) consistent with legal provisions and in particular with applicative regulations of the Galli Law (so-called standardised tariff method) and with significant regional regulations, must be approved by the ATOs.

Waste management sector

The agreements Hera entered into with the ATOs regard exclusive management for the waste collection, road sweeping and cleaning, and waste collection and disposal.
The term of the agreements is set at ten years by regional laws. The agreements govern the procedures of supplying the services, the consideration due to the operator for the services rendered (equivalent to the tariff, if established, provided for by Italian Presidential Decree 158/1999), the obligations of the parties and the concession rentals for the use and occupation by the operator of roads and surrounding area for the performance of the service carried out.
For operating the waste treatment plants, the Hera Group has entered into special agreements with the municipalities where the plants are located.

Management of the networks, plants and equipment

The infrastructures necessary for operating the services, including local gas pipelines and water and sewer systems, are in part owned by Hera and in part owned by third parties (municipalities, consortiums of municipalities, asset companies owned by local authorities). Relations between the service operator and the owners of the assets used for operation are governed by special agreements between the parties, and also by regional legislation. 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.
When the contract expires, Hera will return the line of business and at the same time will give rise to an adjustment between the initial value of the assets at the time the rental contract is entered into (value equal to that resulting from the net book values recorded in the asset companies at the date of rental) and the value of the aforementioned assets on termination of the contract. The final value is equal to the initial value reduced by the amortisation accrued up until the expiration of the contract, to which the value of the investments made by Hera net of the accrued amortisation is to be added.

Contracts for the use of the infrastructures used for providing the service are in effect with the asset companies to which the municipalities (generally holders of quotas of Hera's capital) have granted ownership of the assets. The asset companies have benefited, for the part regarding capital goods, from the break-ups of lines of businesses made at the same time as the split and merger operations of the former local public service companies in favour of Seabo Spa, operations that created Hera Spa to which, as holder of the service licenses, was given the management line of business.

2.04 Equity investments

2.04.01 List of consolidated companies

List of Group companies consolidated with the line-by-line method

Name	Registered office	Share capital	Percentage held		Total	Overall share
			Direct	Indirect		
Parent company:						
Hera Spa	Bologna	1,016,752,029				
Akron Spa	Imola (BO)	1,152,940	57.50%		57.50%	57.50%
Ambiente 3000 Srl	Bologna	100,000	51.00%		51.00%	51.00%
Ares Spa consortile	Bologna	1,125,240	100.00%		100.00%	100.00%
Asa Spa	Castelmaggiore (BO)	1,820,000	51.00%		51.00%	51.00%
Gruppo Aspes	Pesaro	10,963,627	49.86%		49.86%	49.86%
Ecologia Ambiente Srl	Ravenna	20,000,000	100.00%		100.00%	100.00%
Ecosfera Spa	Ferrara	1,000,000	100.00%		100.00%	100.00%
Eris 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		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)	88,591,541	100.00%		100.00%	100.00%
Hera Comm Mediterranea Srl	Naples	50,000		50.01%	50.01%	50.01%
Hera Energie Bologna Srl	Bologna	926,000		51.00%	51.00%	51.00%
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 Gas Tre Spa	Bologna	120,000	100.00%		100.00%	100.00%
Hera Imola-Faenza Srl	Imola (BO)	750,000	100.00%		100.00%	100.00%
Hera Luce Srl	San Mauro Pascoli (FC)	264,012	89.58%		89.58%	89.58%
Hera Modena Srl	Modena	1,000,000	100.00%		100.00%	100.00%
Hera Ravenna Srl	Ravenna	850,000	100.00%		100.00%	100.00%
Hera Rete Modena Srl	Bologna	22,221,850	100.00%		100.00%	100.00%
Hera Rimini Srl	Rimini	1,050,000	100.00%		100.00%	100.00%
Hera Servizi Funerari Srl	Bologna	10,000	100.00%		100.00%	100.00%
Herasocrem 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%
Medea Spa	Sassari	4,500,000	100.00%		100.00%	100.00%
Nuova Geovis Spa	Sant'Agata Bolognese (BO)	2,205,000	51.00%		51.00%	51.00%
Recupera Srl	Voltana di Lugo (RA)	1,673,290	100.00%		100.00%	100.00%
Romagna Compost Srl	Cesena (FC)	3,560,002	60.00%		60.00%	60.00%
Sinergia Srl	Forlì (FC)	579,600		59.00%	59.00%	59.00%
Sotris Spa	Ravenna	2,340,000	70.00 %		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%	97.00%

The table below summarises the changes in the scope of consolidation compared to the previous year.

Companies which entered the scope of consolidation in 2007	Companies which exited the scope of consolidation in 2007	Notes
Gastecnica Galliera Srl		fully acquired
	Gas Riccione Spa	transferred to Sgr Servizi Spa
	Metaenergy Srl	merged by incorporation in Hera Comm Srl
	Metaservice Srl	merged by incorporation in Uniflotte Srl
	Seas Lavori e Servizi Scrl in liquidazione	valued at cost
	Viviservizi Srl in liquidazione	discontinued

List of Group companies consolidated with the equity method

Name	Registered office	Share capital	Percentage held		Total	Overall share
			Direct	Indirect		
Acantho Spa	Imola (BO)	15,875,781	47.46%		47.46%	47.46%
Adriatica Acque Srl	Rimini (RN)	89,033		26.14%	26.14%	26.14%
Agea Reti Srl	Ferrara	19,000,000	39.72%		39.72%	39.72%
Agess Scrl	Forlì (FC)	79,750	21.44%		21.44%	21.44%
Dyna Green Srl	Milan	30,000		33.33%	33.33%	33.33%
Estense Global Service	Ferrara	10,000		23.00%	23.00%	23.00%
FlamEnergy Trading Gmbh	Vienna	3,000,000		50.00%	50.00%	50.00%
Modena Network Spa	Modena	3,000,000	44.88%		44.88%	44.88%
Oikoten Scrl	Siracusa	1,101,730	46.10%		46.10%	46.10%
Refri Srl	Reggio Emilia	6,800,000	20.00%		20.00%	20.00%
Sat Spa	Sassuolo (MO)	27,752,560	46.50%		46.50%	46.50%
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	Milan	120,000	39.00%		39.00%	39.00%

The table below summarises the changes in the scope of consolidation compared to the previous year.

Companies which entered the scope of consolidation in 2007	Companies which exited the scope of consolidation in 2007	Notes
	Sinegie ambientali Srl	discontinued
	Attivabologna Srl in liquidazione	valued at cost

2.04.02 List of significant investments

Direct investments as at 31 December 2007

ACANTHO S.p.A. Share capital Euro 15,875,781 fully paid-in. Held by HERA S.p.A. since 2000		
REGISTERED OFFICE: Via Molino Rosso no. 8 - 40026 IMOLA (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	7,534,200	47.457%

AGEA RETI S.r.l. Share capital € 19,000,000 fully paid-in. Held by HERA S.p.A. since 31-Dec-2004		
REGISTERED OFFICE: Piazza Municipale no. 2 - 44100 FERRARA (FE)		
Shareholder	Equity inv. in €	Equity inv. in %
Hera S.p.A.	7,546,800	39.72%

AGESS S.c.a r.l. Share capital € 79,750 fully paid-in. Held by HERA S.p.A. since 1-Nov-2002		
REGISTERED OFFICE: P.zza Falcone e Borsellino no. 23 - 47100 FORLI' (FC)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	17,100	21.44%

AKRON S.p.A. Share capital € 1,152,940 fully paid-in. Held by HERA S.p.A. since 1-Nov-2002		
REGISTERED OFFICE: Via Molino Rosso no. 8 - 40026 IMOLA (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	662,940	57.50%

AMBIENTE 3000 S.r.l. Share capital € 100,000 fully paid-in. Held by HERA S.p.A. since 1-Jun-2003		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	51,000	51.00%

AMBIENTE MARE S.p.A. Share capital € 2,000,000 fully paid-in. Held by HERA S.p.A. since 1-Nov-2002		
REGISTERED OFFICE: Via del Marchesato no. 35 - 48023 MARINA DI RAVENNA (RA)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	300,000	15.00%

A.S.A. S.p.A. Share capital € 1,820,000 fully paid-in. Held by HERA S.p.A. since 1994		
REGISTERED OFFICE: Via Saliceto no. 43/A - 40013 CASTEL MAGGIORE (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	928,200	51.00%

ASPES MULTISERVIZI S.p.A. Share capital € 10,963,627 fully paid-in. Held by HERA S.p.A. since 2002		
REGISTERED OFFICE: Via dei Canonici no. 144 - 61100 PESARO (PU)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	5,466,565	49.86%

CALENIA ENERGIA S.p.A. Share capital € 100,000 fully paid-in. Held by HERA S.p.A. since 23-Sep-2004		
REGISTERED OFFICE: Via Antica Fiumara no. 6 - Genoa (GE)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	15,000	15.00%

ECOLOGIA AMBIENTE S.r.l. Share capital € 20,000,000 fully paid-in. Held by HERA S.p.A. since Oct-2004		
REGISTERED OFFICE: Via Baiona no. 182 - 48100 RAVENNA (RA)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**20,000,000**	**100.00%**

ECOSFERA S.p.A. Share capital € 1,000,000 fully paid-in. Held by HERA S.p.A. since 31-Dec-2004		
REGISTERED OFFICE: Via Stefano Trenti no. 32 - 44100 FERRARA (FE)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**1,000,000**	**100.00%**

ENERGIA ITALIANA S.p.A. Share capital € 26,050,000 fully paid-in. Held by HERA S.p.A. since 2001		
REGISTERED OFFICE: Via V. Viviani no. 12 - 20124 Milan (MI)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**2,865,500**	**11.00%**

FAMULA ON-LINE S.p.A. Share capital € 4,364,030 fully paid-in. Held by HERA S.p.A. since 2001		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**2,618,418**	**60.00%**

FRULLO ENERGIA AMBIENTE S.r.l. Share capital € 17,139,100 fully paid-in. Held by HERA S.p.A. since 2000		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**8,740,941**	**51.00%**

GAL.A S.p.A. Share capital € 300,000 fully paid-in. Held by HERA S.p.A. since 1997		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**180,000**	**60.00%**

GASTECNICA GALLIERA S.r.l. Share capital € 312,000 fully paid-in. Held by HERA S.p.A. since 23-Oct-2007		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**312,000**	**100.00%**

HERA IMOLA-FAENZA S.r.l. Share capital € 750,000 fully paid-in. Held by HERA S.p.A. since 21-Oct-2002		
REGISTERED OFFICE: Via Casalegno 1 - 40026 IMOLA (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**750,000**	**100.00%**

HERA BOLOGNA S.r.l. Share capital € 1,250,000 fully paid-in. Held by HERA S.p.A. since 21-Oct-2002		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**1,250,000**	**100.00%**

HERA COMM S.r.l. Share capital € 88,591,541 fully paid-in. Held by HERA S.p.A. since 2001		
REGISTERED OFFICE: Via Molino Rosso no. 8 - 40026 IMOLA (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	88,591,541	100.00%

HERA FERRARA S.r.l. Share capital € 810,000 fully paid-in. Held by HERA S.p.A. since 23-Nov-2004		
REGISTERED OFFICE: Via Diana no. 40 - 44044 Cassana (FE)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	810,000	100.00%

HERA FORLI'-CESENA S.r.l. Share capital € 650,000 fully paid-in. Held by HERA S.p.A. since 21-Oct-2002		
REGISTERED OFFICE: Via Spinelli 60 - 47023 CESENA (FC)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	650,000	100.00%

HERA GAS TRE S.p.A. Share capital € 120,000 fully paid-in. Held by HERA S.p.A. since 27-Apr-2005		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	120,000	100.00%

HERA LUCE S.r.l. Share capital € 264,012 fully paid-in. Held by HERA S.p.A. since 2000		
REGISTERED OFFICE: Via Due Martiri no. 2 - 47030 S. MAURO PASCOLI (FC)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	236,503.8	89.58%

HERA MODENA S.r.l. Share capital € 1,000,000 fully paid-in. Held by HERA S.p.A. since 24-Nov-2005		
REGISTERED OFFICE: Via Razzaboni no. 80 - 41100 MODENA (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	1,000,000	100.00%

HERA RAVENNA S.r.l. Share capital € 850,000 fully paid-in. Held by HERA S.p.A. since 21-Oct-2002		
REGISTERED OFFICE: Via Romea Nord 180/182 - 48100 RAVENNA (RA)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	850,000	100.00%

HERA RETE MODENA S.r.l. Share capital € 22,221,850 fully paid-in. Held by HERA S.p.A. since 30/06/2006		
REGISTERED OFFICE: Viale Berti Pichat 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	22,221,850	100.00%

HERA RIMINI S.r.l. Share capital € 1,050,000 fully paid-in. Held by HERA S.p.A. since 21-Oct-2002		
REGISTERED OFFICE: Via del Terrapieno 25 - 47900 RIMINI (RN)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	1,050,000	100.00%

HERA SERVIZI FUNERARI S.r.l. Share capital € 10,000 fully paid-in. Held by HERA S.p.A. since 22-Dec-2005		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	10,000	100.00%

HERASOCREM S.p.A. Share capital € 2,218,368 fully paid-in. Held by HERA S.p.A. since 10-Jul-2003		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	1,131,368	51.00%

HERA TRADING S.r.l. Share capital € 2,600,000 fully paid-in. Held by HERA S.p.A. since 2001		
REGISTERED OFFICE: Via Molino Rosso no. 8 40026 IMOLA (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	2,600,000	100.00%

INGENIA S.r.l. Share capital € 52,000 fully paid-in. Held by HERA S.p.A. since 01-Nov-2002		
REGISTERED OFFICE: Via Molino Rosso no. 8 - 40026 IMOLA (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	38,480	74.00%

ITALCIC S.c.a r.l. Share capital € 90,000 fully paid-in. Held by HERA S.p.A. since 31-Dec-2005		
REGISTERED OFFICE: Via Razzaboni no. 80 - 41100 MODENA (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	30,000	33.33%

MEDEA S.p.A. Share capital € 4,500,000 fully paid-in. Held by HERA S.p.A. since 01-Jul-2003		
REGISTERED OFFICE: Via Torres no. 4 - 07100 SASSARI (SS)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	4,500,000	100.00%

MODENA NETWORK S.p.A. Share capital € 3,000,000 fully paid-in. Held by HERA S.p.A. since 31-Dec-2005		
REGISTERED OFFICE: Via Razzaboni no. 80 - 41100 MODENA (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	900,000	30.00%
S.A.T. - Servizi Territorio Ambiente S.p.A.	960,000	32.00%

NUOVA GEOVIS S.p.A. Share capital € 2,205,000 fully paid-in. Held by HERA S.p.A. since 2001		
REGISTERED OFFICE: Via Romita no. 1 - 40019 Sant'Agata Bolognese (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	1,124,550	51.00%

OIKOTHEN S.c.a r.l. Share capital € 1,101,730 fully paid-in. Held by HERA S.p.A. since 09-Nov-2007		
REGISTERED OFFICE: Via Augusta no. 17 - 96100 SIRACUSA (SR)		
Shareholder	Equity inv in €	Equity inv. in %
HERA S.p.A.	507,892	46.10%

RECUPERA S.r.l. Share capital € 1,673,290 fully paid-in. Held by HERA S.p.A. since 01-Nov-2002		
REGISTERED OFFICE: Via Traversagno no. 30 - 48028 VOLTANA DI LUGO (RA)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**1,673,290**	**100.00%**

REFRI S.r.l. Share capital € 6,800,000 fully paid-in. Held by HERA S.p.A. since 27-Dec-2005		
REGISTERED OFFICE: Via Meuccio Ruini no. 10 - 42100 REGGIO EMILIA (RE)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**1,360,000**	**20.00%**

ROMAGNA COMPOST S.r.l. Share capital € 3,560,002 fully paid-in. Held by HERA S.p.A. since 01-Nov-2002		
REGISTERED OFFICE: Via Cesare Spinelli no. 60 - 47023 CESENA (FC)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**2,136,004.00**	**60.00%**

SAT S.p.A. Share capital € 27,752,560 fully paid-in. Held by HERA S.p.A. since 18-Oct-2006		
REGISTERED OFFICE: Via Brigata Folgore no. 26 - 41049 Sassuolo (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**12,904,935.23**	**46.50%**

SERVICE IMOLA S.r.l. Share capital € 10,000 fully paid-in. Held by HERA S.p.A. since 01-Nov-2002		
REGISTERED OFFICE: Via Allende no. 39 - 40021 BORGO TOSSIGNANO (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**4,000**	**40.00%**

SET S.p.A. Share capital € 120,000 fully paid-in. Held by HERA S.p.A. since 15-Dec-2004		
REGISTERED OFFICE: Viale Bianca Maria no. 15 - 20122 MILAN (MI)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**46,800**	**39.00%**

SOTRIS S.p.A. Share capital € 2,340,000 fully paid-in. Held by HERA S.p.A. since 01-Nov-2002		
REGISTERED OFFICE: S.S. 309 Romea Km. 2,6 no. 272 - 48100 RAVENNA (RA)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**1,638,000**	**70.00%**
Ambiente Mare S.p.A.	70,200	3.00%

UNIFLOTTE S.r.l. Share capital € 2,254,177 fully paid-in. Held by HERA S.p.A. since 2001		
REGISTERED OFFICE: Viale Masini no. 42 - 40126 BOLOGNA (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**2,186,551**	**97.00%**

Indirect investments as at 31 December 2007

Equity investment of HERA COMM S.r.l.:

ADRIATICA ACQUE S.r.l. Share capital € 89,033 fully paid-in. Held by HERA COMM S.r.l. since 23-Nov-2005		
REGISTERED OFFICE: Via Dario Campana no. 65 - 47900 RIMINI (RN)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.r.l.	**19,872**	**22.32%**
ASPES Multiservizi S.p.A.	6,838	7.68%

CALORPIU' MODENA S.c.a r.l. Share capital € 10,000 fully paid-in. Held by HERA COMM S.r.l. since 26-Sep-2006		
REGISTERED OFFICE: Via Razzaboni no. 80 - 41100 MODENA (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.r.l.	**6,000**	**60.00%**

CALORPIU' ITALIA S.c.a r.l. Share capital € 10,000 fully paid-in. Held by HERA COMM S.r.l. since 26-Sep-2006		
REGISTERED OFFICE: Via Razzaboni no. 80 - 41100 MODENA (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.r.l.	**5,100**	**51.00%**

ERIS Soc. cons. a responsabilità limitata Share capital € 300,000 - € 75,000 paid-in - Held by HERA COMM S.r.l. since 28-Sep-2004		
REGISTERED OFFICE: Via Romea Nord 180/182 - 48100 Ravenna (RA)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.r.l.	**153,000**	**51.00%**

ESTENSE GLOBAL SERVICE S.c.a r.l. Share capital € 10,000 fully paid-in. Held by HERA COMM S.r.l. since 27-Sep-2007		
REGISTERED OFFICE: Via M.N. Plattis no. 5/c - 44100 Ferrara (FE)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.p.A.	**2,300**	**23.00%**

HERA COMM MEDITERRANEA S.r.l. (formerly CALES S.r.l.) Share capital € 50,000 fully paid-in. Held by HERA COMM S.r.l. since 05-Feb-2007		
REGISTERED OFFICE: Zona Industriale ASI Nord - 81032 Carinaro (CE)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.r.l.	**25,005**	**50.01%**

HERA ENERGIE BOLOGNA S.r.l. Share capital € 926,000 fully paid-in - Held by HERA COMM S.r.l. since 30-Jun-2005		
REGISTERED OFFICE: Via dell'Elettricista 2 - 4012 Bologna (BO)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.r.l.	**472,260**	**51.00%**

SGR Servizi S.p.A. Share capital € 5,982,262 fully paid-in - Held by HERA COMM S.r.l. since 17-May-2005		
REGISTERED OFFICE: Via Chiabrera no. 34/b - 47900 Rimini (RN)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.r.l.	**1,771,062**	**29.61%**

SINERGIA S.r.l. Share capital € 579,600 fully paid-in. Held by HERA COMM S.r.l. since 19-Dec-2005		
REGISTERED OFFICE: Via Righi no. 1 - 47100 FORLI' (FC)		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.r.l.	**341,964**	**59.00%**

Equity investment of SGR Servizi S.p.A.:

GAS RICCIONE S.p.A. Share capital € 748,600 fully paid-in. Held by SGR Servizi S.p.A. since 01-Jan-2007		
REGISTERED OFFICE: Via Mantova, 6 Riccione (RN)		
Shareholder	Equity inv. in €	Equity inv. in %
SGR Servizi S.p.A.	748,600	100.00%

Equity investment of Hera Trading S.r.l.:

DYNA GREEN S.r.l. Share capital € 30,000 fully paid-in. Held by Hera Trading S.r.l. since 22-Nov-2005		
REGISTERED OFFICE: Viale Bianca Maria no. 24 - 20100 MILAN (MI)		
Shareholder	Equity inv. in €	Equity inv. in %
Hera Trading S.r.l.	10,000	33.33%

FlameEnergy Trading Gmbh Share capital € 3,000,000 fully paid-in. Held by Hera Trading S.r.l. since 19-Apr-2006		
REGISTERED OFFICE: VIENNA (Austria)		
Shareholder	Equity inv. in €	Equity inv. in %
Hera Trading S.r.l.	1,500,000	50.00%

Equity investment of SAT S.p.A.:

FERONIA S.r.l. Share capital € 2,430,000 fully paid-in. Held by SAT S.p.A. since 03-Oct-2007		
REGISTERED OFFICE: Piazza Verdi no. 6 - 41034 Finale Emilia (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
S.A.T. - Servizi Territorio Ambiente S.p.A.	972,000	40.00%

SO.SEL S.p.A. Share capital € 240,240 fully paid-in, Held by SAT S.p.A. since 16-Dec-2004		
REGISTERED OFFICE: Via Bellinzona no. 37/F - 41100 MODENA (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
S.A.T. - Servizi Territorio Ambiente S.p.A.	62,462.40	26.00%

SATCOM S.p.A. Share capital € 2,000,000 fully paid-in, Held by SAT S.p.A. since 27-Nov-2000		
REGISTERED OFFICE: Via Brigata Folgore no. 26 - 41049 Sassuolo (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
S.A.T. - Servizi Territorio Ambiente S.p.A.	2,000,000	100.00%

PRI.GE.A.S. S.r.l. Share capital € 15,600 fully paid-in, Held by SAT S.p.A. since 23-Jan-1998		
REGISTERED OFFICE: Via Brigata Folgore no. 26 - 41049 Sassuolo (MO)		
Shareholder	Equity inv. in €	Equity inv. in %
S.A.T. - Servizi Territorio Ambiente S.p.A.	7,644	49.00%

Equity investment of ASPES MULTISERVIZI S.p.A.:

ACQUE S.r.l. Share capital € 102,700 fully paid-in. Held by ASPES MULTISERVIZI S.p.A. since 1996		
REGISTERED OFFICE: Via dei Canonici no. 144 - 61100 PESARO (PU)		
Shareholder	Equity inv. in €	Equity inv. in %
ASPES Multiservizi S.p.A.	**102,700**	**100.00%**

ASPES GAS S.r.l. Share capital € 1,000,000 fully paid-in. Held by ASPES MULTISERVIZI S.p.A. since 2002		
REGISTERED OFFICE: Via dei Canonici no. 144 - 61100 PESARO (PU)		
Shareholder	Equity inv. in €	Equity inv. in %
ASPES Multiservizi S.p.A.	**1,000,000**	**100.00%**

SIS Società Intercomunale di Servizi S.p.A. Share capital € 103,300 fully paid-in. Held by ASPES MULTISERVIZI S.p.A. since 01-Nov-2002		
REGISTERED OFFICE: Piazza Municipio no. 1 - 61020 Montecalvo in Foglia (PU)		
Shareholder	Equity inv. in €	Equity inv. in %
ASPES Multiservizi S.p.A.	**43,127.75**	**41.75%**

Direct and indirect equity investments in liquidation as at 31 December 2007

ARES S.p.A. Consortile Share capital € 1,125,240 fully paid-in. Held by HERA S.p.A. since 1998		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
In liquidation since 12-Nov-2007		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**1,125,240**	**100.00%**

IDEAMETROPOLI Centro Global Service S.r.l. - Share capital € 21,045 fully paid-in - Held by HERA S.p.A. since 1988		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/5 - 40127 Bologna (BO)		
In liquidation since 1-May-2003		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**21,045**	**100.00%**

SEAS Lavori e Servizi Soc. Cons. a r.l. Share capital € 51,000 fully paid-in. Held by HERA, by ARES S.p.A. Cons. and by MEDEA S.p.A. since 1998		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
In liquidation since 04-Jul-2006		
Shareholder	Equity inv. in €	Equity inv. in %
HERA S.p.A.	**3,060**	**6.00%**
MEDEA S.p.A.	26,520	52.00%
ARES S.p.A. Consortile	21,420	42.00%

Equity investments of HERA Comm S.r.l.:

ATTIVABOLOGNA S.r.l. Consortile Share capital € 2,558,600 with € 808,725 paid in. Held by HERA COMM since 29-Sep-2003		
REGISTERED OFFICE: Viale Carlo Berti Pichat no. 2/4 - 40127 Bologna (BO)		
In liquidation since 19-Jul-2005		
Shareholder	Equity inv. in €	Equity inv. in %
HERA COMM S.r.l.	2,466,464	96.40%

Equity investments of ASPES MULTISERVIZI S.p.A.:

ASPES ENERGY S.r.l. Share capital € 50,000 fully paid-in. Held by ASPES MULTISERVIZI S.p.A. since 2002		
In liquidation		
REGISTERED OFFICE: Via dei Canonici no. 144 - 61100 PESARO (PU)		
Shareholder	Equity inv. in €	Equity inv. in %
ASPES Multiservizi S.p.A.	50,000	100.00%

MARKANET S.r.l. Share capital € 335,449.50 fully paid-in. Held by ASPES MULTISERVIZI S.p.A. since 2000		
In liquidation		
REGISTERED OFFICE: Via Mameli no. 15 - 61100 PESARO (PU)		
Shareholder	Equity inv. in €	Equity inv. in %
ASPES Multiservizi S.p.A.	171,080	51.00%

2.04.03 Financial statement highlights of the subsidiary and associated companies

Summary of the highlights from the approved financial statments of the subsidiary companies (Art. 2429, last subsection, of the Italian Civil Code)

Subsidiaries	Subscribed capital unpaid	Fixed assets	Current assets	Share capital	Reserves	Profit+ Loss-	Provisions	Employee leaving indemnities	Payables	Production value	Production costs	Income(+) and charges(-)	Value adj. to fin. assets	Income(+) and charges(-)	Taxation for the year
Akron S.p.A.	0	16,066	18,018	1,153	5,011	3,624	1,441	325	22,530	32,586	-26,752	-295	0	0	-1,915
Ambiente 3000 S.r.l.	0	375	8,051	100	182	759	148	544	6,694	12,763	-11,528	60	0	0	-536
Ares S.p.A. Consortile	0	0	611	1,125	-522	-77	0	0	98	0	-53	-24	0	0	0
ASA S.P.A	0	7,793	6,537	1,820	583	182	10,226	90	1,429	6,734	-6,468	86	0	0	-169
Aspes Multiservizi S.p.A.(subconsolid)	0	42,669	46,123	10,964	110	2,867	11,600	6,168	57,083	86,373	-78,449	-1,337	180	0	-3,537
Ecologia Ambiente S.r.l.	0	62,530	10,823	20,000	29,264	2,040	101	694	21,253	26,380	-21,875	-394	0	-107	-1,963
Ecosfera S.p.A.	0	1,399	2,244	1,000	800	178	229	23	1,413	3,652	-3,431	-6	0	0	-38
Eris S.c.r.l.	113	209	1,759	300	114	184	7	0	1,475	3,041	-2,756	12	0	7	-121
Famula On-line S.p.A.	0	14,625	28,785	4,364	6,562	1,334	97	1,943	29,111	36,065	-36,093	194	0	-87	1,255
Frullo Energia Ambiente S.r.l.	0	128,050	84,826	17,139	2,110	12,218	659	7	180,743	48,269	-25,652	-4,098	0	1,401	-7,701
Gal.A. S.p.A.	0	9,125	6,425	300	60	25	1,056	0	14,108	4,403	-3,754	-560	0	0	-63
Gastecnica Galliera Srl	0	261	204	312	76	-24	0	10	91	360	-349	-21	0	0	-13
Hera Bologna S.r.l.	0	1,218	324,519	1,250	615	24,336	767	22,639	276,131	347,239	-304,248	57	0	23	-18,735
Hera Comm S.r.l.	0	64,511	2,596,503	88,592	-19,377	-16,078	4,676	2,285	2,600,917	1,324,376	-1,349,339	2,961	25	-533	6,483
Hera Comm Mediterranea S.r.l.	0	5	22,837	50	-114	988	0	9	21,910	26,420	-25,004	10	0	0	-439
Hera Energie Bologna Srl	0	3,714	3,788	926	692	338	0	0	5,547	4,035	-3,479	-3	0	0	-215
Hera Ferrara S.r.l.	0	667	51,590	810	168	7,440	348	9,622	33,870	111,050	-97,640	56	0	-61	-5,964
Hera Forlì-Cesena S.r.l.	0	2,044	77,099	650	170	955	908	7,022	69,438	145,126	-142,224	67	0	32	-2,047
HERA GAS TRE Spa	0	0	117	120	-3	-1	0	0	0	0	-1	0	0	0	0
Hera Imola-Faenza S.r.l.	0	734	76,715	750	770	6,382	487	6,584	62,476	121,682	-110,305	20	0	33	-5,048
Hera Luce S.r.l.	0	10,008	26,939	264	5,670	3,202	2,286	1,020	24,506	42,257	-37,106	254	0	0	-2,203
Hera Modena S.r.l.	0	1,016	83,571	1,000	200	13,533	791	15,288	53,775	196,776	-172,545	28	0	-122	-10,603
Hera Ravenna S.r.l.	0	871	73,825	850	396	2,402	244	8,330	62,475	136,495	-131,053	23	0	-88	-2,975
Hera Rete Modena S.r.l.	0	26,948	126	22,222	79	2,565	341	0	1,867	1,057	-141	14	0	0	1,635
Hera Rimini S.r.l.	0	2,374	71,256	1,050	210	1,746	698	9,888	60,037	159,030	-154,170	-2	0	62	-3,175

Hera trading S.r.l.	0	16,864	516,932	2,600	545	2,879	128	130	527,514	961,132	-956,678	306	0	-97	-1,785	[illegible]
Hera Servizi Funerari S.r.l.	0	0	977	10	2	196	0	0	768	1,257	-970	24	0	0	-115	
Herasocrem S.p.A.	0	503	2,479	2,218	155	223	76	85	224	795	-539	86	0	0	-120	
Ingenia S.r.l.	0	45	537	52	72	33	0	2	423	1,532	-1,467	3	0	0	-35	
Medea S.p.A.	0	16,380	5,657	4,500	-598	-298	1,028	124	17,281	4,004	-4,382	-484	0	0	563	
Nuova Geovis S.p.A.	0	16,617	8,720	2,205	1,152	840	7,906	330	12,904	12,603	-10,949	-291	0	0	-523	
Recupera S.r.l.	0	24,831	7,896	1,673	10,489	1,104	18	225	19,218	16,074	-14,369	-9	0	109	-701	[illegible]
Romagna Compost S.r.l.	0	2,809	2,242	3,560	374	192	0	0	925	866	-606	51	0	0	-120	
Sinergia S.r.l.	0	2,446	6,458	580	2,758	1,526	72	129	3,841	10,168	-7,736	42	0	0	-949	[illegible]
Sotris S.p.A.	0	15,380	9,415	2,340	6,434	2,266	5,989	66	7,701	9,651	-6,286	-287	0	0	-812	[illegible]
Uniflotte S.r.l.	0	2,578	51,413	2,254	230	1,262	432	3,680	46,132	27,832	-25,152	91	0	-43	-1,465	[illegible]

Figures in thousands of €

Summary of the highlights of the approved financial statements of the associated companies

Associated company	Subscribed capital unpaid	Fixed assets	Current assets	Share capital	Reserves	Profit+ Loss -	Provisions	Employee leaving indemnities	Payables	Production value	Production costs	Income and charges	Value adj. to fin. assets	Income and charges	Taxation for the year	Net profit
* Acantho S.p.a	0	31,383	41,086	15,876	-3,813	430	63	419	59,494	26,557	-25,214	-579	0	-99	-235	430
Adriatica Acque S.r.l	0	245	617	89	-84	-18	0	19	856	359	-327	-47	0	0	-3	-18
Agea reti S.r.L.	0	24,233	451	19,000	534	97	0	0	5,053	1,950	-1,487	-281	0	0	-85	97
Agess S.c.a.r.l.	0	35	256	80	-18	20	0	48	161	432	-353	1	0	-30	-30	20
DYNA Green Srl	0	2	87	30	61	-16	0	0	14	0	-16	0	0	0	0	-16
Estense global service Cons.a r.l.	0	135	3,971	10	0	0	0	0	4,096	4,995	-5,057	32	0	42	-12	0
FlamEnergy Trading Gmbh	0	0	4,275	3,000	21	126	0	0	1,128	10,502	-10,390	57	0	0	-43	126
Modena Network S.p.a	0	8,847	3,719	3,000	-590	44	0	0	10,112	2,983	-2,583	-333	0	0	-23	44
Oikothen S.c.r.l.	0	5,594	2,775	1,102	-251	-199	0	2	7,715	0	-243	16	0	0	28	-199
* Refri S.r.l.	0	3,662	1,566	2,800	-596	-49	0	21	3,052	994	-831	-18	-105	110	-101	-49
Service imola S.r.l.	1	27	360	10	9	105		7	257	797	-608	-3	0	4	-85	105
SAT S.p.A.	0	62,932	33,955	27,753	5,027	1,676	4,765	3,615	54,051	54,242	-49,682	-1,236	0	166	-1,814	1,676
SET S.p.A.	0	225,312	63,134	120	57,389	500	180	29	230,228	165,969	-155,259	-9,179	0	293	-1,324	500
SGR Servizi Spa	0	13,809	50,276	5,982	9,557	773	714	468	46,591	104,144	-102,386	14	0	36	-1,035	773

* The companies marked with an asterisk show data from the last approved financial statements (31-Dec-2006)

2.05 – Art.149 duodecies of the Issuers' Regulations - table

Table - art.149 duodecies of the Issuers' Regulations

	2007
Service rendered to certify financial statements	**603**
Supply of other services for issuing a certificate (undbundling)	**58**
Other services rendered	**-**
Total	**661**

2.06 – Certificate pursuant to art.81 ter Consob regulation no. 11971 of 1999

2.06 **Certificate art.81 ter Consob regulation no. 11971 of 1999**

Certificate of the Consolidated Financial Statements pursuant to article 81 ter of Consob regulation no. 11971 of 14 May 1999 and subsequent modifications and supplements

The undersigned, Maurizio Chiarini in his capacity of Managing Director and Giovanni Barberis in his capacity of manager in charge of drawing up the corporate accounting documents of Hera Spa, certify the following, also taking into account what article 154-bis, subsections 3 and 4, of Italian legislative decree no. 58 of 24 February 1998:

- correctness with regard to the company's characteristics and
- true application

of the administrative and accounting procedures in forming the consolidated financial statements during financial year 2007.

The undersigned also certify that the consolidated financial statements as at 31 December 2007:

a. correspond to the results of the accounting books and entries;
b. has been drawn up in conformity with the International Financial Reporting Standards of the European Union and with the provisions enacted in implementing art. 9 of Italian legislative decree no. 38/2005 and to our knowledge is suitable for providing a truthful and correct representation of the equity, economic and financial standing of the issuer and of the sum whole of the companies included in the consolidation.

The Managing Director	The Manager in Charge
Maurizio Chiarini	Giovanni Barberis

27 March 2008

Certificate issued in conformity with article 154-bis of Italian legislative decree 58/1998

2.07 Report by Independent Audit Firm

2.07.01 Report by Independent Auditing Firm

PRICEWATERHOUSECOOPERS

HERA SPA

CONSOLIDATED FINANCIAL STATEMENTS AS OF
31 DECEMBER 2007

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156
OF LAW DECREE N° 58 DATED 24 FEBRUARY 1998

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE N° 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 2007, which comprise the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and related notes. These consolidated financial statements are the responsibility of Hera SpA's directors. 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 10 April 2007.

3. In our opinion, the consolidated financial statements of Hera SpA as of 31 December 2007 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 n° 38/2005;

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

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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.

Rome, 11 April 2008

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.

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