



Consolidated half-year financial report as at 30 June 2012

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0 introduction

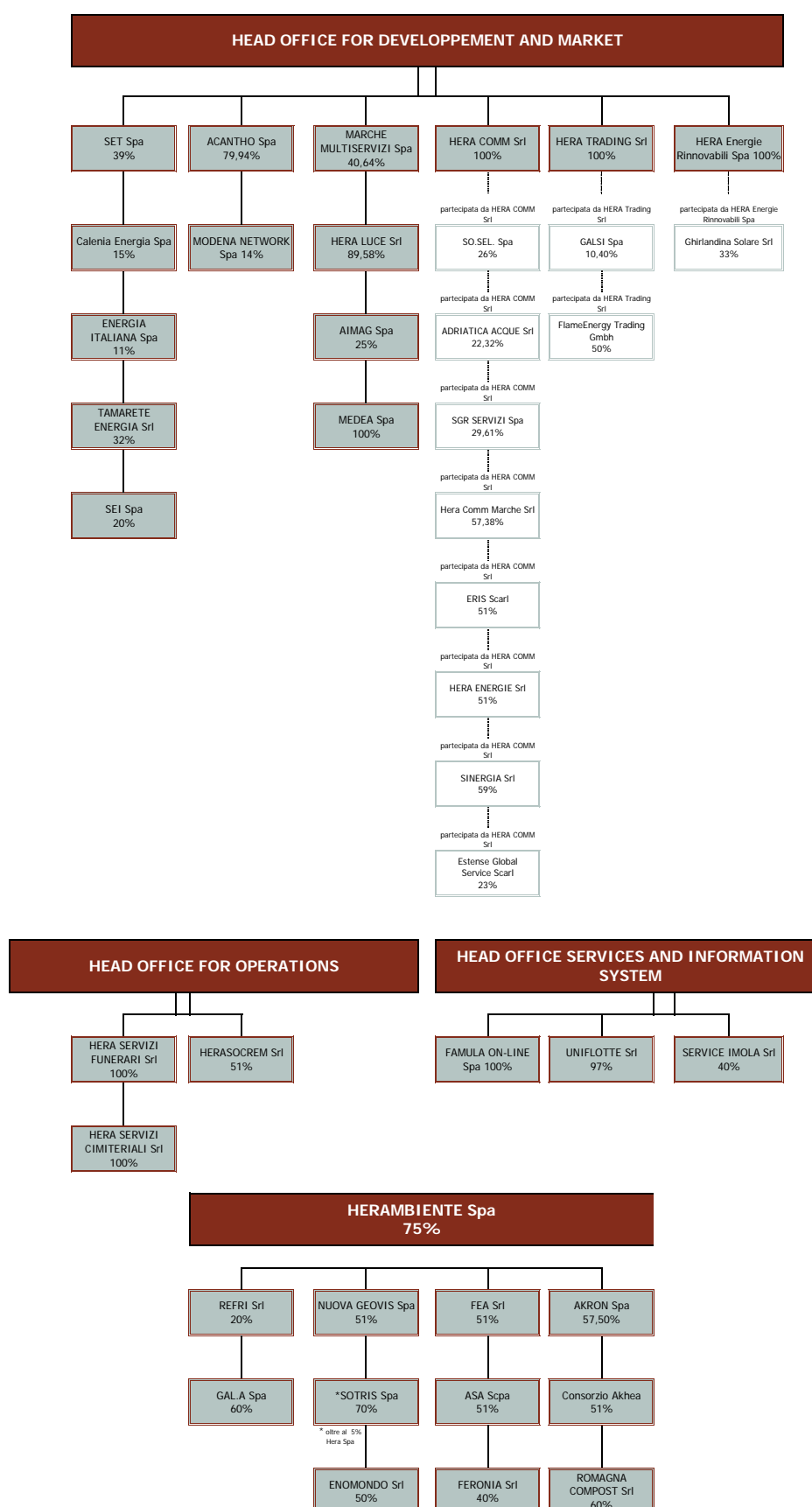
Mission

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, while respecting the local environment.

*"For Hera, being the best means inspiring the pride and trust of: customers, who, thanks to Hera's responsiveness to their needs, receive 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 company will continue to generate economic value, whilst fully respecting the principles of social responsibility; **the areas in which Hera operates**, where economic, social and environmental health represent the promise of a sustainable future; **and suppliers**, key elements in the value chain and partners for growth".*



Group structure



It was planned the dismissal of the share held in Modena Formazione Srl, Hera Servizi Cimiteriali Srl, Herasocrem Srl and Hera Servizi Funerari Srl

Administrative and control bodies

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
Vice chairman	Giorgio Razzoli
CEO	Maurizio Chiarini
Director	Mara Bernardini
Director	Filippo Brandolini
Director	Marco Cammelli
Director	Luigi Castagna
Director	Pier Giuseppe Dolcini
Director	Valeriano Fantini
Director	Enrico Giovannetti
Director	Fabio Giuliani
Director	Luca Mandrioli
Director	Daniele Montroni
Director	Mauro Roda
Director	Roberto Sacchetti
Director	Rossella Saoncella
Director	Bruno Tani
Director	Giancarlo Tonelli
Board of Statutory Auditors	
Chairman	Sergio Santi
Standing auditor	Antonio Venturini
Standing auditor	Elis Dall'Olio
Internal Control Committee	
Chairman	Giorgio Razzoli
Member	Fabio Giuliani
Member	Luca Mandrioli
Member	Rossella Saoncella
Remuneration Committee	
Chairman	Giorgio Razzoli
Member	Marco Cammelli
Member	Daniele Montroni
Member	Bruno Tani
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice chairman	Giorgio Razzoli
Member	Maurizio Chiarini
Ethics Committee	
Chairman	Giorgio Razzoli
Member	Filippo Bocchi
Member	Mario Viviani
Independent Auditors	
PricewaterhouseCoopers	

Introduction

This year will be the tenth anniversary of Hera Group which will be celebrated with a half-year report once again dedicated to both economic and financial growth. It makes an important statement, taking into consideration the continuing crisis which has led to almost all the main players in the industry, even the largest ones, suffering financial stress and needing to seriously rethink their strategies.

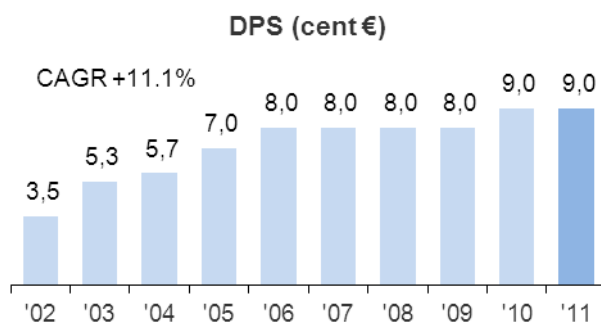
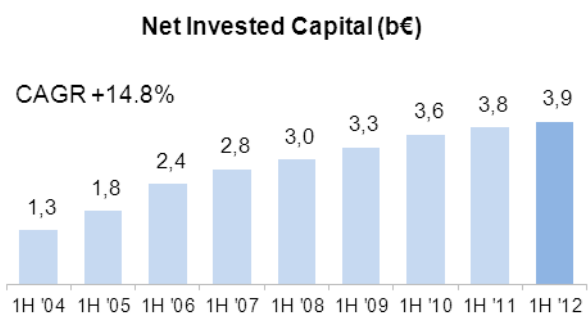
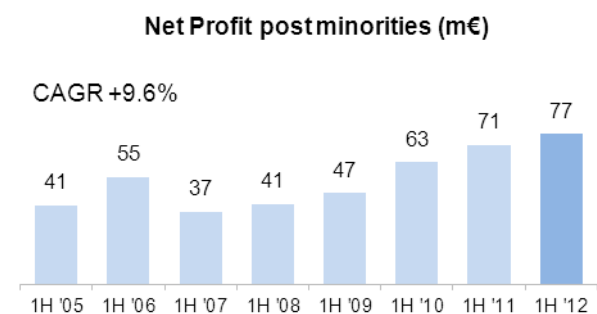
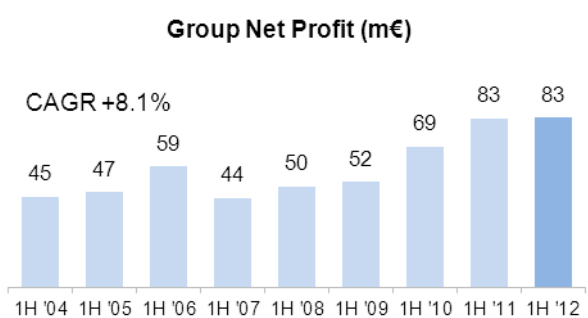
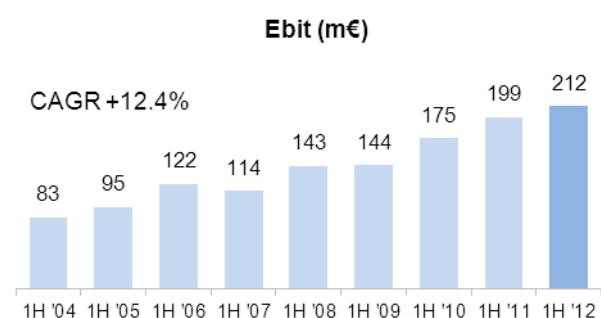
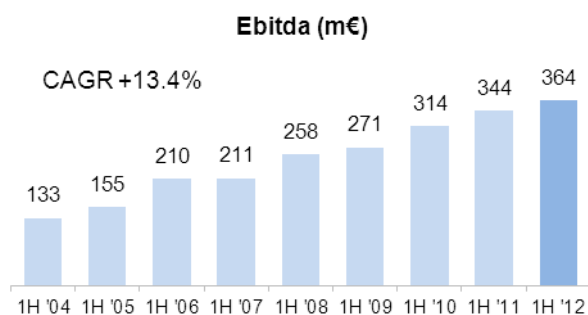
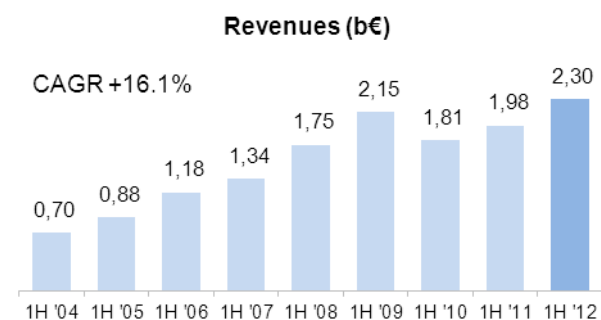
It is in this context that the continued, uninterrupted growth throughout this decade is announced, which also features great challenges: local public services liberalisation processes, legislative developments in all primary services. Recent years have seen the serious crisis in the banking and finance system, culminating in the sovereign debt crisis that has greatly affected Italy. This crisis makes it difficult to fully realise the entire potential of the business portfolio and is causing businesses in the industry to have to implement radical restructuring processes.

The results achieved by the Group have managed to satisfy the best expectations of those who, in 2002, pursued the forward-looking plan of uniting 11 council-owned companies, in the hope of bringing together the valuable business cultures and strong territorial links against a background of serious disruption.

The strategy pursued over these years has kept faith with the original idea of applying a business approach to the management of public services, using a model which guarantees continuous development through both internal and external growth levers. Over the years Hera has integrated many Companies which lead to important contributions to Ebitda. This has taken place owing to efficiencies, a prudent investment policy and a perseverant management of business activities. These results have allowed the Group to consolidate its foundations and deal with the macroeconomic and financial crisis, which is even affecting an industry like utilities, which is traditionally anti-cyclical.

Hera Group is celebrating its 10th anniversary with positive 2012 half-year financial statements and with a further development which is, perhaps, the most important since it was established: on 28 August 2012 the Hera Board of Directors approved the aggregation project with Acegas Aps, a company with a value of production of more than €500 million and EBITDA of €118 million. This transaction expands the reference market, with the Group controlling four of the richest regions in Italy. Prospects for growth along the same lines of development that Hera has followed since its establishment are also on the increase.

Key financial information



History

Hera was established in November 2002 through the merger of 11 local council-owned companies. On 26 June 2003, only seven months after the merger, the privatisation process was brought to a conclusion through listing on the Milan Stock Exchange. In the years that followed the Group conducted further integration projects for an enterprise value of €1 billion. In particular, were merged through incorporation: Geat Rimini (which took place in the same year as the listing on the Stock Exchange), Agea Ferrara in 2004, Meta Modena in 2005, Sat Sassuolo in 2006, the acquisition of Aspes Pesaro (now Marche Multiservizi Spa) in 2007 and the acquisition of 25% of Aimag in 2009, operating in the province of Modena. These transactions led the Group, which began its operations in five provinces in the Emilia-Romagna region, to covering 70% of Emilia-Romagna, continuously and evenly, and crossing over the borders in the north into Le Marche.

The mergers and acquisitions made the management of the initial integration process more coordinated, but, at the same time, led to a creation of value through the synergy and rationalisation of activities throughout the entire ten-year period.

Through the original organisational model, the single management of the territories covered allowed shareholding structure rationalisation actions to be undertaken through concentration of personnel, purchasing, administration, finance and control, planning, legal affairs and operational management activities into one industrial holding. Sixty subsidiaries/companies, deemed not to be strategic, were sold, procedures and operating activities were standardised, and IT systems were also standardised. This contributed to transforming the collection of original businesses into an efficient and integrated Group.

Hera's development over the decade has, through efficiency measures, investment and corporate mergers, allowed it to consolidate competitive advantages in all core businesses, gaining the leading position in terms of efficiency and size in Italy. The Group has also promoted growth in electricity sales (originally managed by the Group in the Imola area only) at a faster rate than any other company, encompassing various regions in Italy. Market research has also shown that, as far as customer satisfaction is concerned, there have been constant improvements made, culminating in "complete satisfaction" for the large majority of the persons interviewed.

In 2012, with the approval of the Board of Directors for the Acegas Aps integration project, the Group prepared to implement the largest project since its establishment and cross the borders between Emilia-Romagna and the richest regions of Veneto and Friuli Venezia Giulia, with a view to taking up a primary position in the domestic reference market.

Strategy

Hera's strategic objective has always been the creation of value from a multi-stakeholder perspective, in the medium and long-term, competing autonomously and effectively in liberalised markets. The objective is to replicate the "unique" business model for expanding the Group and managing primary services in an increasingly efficient manner in order to satisfy the main stakeholders.

Hera formulated a strategy based on its strong points, in other words an "open" organisational model, capable of allowing an efficient increase in size through external lines, national leadership in the waste sector and a loyal, extensive customer base concentrated in the reference area.

Maintaining the customer base has become a "strategic imperative" for the Group, pursued through quality of service, after-sales service and an integrated offering including a complete range of primary services, always deemed to be the competitive tools to achieve this aim. The multi-business portfolio (with traditional gas, water, waste and electricity services) was seen as key in protecting the customer base, capable of allowing the Group the time needed to improve the quality and competitiveness of its services and achieve more sustainable dimensions. The development strategy was also directed at maintaining a balance between the various activities of providing all the services to the customer base and guaranteeing a low variability profile of the multi-utility portfolio results.

Hera's strategic plan was made up of five priorities, which guided the Group's management on a continuous and linear path throughout the first ten-year period:

- 1) Pursuing a process of extracting synergies from corporate mergers, through the complete integration of the businesses that are incorporated into Hera
- 2) Implementing the plan for constructing large plants and developing networks, balancing the growth of all businesses to increase the efficiency and quality of services
- 3) Preserving a sound, low-risk economic-financial profile, capable of satisfying stakeholders through a sustainable approach in the medium to long-term
- 4) Pursuing merger and acquisition opportunities in the liberalised sectors (waste treatment, energy sales and generation), both to consolidate the leadership position in the waste management sector and to expand, from a defensive perspective, the range of services to customers with electricity services in line with the development guidelines pursued by large international groups. The acquisition of the assets needed to achieve the goal has supported growth in the electricity business, only present at the birth of the Group in an embryonic stage
- 5) Rolling out the innovative Hera aggregation model in multi-utility businesses in neighbouring areas with a territorial continuity logic, focused on compatible activities and with economic-financial profiles capable of guaranteeing the financial soundness of the Group.

To ensure greater efficiency and exploit economies of scale, the mergers were integrated in the original model based on a business holding company. At the same time, "direct operational supervision" of all local territories was guaranteed to preserve the crucial competitive advantages of proximity to customers and local roots.

The strategy of focusing on core activities has led to the portfolio being rationalised, with the sale of smaller businesses and the rationalisation of the shareholder structure. This has guaranteed a leaner organisation chart which is in line with the new Group management strategies.

In the field of energy activity, the development strategies were always aimed at consolidating the important position in core sectors (distribution and sale of gas) in the reference territory, both through improvement of networks and quality of service and through improvement of after-sales service. The dual fuel strategy, the expansion of the electricity services offered to existing customers, was supported by a parallel and prudent upstream strategy of self generation development complementing the market procurement sources. All of this made it possible to maintain a low risk-exposure profile in an area in which the Group did not have obvious capabilities.

In the waste disposal market, in which Hera is the market leader in Italy, the strategy is aimed at strengthening the plant structure for sustainable management with regard to the environment. In a market featuring a seriously underdeveloped infrastructure, the Group's goal was to develop a fully-integrated plant system, capable of reusing waste materials and extracting energy from waste, through an ambitious investment policy and the improvement of efficiency and rationalisation of operating activities.

In regulated businesses Hera adopted a strategy to improve efficiency and plant development through infrastructures in the reference territories, strengthening positions in local markets and consolidating strong points with a view to gaining contracts when they expired and were put out to tender.

The Acegas Aps aggregation project

Acegas Aps is a multi-utility company, with a portfolio focused on balanced assets similar to Hera, which operates in some of the richest regions in Italy (Veneto and Friuli) in terms of a GDP per capita, with a population of more than 6 million people and a high concentration of businesses similar to those in the original Hera reference territories.

The growth strategies pursued by Hera match perfectly with those of Acegas Aps in terms of their business/strategic profile and the aggregation of the two entities will allow an important consolidation of market positions in all businesses, expanding development potential still further in these areas.

The project involves aggregation methods which are faithful to "Hera's original and unique model", based on expertise which has been developed and thereby reducing the risks involved therein. The governance of Acegas Aps and the stability of the diversified shareholder structure are also in keeping with the Group's past.

The "new" Hera, which will result from the integration with Acegas Aps, will have a value of production of over €4.5 billion and EBITDA of €750 million, based on 2011 figures. These figures put the Group in second place in the national multi-utility rankings and in thirtieth place for market capitalisation on the Milan Stock Exchange.

The integration project will take place in two stages. The first, scheduled to happen by the end of the year, involves the merger of Hera and the holding company (Acegas Aps Holding S.r.l.) made up of the joint Acegas Aps majority shareholders, who own 62.7% of the Acegas Aps S.p.A. listed shares. The second stage, which will take place in the first part of 2013, involves the launch of a public cash and stock tender offering (pursuant to Article 106, paragraphs 1 and 2-*bis* of the TUF – Consolidated Finance Act) for the remaining part of the Acegas Aps listed shares, in order to "delist it" from the stock market.

The framework agreement involves the exchange ratio for the merger of Acegas Aps Holding into Hera as approximately 0.763 new Hera shares for a nominal €1.00 of Acegas Aps Holding share capital (equal to €188 million). Based on the above-mentioned exchange rate, the Municipality of Trieste and the Municipality of Padua, the only shareholders of Acegas Aps Holding, will be given a total of approximately 143.38 million Hera shares.

Acegas Aps Holding shareholders will also receive a cash payment of €3.4 million.

The cash and stock tender offering will be promoted by Hera following the completion of the merger. Acegas Aps minority shareholders will receive the same exchange ratio as set out under the scope of the merger, in other words approximately 4.16 new issue Hera shares for every Acegas Aps share, in addition to a cash component of approximately €0.27 per Acegas Aps share. This cash component will involve a cash payment, if the cash and stock tender offering is fully subscribed, of a maximum of €5.6 million, which reflects the cash payment made to Acegas Aps Holding shareholders during the merger and the net financial debt of Acegas Aps Holding at 30 June 2012.

If the cash and stock tender offering is fully subscribed, the total number of new Hera shares issued for the merger and the cash and stock tender offering will be approximately 228.21 million, corresponding to approximately 16.99% of the post aggregation share capital, of which 10.67% is held by the Municipalities of Trieste and Padua, while the part paid in cash under the scope of the merger and the cash and stock tender offering will be equal to a maximum of €9 million, taking into account the net financial debt of Acegas Aps Holding equal to €6 million.

The project which will be approved by the B.o.D. is based on a positive assessment, in terms of the creation of value for shareholders, of an 8/11% increase in earnings per share (in the light of a share capital increase of 228.2 million shares reserved for the Acegas Aps aggregation transaction). In addition to this increase, made possible as a result of the expected synergy from the integration worth approximately €25-30 million per year, which can be achieved in the short to medium-term, is the management sustainability profile of Acegas Aps which is similar to the Hera Group.

The project will not change the Group's current solid financial profile, measured in terms of net financial debt/EBITDA, and it will guarantee the financial flexibility needed for the "new" Group to continue its development.

This project reconfirms Hera's central role in the consolidation process of multi-utility companies in a sector which is still extremely fragmented. The presence of a high number of medium/small businesses is the main reason that one of the most strategic and important industries for the country's economy is lagging behind. Against this background, the transaction with Acegas Aps is unique in terms of pursuing concrete consolidation in the industry. The project also opens up new possibilities for Hera in other areas in this industry which is still fragmented in terms of competition in the Acegas Aps territories (there are a large number of small and medium-size multi-utility businesses in Veneto and Friuli Venezia Giulia).

Development of the business

Hera is the leading domestic operator in the waste management sector through the quantity of waste collected and treated.

Waste collection activity regulated by concession contracts has developed over the years through the inclusion of companies, and now covers all the areas from Modena to Pesaro-Urbino. Thanks to constant customer awareness and the support of local institutions, the Hera waste collection system is based on recycling the majority of waste material (over 50%: glass, paper, plastic and metals and biomass) and on optimising the energy content of the remaining part, through waste to energy treatments and biogas extraction.

This effective system has made a considerable contribution to the decrease in the amount of urban waste disposed of directly in landfills, thereby reducing soil pollution.

The activities of waste treatment and disposal have benefited, over time, from significant expansion and renovation of the plant structure. The multi-year plan for the modernisation of large plants was completed in 2011. Landfill capacity was also expanded and the bio-mass treatment plants, already part of the Group's assets, were upgraded.

Today, the structure comprises 84 plants, capable of satisfying waste treatment and development requirements of all kinds. It is a part of the Group's excellence on a national scale and has made a contribution to supporting the considerable expansion in the volume of activities over the ten-year period and also satisfying the complex requirements of disposal and drainage at production sites.

With the generation of approximately 0.7 TWh, the Group has become one of the main operators committed to the recovery of electricity from waste and is the only company in recent years that has managed to build and activate five new WTE plants in Italy. This operation has led to the installed capacity reaching approximately 100 megawatt, with 1 million metric tons/year.

In the light of the insufficient infrastructures in the waste treatment sector in Italy, which are typical and culminated in the waste emergency in Campania, Sicily, Calabria, Puglia and Lazio, invitations to tender were put out for the construction of new WTE plants in several Italian regions. At the end of 2011 Hera was awarded the contract to purchase a 40% stake in the construction and management of a WTE plant, producing 140 thousand metric tons a year, in the province of Florence, and was committed to increasing its market share in order to put the unique expertise it has gained in the market to good use.

In order to best rationalise the business in line with market logics, in 2010 the Hera Group set up the company Herambiente which became responsible for all waste disposal, treatment and recovery liberalised activities.

Growth in the Waste Management area, which supported the development of the Group's results over the ten years, has caused EBITDA to almost quadruple. The development dynamics over the last two years have suffered as a result of the economic-financial crisis which adversely affected industrial and consumer businesses in Italy. In spite of the difficult market context, waste management is a strategic activity for the Group where it is the key player thanks to its market position and expertise.

The Acegas Aps integration project will lead to a significant strengthening of Hera's leadership position in Italy in waste collection/treatment and will create benefits in terms of a logistics structure for plants perfect for developing new markets (especially important at this time when demand is falling as a result of the macroeconomic crisis). Facilities will be expanded with two new WTE plants which will increase the annual disposal capacity to more than 1.3 million metric tons.

Since its establishment, Hera has also operated in the field of **integrated water cycle** management, from the distribution of drinking water to the collection and depuration of waste water, and has the exclusive right to these services in seven provinces in Emilia-Romagna and the north of Le Marche, based on long-term concessions expiring in 2022 on the average.

Following the mergers that took place, and the physiological development of activities and investments made, the Group has essentially doubled its number of customers, upgraded the treatment plants, expanded the distribution and sewerage networks by around 10 thousand linear km (to over 26,700 linear km) and increased the volume of activities by an average annual rate of 4%.

The water network, like all Group networks, is currently controlled by a single remote control system, created in 2007 and deemed to be one of the most advanced in Europe. Remote monitoring of networks has made it possible to optimise maintenance and supervision processes, guaranteeing greater efficiency and lower running costs. Thanks to these systems and the modernisation of the networks, recorded performance (in terms of average leaks per kilometre) has been amongst the best domestically.

The entire environmental control system, from the analysis of the water before distribution to the waste water collection and treatment systems, has recorded important progress and guaranteed a high quality of service and maximum safety for customers.

The aggregation project with Acegas Aps will make it possible to reach second place occupied in Italy and roll out existing economies of scale to make operations more efficient.

The Group almost entirely covers the reference territory in the **gas sector** as well. This includes distribution services and sales services, plus methane gas trading, as well as the management of district heating. Hera is currently among the leading "local" firms and the fourth nationally in terms of sales volumes. In spite of the liberalisation of the sales market, the Group has maintained and developed its original customer base, reaching 1.11 million users, in other words almost doubling it in ten years, thanks to successive mergers.

Sales have also more than doubled in this period, with volumes handled reaching more than 3.3 billion cubic metres. The distribution network, developed through direct investment and the acquisition of companies, has reached 14,000 km.

The uncertain situation in the raw materials market has led the Group to pursue prudent and flexible procurement policies, taking the opportunities that arise from the slow process of opening up and developing raw material import capacities and the international and Italian wholesale markets. Hera has a multi-year gas importing capacity of almost 500 million cubic metres per year through the TAG gas pipeline. It has also gradually diversified internal sources, striving for maximum flexibility through annual agreements (multi-year contracts are currently present in 10% of total supplies). Lastly, there has been an organisational restructuring which has led to the establishment of a sales company (Hera Comm) and a trading company (Hera Trading), thanks to which Hera has launched its own activities with a direct presence in Baumgarten (Austria) and through other European hubs. This supply portfolio structure has protected Hera from the risks of purchasing “predetermined” materials many years ahead and, in recent years, has allowed it to derive benefit from the growing availability of methane gas in the country. Another means of safeguarding supplies, set against a background of maintaining a low risk profile, has seen Hera purchase a stake of more than 10% of the capital of Galsi, a special purpose vehicle for the construction of a gas pipeline with a capacity of 8 billion cubic metres, which will go directly from Algeria to Italy. The pre-contracted capacity comes to approximately 1 billion cubic metres per year, a quantity that allows Hera to focus on diversifying gas supplies with a third from North Africa, a third from Europe and a third from Italian operators.

Sales volumes relating to district heating have also almost doubled. As is known, this is a way of transforming energy into heat more efficiently and with less impact on the environment than independent housing heating systems.

The district heating network has been developed in urban areas in the territory near the large waste-to-energy and cogeneration plants built in the last ten years, thereby exploiting heat sources which would not otherwise be used.

Economic results have constantly improved underpinned by growth factors in investments, efficiency, mergers and acquisitions and, lastly, with the flexible upstream structure.

The integration project with Acegas Aps will make it possible to consolidate the third place occupied in Italy in gas distribution and expand the customer base of 260 thousand households to approximately 1.4 million, increasing the Group's most important intangible asset and consolidating its seventh place in the domestic market.

The dual fuel commercial strategy has allowed the **electricity market to develop** at sustained growth rates, both through cross-selling activities to existing customers and through expansion into new markets. The strategy has protected customers in the gas sector, as shown previously, and placed Hera among the top eight domestic operators, with annual sales of approximately 10 TWh, with a tenfold increase in the customer base to almost 500 thousand (compared with 49 thousand at the beginning in 2002).

Commercial development in the electricity sector has been accompanied by a parallel cautious development in electricity generation for the sustainable management of customer demand. Over the years, Hera has been involved in the construction of three base-load new generation CCGT plants in Campania (an area with a poor infrastructure), with a capacity of 1,300 MW. These plants have been built through a joint venture with the purchase of minority stakes by foreign partners of international standing. The relatively small financial commitment has allowed access to cost price electricity, while the signing of special agreements (PPA), which include flexible supply conditions, guarantees a low risk profile. Since the establishment of the Group, it has held a stake in Tirreno Power, through the company Energia Italia, with a share of 5.5% of the capital.

In 2008, an 80 MW gas cogeneration plant was completed in Imola, which guarantees self-sufficiency for the territory if there is a national grid black out. Lastly, Hera's generation facilities included the development of more than 100 MW of clean energy from waste-to-energy plants, a further 13 MW from biomass thermoelectric plants, as well as the recent development of small biogas and photovoltaic generation plants, which complete the diversified portfolio of the Group.

The production of electricity destined for Hera end users covers around 30% of demand; the remaining part is purchased on the market with a widely diversified portfolio of supplies.

Electricity distribution activities have recorded significant development since the establishment; the merger with the Modena multi-utility (Meta S.p.A.) in 2005 and the acquisition of the Enel electricity network in the province of Modena, have contributed to the expansion of the network. It has reached almost 10,000 kilometres which, thanks to the investments made, is fully equipped with electronic meters and managed remotely through a single, state-of-the-art remote control centre.

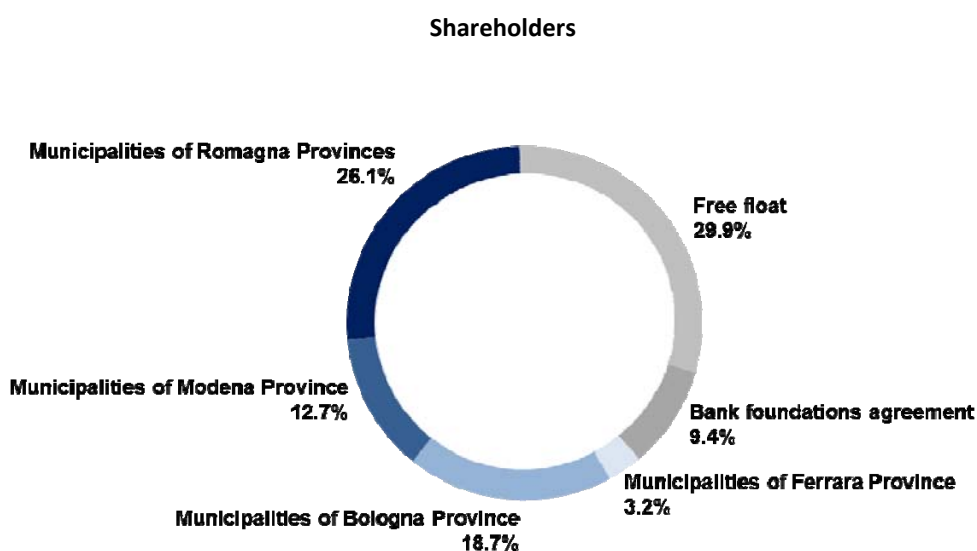
The boost to market and trading activities, together with the mergers and acquisitions in 2006 in the Modena area, has led to a more than sevenfold increase in EBITDA over ten years.

The integration project with Acegas Aps will allow the consolidation of the fifth place in the Italian market occupied for the sale of electricity (annual sales of approximately 11 TWh) and the customer base to be increased by more than 140 thousand, taking it to approximately 650 thousand.

Development of the shareholding structure and remuneration of shareholders

The public shareholding structure has mainly developed as a result of the admittance (through reserved capital increases) of new public shareholders following various mergers.

Today, public shareholders are represented by 188 reference territory municipalities and they hold approximately 61% of Hera's share capital of ordinary shares, made up of 1,115,013,752 ordinary shares.



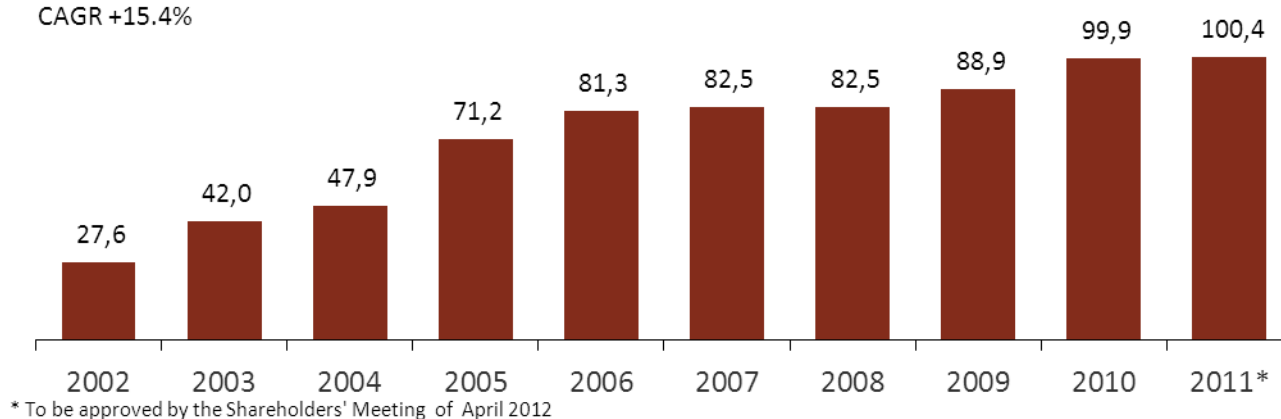
The team has a significant presence (approximately 16.2%) of international investors and is denoted by the presence (approximately 3.5%) of private investors (around 10 thousand people) resident in the reference territory (and therefore Hera customers) who were involved in the Group's placement on the Stock Exchange.

Since 2006, Hera has conducted a share buy-back plan with a maximum of 25 million shares, for a total amount of €40 million. This plan aims to finance any opportunities to buy small companies and to rectify any unusual movement in the Group's share price compared with its major domestic competitors. The Shareholders' Meeting on 27 April 2012 renewed the plan for the purchase of treasury shares for a further 18 months, up to a maximum total amount of €60 million. Hera held approximately 12.8 million treasury shares in its portfolio as at 31 December 2011.

Over the course of the ten years, remuneration for shareholders has always involved **constant or increasing dividends**, even at the most delicate times following mergers or during the macroeconomic crisis of recent years.

Total dividends (m€)

CAGR +15.4%



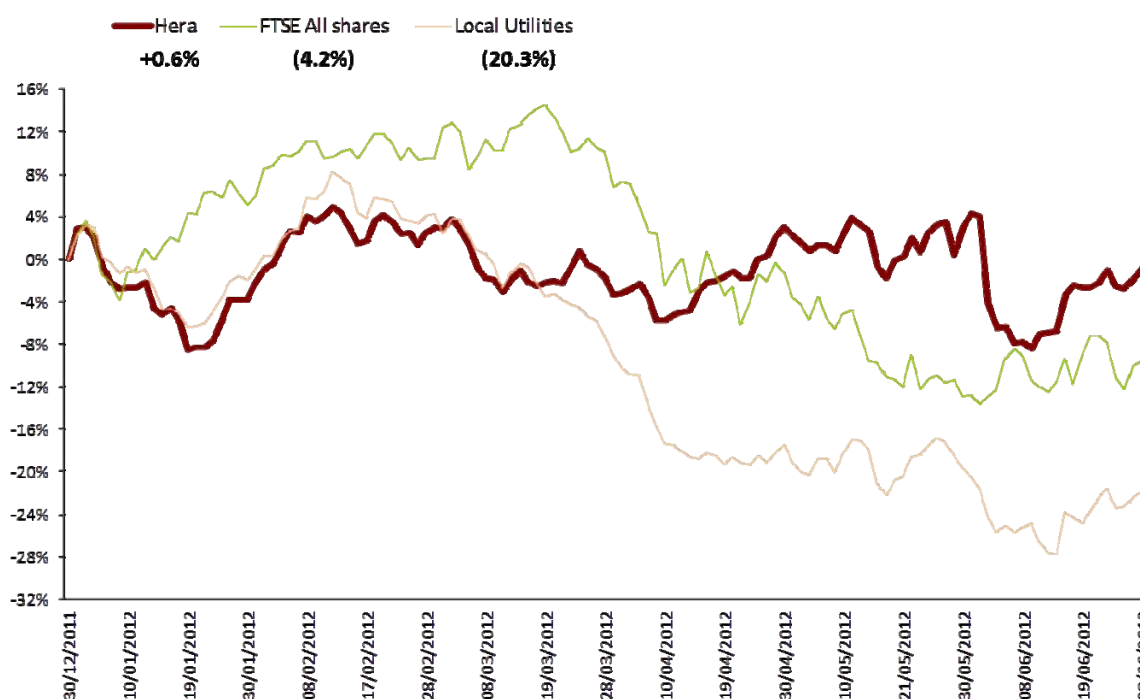
The dividend per share has gone, in the period under consideration, from €3.5 to 9.0 cents and the Board of Director's proposed dividend for 2011 confirms that of 2010.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Dividendi deliberati (m€)	27.6	42.0	48.2	71.2	81.3	82.5	82.5	88.9	99.9	100.4
DPS (€)	0.035	0.053	0.057	0.070	0.080	0.080	0.080	0.080	0.090	0.090
PayOut ratio (su Utile Cons.)	83%	85%	60%	70%	90%	85%	87%	125%	85%	96%

* Proposta del Consiglio di Amministrazione da sottoporre all'approvazione dell'Assemblea degli Azionisti di aprile 2012

The share price over the six months period is illustrated in the graph below.

Performance of Hera share as at 30th June 2012



The graph shows the Hera share performance as the best on the market for local utilities. This is due to the sound annual results announced at the end of March, which supported the stock until the date the dividends were paid. Compared with other local utilities, Hera's performance is very different and far more positive, mainly due to the difficult situation in which the other businesses in the industry find themselves in. Since its listing, the Group has promoted and improved relations with financial analysts. In 2002 stock coverage was represented by four studies, only one of which was issued by an international broker. In spite of the financial crisis in these years having caused major restructuring in banks, Hera still enjoys extensive coverage from 12 independent studies, half of them international: Alpha Value, Banca Akros, Banca Aletti, Banca IMI, Centrobanca, Cheuvreux, Deutsche Bank, Equita, Intermonte, Kepler, CITI and Mediobanca. The analysts from Banca IMI, Cheuvreux, Kepler and Deutsche Bank include Hera stock among the best investment opportunities for 2011. In June, Citigroup began coverage of Hera stock with a "Buy" rating. At the end of the half-year, Hera will include eight "Buy"/"Outperform" ratings, three "Hold/Neutral" opinions and no negative judgments. The 12-18 month average stock target price, expressed by analyst evaluations, is €1.4 per share.

Hera stock is included in many SRI indices: it has been part of the Kempen SNS Smaller Europe SRI Index for many years. In 2008 it was also included in the ECPI Ethical Index Euro. In 2009 it was included in the ECPI Ethical Index EMU, made up of 105 companies featuring sustainability consistent with the ECPI SRI method and listed on the EU money market.

The Group's main means of communication with shareholders and stakeholders is undoubtedly its website **www.gruppohera.it**. Over the course of the ten-year period the section dedicated to shareholders/financial operators (Investor Relations) has been continuously improved, with the implementation of interactive tools, timely updates and publication in **real time** of price sensitive releases and company documents. For the third consecutive year Hera's online financial communication has been recognised by the Hallvarsson & Halvarsson webranking in the national class among the major domestic listed companies: in 2011 the Group's website took third place, ahead of many larger Italian organisations.

Also, on 1 May 2012, IR Global Rankings awarded Hera a prize, at the NASDAQ offices in New York, as one of the top 5 best practices in Europe for financial communication for the investor relations section of its website.

Since its establishment in 2002, Hera has placed special emphasis on direct communication with investors, culminating in a Road Show introducing the stock in Italy and abroad (United Kingdom, France, Switzerland, the Netherlands, Germany, Austria and the United States). Thanks to the positive feedback and the interest shown by foreign investors, meetings were also arranged, from 2005 onwards, with Finnish, Swedish and Danish investors. In 2011 Hera intensified its dialogue with European and American investors, with an average of 350 contacts per year. Timeliness of reports and transparency in communication has been improved further, also in response to the growing sense of uncertainty felt by stakeholders at this time of deep disruption.



Directors' reports

1.01 Introduction

The Financial Statements for the first half of 2012 are an important stage in the history of the Group in terms of the important events and results achieved and their influence on the future. In July, thanks to the signing of the Acegas Aps aggregation project agreement, Hera has launched the largest operation ever in terms of its size. This transaction will be a springboard into new markets and give Hera a dominant position in Italy in all activities it is involved in. The aggregation transaction will place Hera in the top 30 in terms of market capitalisation in Italy and confirm its key role in the consolidation of one of the most important industries for the country's economy.

In addition, for the tenth consecutive year, this half-year report includes economic results which are improving. Cash generation is positive (before dividends and extraordinary transactions) and confirms the Group's ability to organically deal with the challenges of the difficult macroeconomic situation.

The improved natural-gas supply contract for the 2011-2012 thermal year enabled Hera to capitalise on excess supply in the commodities market. This has made a significant contribution to the improved results in the half-year. These results highlight the positive contribution made by the strategies pursued in terms of maintaining a diversified and flexible position with regard to sources of procurement, which is something which differentiates the Group from other businesses in the industry.

On the electricity market, which could count on a sound commercial structure, effective cross-selling methods and an efficient customer service structure, the constant growth of the last five years was confirmed in the half-year and the level of sales and customers were consolidated, respectively reaching 4.7 TWh.

Waste disposal activities reflect the trend of the economic situation with a significant worsening of all the main macroeconomic indicators, from the national GDP (which recorded a change of -1.4% compared with the positive trends recorded in the first half of 2011 and 2010) to Industrial Production levels (-7% compared with the positive trends recorded in the first half of 2011 and 2010). In addition, the end of the Cip6 incentives for the Bologna WTE plant, which expired in November 2011, and the difficult weather conditions in the early part of the fiscal year, which slowed down treatment activities in landfills, completes the picture for these business areas. The commitment to market development, business proposals, improving the management of facilities and running costs has made it possible to mitigate the half-year results (with a large part of the reduction in the figures being caused by the end of the Cip6 incentives) and to slow down the negative trend recorded in the first quarter of the year. In addition, the completion of the organisational restructuring with the construction of two bio-fermentation plants, which are expected to start operating at the end of the fiscal year, and the prospect of expanding activities in new areas, partly as a result of the aggregation of Acegas APS, are extending the Group's opportunities for benefiting from their national leadership position offering interesting prospects for future development.

Business from energy distribution, urban waste collection and integrated water service concessions also played a part in the improved first-half results, owing mainly to price adjustments in accordance with returns guaranteed by national laws, the new tariff systems and operating efficiencies resulting from the ongoing process improvement procedures.

1.02 Corporate events and significant events after the end of the half-year

Corporate events

In the first half of 2012 the Group continued to rationalise its corporate structure. This involved selling/liquidating six companies, removing four companies from the Companies Register, terminating one company, making four new equity investments, establishing two new companies, increasing equity investments in one subsidiary, as well as one merger operation which led to the termination of four companies.

In 2011 the corporate streamlining already involved liquidating two companies, removing five companies from the Companies Register, terminating two companies and increasing equity investments in two subsidiaries, as well as three mergers/transformations.

The main M&A transactions were as follows:

Feronia S.r.l.

On 31 January 2012, Herambiente S.p.A. acquired from Sorgea S.r.l. an additional 30% of the share capital of Feronia S.r.l., a company operating in the waste management sector, taking its stake to 70%.

Sviluppo Ambiente Toscana S.r.l. - Q.tHermo S.r.l.

On 7 February 2012, following the awarding of the contract put out to tender by Quadrifoglio S.p.A. for the construction of the Florence WTE plant, Hera S.p.A. and Herambiente S.p.A. constituted the company named Sviluppo Ambiente Toscana S.r.l., with the corporate objectives to develop, design and implement interventions and investments pertaining to waste management services, in which they respectively hold 95% and 5% of the share capital.

Under the scope of the same transaction, on 16 May 2012, Sviluppo Ambiente Toscana S.r.l. and Quadrifoglio S.p.A. established Q.tHermo S.r.l., a company for the design, construction and management of the Sesto Fiorentino waste-to-energy plant, in which they, respectively, hold 40% and 60% of the share capital.

Amon S.r.l.

On 8 February 2012, Hera Energie Rinnovabili S.p.A. acquired the entire share capital of Amon S.r.l., a company owning a photovoltaic plant situated in the Municipality of Copparo (FE).

Esole S.r.l.

On 8 February 2012, Hera Energie Rinnovabili S.p.A. acquired the entire share capital of Esole S.r.l., a company owning a photovoltaic plant situated in the Municipality of Alfianello (BS).

Juvi Sviluppo Italia - 02 S.r.l.

On 1 March 2012, Hera Energie Rinnovabili S.p.A. acquired the entire share capital of Juvi Sviluppo Italia – 02 S.r.l., a company owning a photovoltaic plant situated in the Municipality of Petriolo (MC).

CTG RA S.r.l.

On 8 March 2012, Hera Energie Rinnovabili S.p.A. acquired the entire share capital of CTG RA S.r.l., a company owning a photovoltaic plant situated in the Municipality of Faenza (RA).

Dyna Green S.r.l.

On 13 March 2012, Hera Trading S.r.l. sold its entire equity investment in Dyna Green S.r.l., a company operating in the area of research and development into hydrocarbon sources of supply, equal to 33% of the share capital.

As a result of this transaction Hera Trading S.r.l. was no longer part of the corporate structure of Dyna Green S.r.l.

Amon S.r.l. - Esole S.r.l. - Juvi Sviluppo Italia - 02 S.r.l. - CTG RA S.r.l.

On 28 June 2012, the merger by incorporation of Esole S.r.l., Amon S.r.l., Juvi Sviluppo Italia - 02 S.r.l. and CTG RA S.r.l. (all companies operating in the sector of renewable energy) into Hera Energie Rinnovabili S.p.A., already the sole shareholder of the incorporated companies, was completed.

Significant events after the end of the half-year**Hera Servizi Cimiteriali S.r.l. – Hera Servizi Funerari S.r.l. – Herasocrem S.r.l.**

Under the scope of the project for the disposal of funeral and cemetery services, Hera S.p.A. sold the stakes held in Hera Servizi Cimiteriali S.r.l. and in Herasocrem S.r.l., respectively, to the Municipality of Bologna and to Socrembologna S.r.l. The effectiveness of these transactions is subject to the conclusion, expected to be by 31 December 2012, of the public tender issued by the Municipality of Bologna and the consequent selection of a private partner for the management of the cemetery and funeral services.

Acegas APS Holding S.r.l. – Acegas APS S.p.A.

On 25 July 2012, Hera S.p.A. and Acegas APS Holding S.r.l., a company which controls 62.691% of Acegas-APS S.p.A, a multi-utility listed on the Stock Exchange and operating in north-east Italy, signed a framework agreement for the definition of the methods through which to implement an aggregation project. With effect from 1 January 2013, this project specifically involves the merger by incorporation of Acegas APS Holding S.r.l. into Hera S.p.A. and, following the successful merger and when the required authorisation has been obtained, the launch by Hera of an IPO and exchange of all the shares of Acegas-APS S.p.A., with the consequent share capital increase of Hera to be offered, with the exception of the option right, under the scope of the above-mentioned IPO and share swap.

1.03 Hera Group performance as at 30 June 2012:**Consolidated summary results of the Hera Group:**

(millions of Euro)	30-Jun-11	Inc.%	30-Jun-12	Inc.%	% Change
Revenues	1,983.2		2,298.9		+15.9%
EBITDA	344.0	17.3%	363.6	15.8%	+5.7%
EBIT	199.4	10.1%	212.1	9.2%	+6.4%
Net profit	83.2	4.2%	83.4	3.6%	+0.2%

1.03.01 Economic-financial results and investments

The Hera Group's economic results for the first half of 2012 registered growth over the first six months of 2011, despite the persistently severe economic situation. The business areas recorded different performances, which will be detailed below, as will the quantitative indicators: higher volumes of gas, heat and water were sold, while lower volumes were registered in terms of waste disposed of and electricity sold.

A considerable increase was recorded in the prices of raw materials, which generated contrasting effects, temporarily negative, in the fair value assessment of commodity hedging contracts.

Lastly, with respect to the first half of 2011, the following events should be noted:

- in July 2011, Hera Comm Marche incorporated the company Sadori Gas, which holds a customer portfolio containing around 35,000 contracts, able to generate more than 47 million m³ of gas sold per year, distributed in 42 municipalities in the provinces of Pesaro-Urbino, Ancona and L'Aquila.
- in February 2012, Hera Energie Rinnovabili purchased 100% of 4 companies (Amon Srl, Esole Srl, Juwi Sviluppo Italia- 02 Srl and CTG RA Srl) operating in the electricity production sector, each owning a 1 MWh ground mounted photovoltaic system; the companies were then merged by incorporation into Hera Energie Rinnovabili.
- The HERAmbiente Group consolidated Feronia Srl on a line-by-line basis from February 2012, a company that manages a landfill in the municipality of Finale Emilia (MO).

As already shown in the financial statements for previous years, the Consolidated Income Statement acknowledges the application of the interpretation of accounting standard IFRIC 12 "Service concession arrangements" which changed the method of recording company events for companies that operate in sectors regulated by specific concessions. In accounting terms, the effect of the application of this principle, which does not alter the results, is the representation in the income statement of the investment work carried out on assets under concession, limited to grid services. Therefore, the first half of 2012 recorded higher other operating revenues of EUR 55.4 million (EUR 61.1 million in the first 6 months of 2011). Lower capitalised costs of EUR 16.1 million were registered in 2012 (EUR 16.3 million in 2011), and higher operating costs for services, materials and other operating expenses of EUR 39.3 million were recorded in 2012 (EUR 44.8 million in 2011).

The following table shows the income statement figures in the first half of 2011 and 2012:

Income statement (millions of Euro)	30-Jun-11	Inc.%	30-Jun-12	Inc%	Abs. Change	% Change
Revenues	1,983.2	0.0%	2,298.9	0.0%	+315.7	+15.9%
Other operating revenues	87.7	4.4%	91.1	4.0%	+3.4	+3.9%
Raw materials and consumable materials	(1,122.0)	-56.6%	(1,399.8)	-60.9%	+277.8	+24.8%
Service costs	(422.1)	-21.3%	(427.5)	-18.6%	+5.4	+1.3%
Other operating costs	(17.5)	-0.9%	(19.3)	-0.8%	+1.8	+10.3%
Personnel costs	(189.7)	-9.6%	(192.8)	-8.4%	+3.1	+1.6%
Capitalised costs	24.4	1.2%	13.1	0.6%	-11.3	-46.4%
EBITDA	344.0	17.3%	363.6	15.8%	+19.6	+5.7%
Amortisation, depreciation and allocations	(144.6)	-7.3%	(151.5)	-6.6%	+6.9	+4.8%
Operating profit	199.4	10.1%	212.1	9.2%	+12.7	+6.4%
Financial operations	(53.5)	-2.7%	(61.8)	-2.7%	+8.3	+15.5%
Pre-tax profit	145.9	7.4%	150.3	6.5%	+4.4	+3.0%
Tax	(62.8)	-3.2%	(66.8)	-2.9%	+4.0	+6.4%
Net profit for the year	83.2	4.2%	83.4	3.6%	+0.2	+0.2%

EBITDA increased from EUR 344.0 million in the first 6 months of 2011 to EUR 363.6 million in 2012, up by 5.7%; operating profit rose from EUR 199.4 million to EUR 212.1 million; pre-tax profit rose by 3.0%, up from EUR 145.9 million to EUR 150.3 million; net profit for the year increased from EUR 83.2 million as at 30 June 2011 to EUR 83.4 million in the same period in 2012.

Revenues rose by EUR 315.7 million (+15.9%), up from EUR 1,983.2 million in the first half of 2011 to EUR 2,298.9 million in 2012. The main reasons are: (i) higher gas distribution and sale volumes, (ii) higher gas and electricity revenues due to the increase in raw material prices, equal to a total of around EUR 200 million, (iii) greater revenues from the administration of the integrated water service, which offset lower revenues from the waste management area.

The increase of EUR 277.8 million in the costs of raw materials and consumable materials compared to the first 6 months of 2011 is a result of higher volumes of gas sold and increases of around EUR 200 million in the price of the raw material, as mentioned previously.

Other operating costs (service costs up EUR 5.4 million and other operating expenses up EUR 1.8 million), rose by a total of EUR 7.2 million (up 1.5%); roughly 90% of the increase is attributable to higher electricity and gas transport costs.

Personnel costs rose from EUR 189.7 million as at 30 June 2011 to EUR 192.8 million in the first half of 2012. The increase was contained to 1.6% since the salary increases set out in the national collective labour contract were offset by downsizing the workforce by 97 staff members.

The decrease in capitalised costs from EUR 24.4 million to EUR 13.1 million is due mainly to less works on plants and intercompany works, particularly owing to the completion of the new WTE plants.

The Group's consolidated EBITDA in the first half of 2012 registered growth, up from EUR 344.0 million to EUR 363.6 million (+5.7%), thanks to the strong performance of the gas sector, accounting for 41.6% of the total (up from 35.1%) of the water cycle area and other services.

Amortisation, depreciation and allocations increased by 4.8%, up from EUR 144.6 million in the first six months of 2011 to EUR 151.5 million in the same period in 2012. The variation is mainly a result of: (i) higher allocations to the bad debt provision, (ii) higher amortisation/depreciation relating to new plants, (iii) higher amortisation/depreciation and allocations due to changes in the scope of consolidation, offset by lower allocations to the provision for risks.

The operating profit for the first six months of 2012 stood at EUR 212.1 million, up by 6.4% over the corresponding period in 2011, due to the reasons outlined previously.

Income from financial operations stood at EUR 61.8 million as at 30 June 2012, up 15.5% compared to EUR 53.5 million in the first half of 2011. Higher charges are due to the increase in average indebtedness and the increase in spreads recorded in the previous period. Income from financial operations was also affected by lower profits from associated companies with respect to the same period in the previous year.

In light of the above, pre-tax profit increased from EUR 145.9 million in the first half of 2011 to EUR 150.3 million in the same period of 2012, marking an increase of 3.0%.

Taxes rose from EUR 62.8 million in the first half of 2011 to EUR 66.8 million in 2012. The tax rate stood at 44.5%, up by 1.5% compared to the same period in the previous year. The main reason was the increase in the Robin Tax (4%, as set out in Decree Law no. 138 of 13 August 2011), partly offset by the benefits of the measures introduced by the Monti Decree on the deductibility of Irap (regional business tax) paid on the cost of labour.

Therefore, net profit amounted to EUR 83.4 million as at 30 June 2012, an increase of 0.2% compared to EUR 83.2 million at 30 June 2011, due to all the aforementioned events.

Analysis of the Group's equity structure:

The evolution of the Group's net capital employed and the sources of financing for the accounting period as at 31 December 2011 and for the half-yearly situation as at 30 June 2012 are shown below:

Capital employed and sources of financing (millions of Euro)	31-Dec-11	Inc%	30-Jun-12	Inc%	Abs. Change	% Change
Net fixed assets	4,292.7	111.0%	4,320.7	109.5%	28.0	+0.7%
Net working capital	(31.5)	-0.8%	29.0	0.7%	60.5	-192.1%
(Provisions)	(394.7)	-10.2%	(402.5)	-10.2%	(7.8)	+2.0%
Net capital employed	3,866.5	100.0%	3,947.2	100.0%	80.7	+2.1%
Shareholders' equity	1,879.4	48.6%	1,848.0	46.8%	(31.4)	-1.7%
Long-term financial payables	2,323.1	60.1%	2,548.6	64.6%	225.5	+9.7%
Net short-term position	(336.0)	-8.7%	(449.4)	-11.4%	(113.4)	+33.8%
Net financial position	1,987.1	51.4%	2,099.2	53.2%	112.1	+5.6%
Total sources of financing	3,866.5	100.0%	3,947.2	100.0%	80.7	+2.1%

Net capital employed increased by 2.1% in the first six months of 2012, up from EUR 3,866.5 million to EUR 3,947.2 million.

Net fixed assets stood at EUR 4,320.7 million as at 30 June 2012, compared to EUR 4,292.7 in December 2011, marking an increase of 0.7%.

Provisions amounted to EUR 402.5 million at the close of the first half of 2012, up 2.0% compared to the figure in December 2011 (EUR 394.7 million).

Net working capital recorded an increase of EUR 60.5 million.

Shareholders' equity rose from EUR 1,879.4 million to EUR 1,848.0 million, due to dividends resolved totalling EUR 114 million.

The reconciliation statement between the statutory situation of the Parent Company and the abbreviated consolidated financial statements for the period ended 30.06.12 is shown below:

Reconciliation statement between the separate financial statements of the Parent Company and the consolidated financial statements

	NET PROFIT	SHAREHOLDERS' EQUITY
BALANCES FROM THE PARENT COMPANY'S FINANCIAL STATEMENTS	90,106	1,666,529
Dividends recorded during the year	(71,113)	
Valuation at equity of companies carried at cost in separate financial statements	(1,002)	17,486
Book value of consolidated equity investments		(487,686)
Shareholders' equity and net profit for the period of consolidated companies	58,748	486,113
Allocation of differences to assets of consolidated companies and related amortisation/depreciation		
- Goodwill on consolidation		54,965
- Intangible assets	(275)	4,670
- Tangible assets	(87)	1,125
Other adjustments due to elimination of effects of intercompany transactions	566	(29,826)
TOTAL	76,943	1,713,376
Allocation of portion pertaining to minority interests	6,504	134,692
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS	83,447	1,848,068

Analysis of the Group's net financial position:

in millions of Euro		30-Jun-12	31-Dec-11
a	Cash and cash equivalents	506,7	415,2
b	Other current financial receivables	41,5	42,9
	Current bank indebtedness	(58,8)	(78,8)
	Current portion of bank indebtedness	(36,4)	(39,1)
	Other current financial payables	(0,5)	(0,5)
	Financial leasing payables – maturing within the next year	(3,1)	(3,7)
c	Current financial indebtedness	(98,8)	(122,1)
d=a+b+c	Net current financial indebtedness	449,4	336,0
e	Non-current financial receivables	14,3	11,0
	Non-current bank liabilities and bonds issued	(2.558,7)	(2.328,8)
	Other non-current financial payables	0,0	0,0
	Financial leasing payables – maturing beyond the next year	(4,2)	(5,3)
f	Non-current financial indebtedness	(2.562,9)	(2.334,1)
g=e+f	Net non-current financial indebtedness	(2.548,6)	(2.323,1)
h=d+g	Net financial indebtedness	(2.099,2)	(1.987,1)

The net financial position increased from EUR 1,987.1 million as at 31 December 2011 to EUR 2,099.2 million as at 30 June 2012, marking an increase of EUR 112.1 million, due to the distribution of EUR 111 million in dividends in June.

An indebtedness mainly comprising medium/long-term debt covering over 96% of total indebtedness was confirmed, accurately balancing the Group's equity structure characterised by a high fixed assets value.

Hera Spa has been issued a "Baa1" long-term rating by Moody's, with a negative outlook, and has been issued a "BBB+" rating from Standard & Poor's, with a stable outlook.

Hera Group Investments

The Group's tangible and intangible investments totalled Euro 121.4 million, compared to Euro 133.0 million in the same period of the previous year.

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

Total Investments (millions of Euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Gas area	20.6	16.0	-4.6	-22.3%
Electricity area	13.0	9.6	-3.4	-26.2%
Integrated Water Cycle Area	43.7	39.7	-4.0	-9.2%
Waste Management Area	29.3	20.2	-9.1	-31.1%
Other services Area	6.7	6.1	-0.6	-9.0%
Central Structure	19.8	29.8	+10.0	+50.5%
Total operating investments	133.0	121.4	-11.6	-8.7%
Total financial investments	5.8	0.0	-5.8	+0.0%
Total	138.8	121.4	-17.4	-12.5%

Gas service investments were lower than in the same period in the previous year. Investments relating to the Gas service in the area in question regarded network expansion, reclamations and upgrading of networks and distribution plants. District heating investments include network extension works in the areas of Bologna (EUR 1.1 million), Imola (EUR 1.5 million) Forlì-Cesena (EUR 0.7 million), Ferrara (EUR 0.5 million) and Modena (EUR 0.2 million). Heat Management service investments relate to structural works on thermal plants operated by Group companies.

Gas (millions of Euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Networks	13.9	11.7	-2.2	-15.8%
District heating/Heat management	6.6	4.1	-2.5	-37.9%
Other	0.1	0.1	+0.0	+0.0%
Gas total	20.6	16.0	-4.6	-22.3%

Investments in the electricity service relate mainly to the expansion of the service and the extraordinary maintenance in plant systems and distribution networks for the Modena and Imola area, as well as to the services supporting the networks. Investments in the area recorded a decrease over the same period in the previous year, also due to the conclusion of the commitment to the large-scale replacement of the current meters with electronic meters, in line with the replacement plans resolved by AEEG. The investments in electricity and heat production plants (CCGT) refer to the Imola cogeneration plant, while the industrial cogeneration investments concern the construction of new plants at area companies.

Electricity (millions of Euro)	30-Jun-11	30-Jun-12	Abs Change	% Change
Area	8.7	6.4	-2.3	-26.4%
CCGT Imola	3.2	3.1	-0.1	-3.1%
Industrial cogeneration	1.0	0.2	-0.8	-80.0%
Electricity total	13.0	9.6	-3.4	-26.2%

As regards the Integrated Water Cycle, investments mainly related to expansions, reclamations and upgrading of networks and plants plus legislative adjustments, in particular relating to the purification and sewerage field, with a reduction of the latter compared to the corresponding period in the previous year.

Integrated Water Cycle (millions of Euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Aqueduct	21.3	20.3	-1.0	-4.7%
Purification	11.2	11.7	+0.5	+4.5%
Sewage	11.2	7.7	-3.5	-31.3%
Integrated Water Cycle total	43.7	39.7	-4.0	-9.2%

With regard to Waste Management, maintenance and upgrading of existing facilities in the area saw an increase compared to the previous year. Investments in WTE plants fell following the completion of the Rimini plant.

Waste management (millions of Euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Existing plants	17.0	20.2	+3.2	+18.8%
New plants:				
Modena WTE plant	0.7	0.0	-0.7	-100.0%
Rimini WTE plant	11.5	0.0	-11.5	-100.0%
Waste management total	29.3	20.2	-9.1	-31.1%

The Other Services area in the Telecommunications field registered a decrease in investments compared to the same period in 2011; the item 'Other' includes investments in cemetery services including the construction of the new crematorium facility (EUR 0.4 million in the period).

Other services (millions of Euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
TLC (District heating)	5.9	4.6	-1.3	-22.0%
Public lighting and traffic light installations	0.4	0.5	+0.1	+25.0%
Other	0.4	1.0	+0.6	+150.0%
Other Services Total	6.7	6.1	-0.6	-9.0%

Investments in the Central Structure area recorded an increase on the whole compared to the previous year, due to the construction of new sites and maintenance work on the vehicle fleet. Other investments included works to finish the laboratories and remote control structures.

Central Structure (millions of Euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Real estate transactions	10.5	17.9	+7.4	+70.5%
Information systems	6.1	5.8	-0.3	-4.9%
Fleets	2.0	5.0	+3.0	+150.0%
Other investments	1.2	1.0	-0.2	-16.7%
Central Structure Total	19.8	29.8	+10.0	+50.5%

1.03.02 Regulatory framework and regulated revenues

Reference legislation

The **local public services** sector was characterised by intense legislative and legal proliferation, which concluded, immediately after the close of the first half of 2012, with **Constitutional Court Ruling no. 199 of 20 July 2012**, which declared art. 4 of Decree Law no. 138 of 13 August 2011, converted to Law no. 148 of 14 September 2011, to be illegitimate. Art. 4 was rescinded given that it adopted the approach of the legislation on the reform of local public services, already repealed in due course by a referendum in July 2011. The unconstitutionality involves the non-application of the legislation and the temporary system for the direct awarding of contracts established therein.

One of the main consequences of the Ruling is that **urban waste and public lighting management services**, managed by HERA, shall continue until the expiry set out in the service contracts currently in force. This had a positive impact on in-house management, which will be granted irrespective of the economic value of the service awarded (by contrast, art. 4 made provision for a restrictive threshold of EUR 200,000). The ruling also removed the same restriction for in-house management set forth in art. 4, paragraph 8 of Decree Law no. 95 of 6 July 2012, the so-called "Spending Review", introducing urgent provisions for the review of public spending with no change to the services provided to customers.

The effects of the Ruling were less positive for **direct contractors** which relied on the right granted exceptionally by the regulations, which is no longer valid, to continue to fulfil the contract for three years from 2013, in the event direct pre-existing service management arrangements were supplemented, establishing a single area operator.

Art. 3 bis of Decree Law no. 138/11 introduced by Decree Law "Liberalisations" will remain in force. This provision required the regions to organise **economically important local public services into ATOs** before the end of June 2012, normally with a provincial dimension, unless, with adequate grounds, a sub-provincial area was opted for, safeguarding the basins already defined by regional or sector regulations. However, at present the regions have still not reached a resolution in this regard.

Decree Law no. 1/12 also introduced a new definition of the **perimeter for the awarding of urban and assimilated waste management service contracts**. In fact, disposal and plant management activities, which may or may not fall within the scope of the tender, were excluded. However, the public regulation of the assignment at plants with regulated tariffs was retained.

As regards the series of changes in the **energy sectors**, Decree Law "Liberalisations" made provision, among other things, for:

- the introduction of a reference to prices recorded on the market to gas procurement prices for vulnerable customers;
- Eni – Snam Rete Gas corporate separation, to be implemented by means of subsequent Decree of the President of the Council of Ministers;
- AEEG's obligation to define specific remuneration in relation to individual regulated assets, within 90 days from the request from assignees, for the construction of network infrastructures;
- the management by the Integrated Information System also (at Acquirente Unico Spa) of data relating to the electricity and gas consumption of end customers;

- the new responsibility of the Antitrust Authority for devising a legality rating for companies operating in the area.

Decree Law no. 5 of 9 February 2012, "Urgent provisions regarding simplification and development", converted to Law no. 35 of 4 April 2012, also supplemented art. 45 of Legislative Decree no. 93/11 (common regulations for the internal electricity and natural gas market) regarding the **sanction powers of AEEG** (Italian Authority for Electricity and Natural Gas). In particularly urgent cases, AEEG can, as a matter of course, resolve the adoption of precautionary measures, if adequate grounds exist, also prior to the launch of sanction proceedings.

Remaining in the energy field, the provision envisages the definition of a list proposed by the Ministry of Economic Development, to be updated on a two-yearly basis, of priority plants and infrastructures in order to reduce energy procurement costs. Generally speaking, in order to improve the efficiency and competitiveness of the oil sector, certain provisions have been introduced for strategic energy infrastructures, the methanisation of the Mezzogiorno region and regarding bunkering.

Decree Law no. 16 of 2 March 2012, converted to Law no. 44 of 26 April 2012 should also be noted, introducing urgent measures concerning the **simplification of tax issues**, efficiency drives and the improvement of inspection procedures. In particular, as regards energy efficiency, provision has been made for a recalculation of the rate applied to the quantity of fuel used to generate electricity for cogeneration plants. This recalculation will be carried out on the basis of coefficients determined by means of a Ministerial Decree (Ministry of Economy and Finance), estimated with reference to the efficiency of national electricity plants and calculated on a five-yearly basis. The coefficients identified by means of AEEG resolution no. 16/98, are reduced by 12% from 1.1.2012 to 31.12.2012.

Renewable energy production was a key theme in the first half of 2012, with the expected approval of the Ministerial Decree implementing art. 24, paragraph 5 of Legislative Decree no. 28/11 (Ministerial Decree of 6 July 2012) and the V Conto Energia – Fifth Energy Account – (Ministerial Decree of 5 July 2012). The first provision deals with the new bonus system for the production of electricity from renewable sources, in particular plants that will enter operations after 2013. In general, three categories of mechanisms have been established:

- some types of plants may be able to directly access incentives with registration at GSE (Energy Services Operator);
- plants with a nominal power below the 5 MW threshold, as well as total or partial plant reconstructions, will directly access incentives with the obligation to register with the GSE;
- plants with a nominal power above 5 MW must take part in a descending price bidding mechanism.

The value of the basic incentive is set out in Annex I of the Ministerial Decree and will normally be reduced by 2% per annum, in line with a gradual reduction in incentivisation. However, provision is made for increases in cases of high-yield cogeneration and in the event of observance of special conditions (particularly in the field of atmospheric emission reductions).

Measures targeted at modifying the amount of net energy which can be incentivised for WTE plants had a significant impact on the HERA Group. These concern the quantification of energy absorbed by so-called "auxiliary services" and the flat-rate calculation of the biodegradable fraction of special waste. As regards the calculation for auxiliary services, in the case of plants with power of more than 1 MW, a preliminary survey is currently in progress in relation to which a new AEEG resolution is expected.

Lastly, plants that entered operations before 31.12.2012 and which have already acquired the right to receive green certificates, will continue to receive, up until 2015, an incentive calculated on the basis of a method similar to the current one.

As regards the promotion of **photovoltaic** energy, by means of Ministerial Decree of 5 July 2012, which will come into force on 27 August 2012 and cease to apply once the total cost of the system has been met (EUR 6.7 billion), incentives will continue to decrease, and will be gradually eliminated. As regards the IV Conto Energia (Fourth Energy Account), provision has been made for further half-yearly cost limits based on given types of plants and an all-inclusive tariff per kWhb injected was introduced, which will remain fixed for 20 years from the date of entry into operation of the plant (an alternative to the exchange on-site mechanism and dedicated withdrawal). Furthermore, provision is made for incremental bonuses, which can be accumulated, in the event of eternit replacement and plants with parts constructed in EU countries. As regards the incentive mechanism, plants with a power of greater than 12 kW can access incentives by registered beforehand with the GSE (Energy Services Operator), in accordance with annual power limits, while plants with a power of below 12 kW can directly access incentives with having to register (such as concentration plants, innovative and constructed by the public administration, up to a total disbursement limit of EUR 50 million, as well as asbestos replacement systems up to 50 kW).

In particular, in the gas sector, **Decree Law no. 83 of 22 June 2012 (so-called "Development" Decree Law)** introduced an auction system for the allocation of modulation storage services for residential customers, replacing the current pro-quota allocation. This involves the move to a new system where costs are not known beforehand, potentially creating more uncertainty regarding gas offers and possibly greater market risk, both for traders and small resellers.

Lastly, worthy of note is **Decree Law no. 74 of 6 June 2012**, converted to Law 1.8.2012, introducing urgent measures for people affected by earthquakes, which concerned areas in the provinces of Bologna, Modena, Ferrara, Mantua, Reggio Emilia and Rovigo. In particular, for the electricity, gas and water sectors, provision was made for the suspension of the payment terms on invoices issued or to be issued, for a maximum of 6 months as of 20.5.2012, in given municipalities in the provinces concerned by the decree.

AEEG (Italian Authority for Electricity and Natural Gas) Regulation

With reference to the **gas sector**, smart meters represented a highly significant regulation issue in the first half of 2012. In fact, by means of resolution 28/12/R/Gas, AEEG restructured the obligations as regards the commissioning of gas metering units with remote meter reading and remote management functions initially set forth by resolution ARG/gas 155/08, introducing a general postponement of the expiry dates of the roll-out plans and eliminating certain previously established interim period obligations. More specifically, the deadline for replacing higher calibre meters (higher than G40 class) was set at 29.2.2012, while 2018 was the deadline set for replacing 60% of mass market meters, without prejudice, however, to the obligation to replace, by said date, all meters with an “expired metric stamp”.

However, at the same time, resolution 28/12 outlined tariff coverage mechanisms for distribution companies affected by smart meter roll-out obligations. In particular, the resolution introduced the tariff recognition of capital costs through a standard cost-based price list, although connected to the actual investment values through a profit/loss sharing system. The resolution also set forth that for conventional mass market meters replaced with smart meters before the end of their regulatory useful life, no tariff recovery is due in respect of residual depreciation quotas. Furthermore, with the exception of metrological inspections that are mandatory by law, no provisions have been made for precise mechanisms to cover operating costs linked to management of the new meters. A number of operators, including HERA Spa, filed appeals against resolution 28/12/R/Gas before the Regional Administrative Court of Lombardy based on the critical issues the resolution presents as regards the tariff coverage of the investments and operating costs resulting from compliance with meter replacement obligations. Subsequent additions and amendments to resolution 28/12 issued in the first half of 2012 did not, in essence, alter the above-mentioned framework.

Again with reference to the gas sector, by means of resolution 166/2012/R/gas, AEEG commenced a transitory period for initial application of the **TIMG (Integrated Code on Default Gas)** and introduced obligations for distributors for reducing instances of late payments. The main changes introduced include the distributor's obligation to guarantee a given number of suspensions of supply due to late payment from the end customer, defined at distribution system level, and the obligation to stop the gas supply in cases where, due to the inaccessibility of the meter, it is impossible to suspend said service. As regards the obligations to stop the service, AEEG will cover the costs of both stopping and restarting the supply. And again as regards the Integrated Code on Default Gas, it should also be noted that the Regional Administrative Court of Lombardy postponed the judgment, initially expected in June 2012, on the appeals filed by a number of operators against resolution ARG/Gas/99/2011 and, in particular, on the setting up of the Default Gas Service, deferring said judgment to 31 October 2012.

By means of resolution 263/2012/R/gas, AEEG, in acknowledging the provisions of article 13 of Decree Law no. 1/12, continued with the process commenced with resolution 116/2012/R/Gas, targeted at the gradual insertion, in the calculation formula of the **wholesale marketing tariff component (CCI)**, of new references to the market by combining them with the usual parameters deriving from import contracts. It is worthwhile pointing out that AEEG, by means of resolution 116/2012/R/GAS, modified the CCI calculation formula, effective from April 2012, so that it also gradually incorporated an appropriate market index. By means of the resolution in question, AEEG confirmed said solution, however increasing the weight of the market index to 5% for the 2012/13 thermal year. AEEG focused further on said issue, and intends to conduct a preliminary enquiry to “*outline the cost structure of the wholesale natural gas sale market*”, to be concluded by September 2012. The objective is to recognise, from April 2013, for resellers, higher amounts in line with the respective procurement conditions and, in this sense indicating tariff recognition that differs between sellers.

Another change introduced in the first half of 2012 was resolution 229/2012/R/gas, with which AEEG approved the **Integrated Code on Settlement Gas (TISG)**. Through this provision, AEEG completed the reform of the gas balancing system, introducing a new set of rules targeted at increasing certainty and transparency in determining the physical items (quantity) to which given economic conditions must be applied in the same market (balancing price). In the Integrated Code on Settlement Gas, which will come into force on 1.1.2013, the most important change is the transfer of the responsibility for the allocation process from distributors to SNAM.

With reference to the **electricity sector**, the regulatory developments with the biggest impact for the HERA Group include the provisions governing tariffs and the quality of electricity distribution for the Fourth Regulatory Period (2012-2015).

In relation to the new **tariff framework**, resolution 157/2012/R/EE deferred to a later provision the approval for HERA SpA of 2012 reference tariffs for the electricity distribution service, pursuant to the new Integrated Transport Code, as per resolution ARG/elt 199/11, including HERA among the operators for which AEEG deemed it necessary to acquire additional information on the historical stratification of capital invested. Definitive approval of the 2012 reference tariff was therefore put back to after the transmission to AEEG of the necessary clarifications, expected in September 2012. In any case, definitive approval is expected, as indicated by said resolution 157/2012, no later than March 2013.

Concurrently with the tariff regulation, with the introduction of new TIQE (Integrated Code on Electricity Quality), AEEG reviewed the **service continuity** incentive system and the regulation of the **commercial quality of electricity distribution** for the 2012-2015 period. In particular, also in order to avoid any overlapping of incentive systems, AEEG intended to cut back support systems linked to the decrease in electricity outages, making general provision for their reduction. Furthermore, as regards the regulation of commercial quality, AEEG made provision for an increase of around 17% in the amounts of automatic compensation for a breach of specific standards and, effective from 1.1.2013, the implementation of new indicators subject to specific standards such as the replacement time for a faulty metering unit and the time to restore the correct tension value of the supply. Effective as of 1.1.2013, provisions are expected to be applied governing rapid estimates which interrupt the processes of retail electricity distributors and sellers.

As regards the **electricity production sector**, resolution 281/2012/R/EFR met the requirement of making producers of non-programmable renewable energy sources aware of their responsibilities as regards unbalancing costs, launching a process which gradually shifts part of said costs to producers (currently shared by consumers), in order to incentivise greater attention on injection forecasting activities. Therefore, when fully operational, regulation of the RES (renewable energy source) production units must be in line with the current one for all plants, with an approach that will require producers to update their injection plans almost in real time to minimise unbalancing. In order to reduce the impact on producers, AEEG introduced a temporary system, valid for the whole of 2013, for which in line with given allowances (20% for the first 6 months and 10% for the remaining months) unbalancing will continue to be valued at the market price. As regards irrelevant plants (installed power of less than 10 MVA), for which the GSE is responsible for dispatching, the unbalancing charge will only be applied to producers that avail themselves of the dedicated withdrawal system.

As regards **renewable energies**, resolution 240/2012/E/EFR should be noted, which launched a preliminary enquiry to establish a better definition of **energy consumed by the auxiliary services** of electricity production plants. AEEG's intervention follows both Ministerial Decree of 6 July 2012 (incentivisation of renewable electricity production sources), which assigned AEEG the task of determining the auxiliary services for plants with a nominal power of above 1 MW, and the need to establish greater certainty regarding the definition of auxiliary services which was the subject of various interpretations over time. The formulation of a new definition along these lines would allow greater certainty in quantifying net energy that can be incentivised and, therefore, the incentives themselves. In addition, it would make it possible to consider particular types of plants that perform a dual role, such as WTE plants that also help to optimise a critical public service such as waste management. In this regard, the HERA Group was invited to participate in a presentation at AEEG to submit its position.

In terms of **consumer protection**, the AEEG implemented some measures in the first half of 2012, which apply to both the gas and electricity sectors.

Firstly, by means of resolution 153/2012/R/com, in order to counteract the phenomenon of **unsolicited contracting of end customers by retail sale companies**, AEEG introduced the obligation for resellers to implement the necessary preventive measures like the welcome letter or a confirmation telephone call to the end customer. In addition, AEEG established financial penalties for "unrequested" resellers, and published a black list of the resellers involved, on the basis of information received from customers.

Resolution 260/2012/E/com also envisaged the **setting up of the energy customers' mediation service and approval of the initial implementation regulations**. The service, set to be implemented by 2013, can reasonably expect to reduce the need for joint mediation procedures, currently managed by individual merchants on the basis of agreements with consumer associations.

By means of resolutions 235/2012/R/com and 314/2012/R/com, AEEG also implemented **measures in favour of populations affected by earthquakes**, which also struck Emilia on 20.5.2012 and over the following days. In particular, provision was made for the suspension, for the period running from 20.5 to 20.11.2012, of the payment terms of invoices relating to supplies of gas, electricity and the integrated water service. In order to mitigate the financial exposure of sales operators, by means of resolution 314/12, AEEG provided resellers for which the suspension of payments following an earthquake takes on a significant dimension with the right to request an advance from the Cassa Conguaglio per il Settore Elettrico (Electricity Sector Equalisation Fund) of receivables deriving from invoices with suspended payments due to resolution 235/12, net of an exemption threshold. In practice, the advance takes the form of an interest-bearing loan, but under more favourable terms, and the simultaneous prohibition of suspensions due to default leads us to believe that the repayment of said loan is limited to the portion actually paid by end customers. These measures have a significant impact on the HERA Group which, given the significance of the phenomenon, may benefit from the system of advances introduced by AEEG.

As regards the **enforcement of regulation**, the recent adoption of the **new regulations governing sanction proceedings and procedural methods for the evaluation of commitments** (resolution 243/2012/E/com) should be noted, which introduces the simplified procedure for the definition of sanction measures that AEEG may enforce against the merchant, with the effect of application of a reduced sanction and the subsequent discharge of the proceedings, against given commitments as regards elimination of the breach contested.

Lastly, as regards the **Integrated Information System** for the centralised management by Acquirente Unico Spa of transactions between distributors and retail sellers, it should be noted that AEEG, by means of resolution 79/2012/R/com, arranged for its concrete implementation. In fact, operators are expected to be accredited in the IIS by 31 August 2012, starting with electricity distribution operators.

By means of Decree Law no. 201/11, converted to Law no. 214/11, functions concerning the regulation and control of the **integrated water service** were transferred to AEEG. As regards the acknowledgement of the new regulation functions, in the first half of 2012 AEEG launched two significant consultation procedures, in which the HERA Group took an active role, in particular concerning the new temporary tariff method, to be applied in 2013, and the fully operational tariff method.

The first document, DCO no. 204/2012/R/IDR, sets out the first guidelines for future tariff regulation. In this regard, the positive aspects of the document include: the enhancement of investments through the revalued historical cost method, the recognition of the amortisation of investments also for the part financed by the sinking fund as well as the tariff recognition of a given market risk premium. By contrast, the document proposals with an adverse impact include longer amortisation resulting from an extension of the traditional useful life of the investments, limited tariff recognition of concession fees, recognition of investments after they are realised, as well as the lack of tariff recognition of goodwill recorded in the financial statements.

By means of the second document DCO no. 290/2012/R/IDR published recently, AEEG goes into the temporary method for 2013 in detail, confirming some aspects put forward in previous document DCO 204/12. The following proposals should be pointed out in particular. In the first place, the calculation of capital invested on the basis of the revalued historical cost method was confirmed. As regards the outcome of the referendum, i.e. the abrogation of the “adequate return on invested capital” principle, the proposal was put forward for the elimination from operators’ revenues of a portion of 2011 revenues concerning said remuneration and, the full recognition of financial and tax expenses (in place of the current rate of return of 7%), as well as the coverage of typical sector risks. The following were also proposed: an adequate recognition of working capital and commensurate with turnover; the setting up of a specific reserve fund in which the differences between the portion of tariff amortisation relating to sinking fund contributions and investments carried out in the year are concentrated; a system for the gradual adjustment of revenues in line with new tariff methods; the creation of a security deposit mechanism to also partially cover the risk of default.

Lastly, as regards unbundling issues, by means of resolution 266/2012/R/com, AEEG pre-announced its intention to extend the administrative and accounting unbundling provisions also to the regulation of water services management, as part of a procedure which should be completed by 31.12.2013.

Gas distribution: tariff framework

The year 2012 is the last year of the current regulatory period (2009-2012) for setting tariffs for gas distribution and metering. The regulatory reference (RTDG) for this period was introduced by AEEG (Italian Authority for Electricity and Natural Gas) resolution ARG/gas no. 159/08 of November 2008.

The tariff system outlined by the RTDG ensures each operator the achievement of certain permitted revenues calculated by AEEG based on the recognised costs, expressed by reference tariffs, and the number of delivery points served, in fact making revenues independent from the volumes distributed. This is possible through appropriate mechanisms for tariff equalisation, allowing operators to adjust, through the Equalisation Fund, the difference between their permitted and invoiced revenue to the sellers. Lastly, the latter derives, in fact, from the application of mandatory tariffs determined by AEEG for macro-regional areas.

During the first half of 2012, Ruling no. 2521/12 of 28/2/2012 was handed down by the Council of State, which put an end to the situation of uncertainty over the tariff framework introduced by the appeals filed to the Regional Administrative Court of Lombardy by some operators against resolution no. 159/08 and subsequent appeals submitted against the first instance rulings of the Regional Administrative Court, filed reciprocally, with reference to specific issues, both by claimant operators and AEEG. In order to comply with the above-mentioned ruling, AEEG commenced, with resolution 247/2012/R/GAS, proceedings targeted at the adoption of changes to the current regulations, essentially with reference to the redefinition of the trend in the value of the rate of annual recovery of productivity of the operating costs recognised, to be enforced on a decreasing basis over the course of the regulatory period, and, secondly, with no impact on the HERA Group, with reference to calibration per operator of the step-by-step mechanism for the recognition of capital costs and less extension of official tariff approvals with respect to the current situation.

Based on the proceedings launched and the outcome of the associated consultation, by means of recent resolution 315/12/R/GAS, AEEG defined the new rates of annual recovery of productivity which, in place of the previous value which was fixed at 3.2%, now stand at 3%, 2.8% and 2.6% respectively for HERA SpA for the updates to 2010, 2011 and 2012, maintaining the value of operating costs recognised at the start of 2009 unchanged. Therefore, said redefinition was slightly beneficial to the HERA Group, with respect to the values previously in force. Resolution 315/12 also definitively, and based on the changes to the recovery of productivity described above, approved the reference tariffs for 2009 and 2012. Approval of the 2011 and 2012 tariffs, never before published by AEEG up until now, not even provisionally, is, by contrast, expected by the end of October 2012.

As regards the information detailed above, HERA SpA's revenues from gas distribution and metering as at 30.06.2012 derive from the appropriate estimates of the reference tariffs, which were made in line with a regulatory continuity approach with respect to the tariff algorithm forming the basis of the approvals in previous years. In particular, the tariff levels in the first half of 2012 were estimated by firstly taking into account the end of the effects of the step-by-step approach to the recognition of capital costs, introduced by AEEG in order to enable, over a four-year regulatory period, the gradual convergence toward the values defined by the RTDG with respect to the previous methodology. Therefore, the year 2012 represents the first year of full recognition of capital costs according to the revalued historical cost method introduced by RTDG. The tariff adjustment for 2012 also takes into account, secondarily in terms of the economic impact, the variations in net capital invested which occurred in 2010 and the update to recognised operating costs according to the price cap rule.

In the picture described above, gas distribution and metering revenues for the first half of 2012 for HERA SpA amounted to EUR 87.8 million, with distribution volumes of 1,308 million of cubic metres, with a corresponding unit revenue of EUR cents 6.71 per cubic metre. The amount of revenues reported already takes into account a suitable estimate of the effects of tariff equalisation.

Gas distribution and metering - regulated revenues	30/06/2011	30/06/2012	% Change
Hera Spa			
- Revenue (millions of euro)	84.8	87.8	3.5%
- Volumes (millions of cubic metres)	1,256	1,308	4.1%
- Average unit revenue (Euro cents/cubic metre)	6.75	6.71	-0.6%

Compared to the first half of 2011, given an increase in distributed volumes of 4.1% (up from 1,256 million cubic metres to 1,308 million cubic metres) revenues increased by 3.5%, from EUR 84.8 million to EUR 87.8 million. The increase of EUR 3.0 million is due to the expected growth in the 2012 revenue restriction compared to 2011, due essentially to the implementation of the last part of the step-by-step mechanism as regards the recognition of capital costs and the effect of the adjustment for inflation.

Taking into consideration MARCHE MULTISERVIZI SpA in the scope of consolidation of the HERA Group as at 30.06.12, it should be noted that the consolidated value of revenues from gas distribution and metering for the Group amounts to EUR 96.5 million, for 1,406 million cubic metres distributed with a corresponding unit revenue of EUR cents 6.86/cubic metre.

Gas distribution and metering - regulated revenues	30/06/2011	30/06/2012	% Change
Hera Group - consolidated			
- Revenue (millions of euro)	93.1	96.5	3.7%
- Volumes (millions of cubic metres)	1,352	1,406	4.0%
- Average unit revenue (Euro cents/cubic metre)	6.89	6.86	-0.3%

Electricity distribution: tariff framework

2012 was the first year of the fourth regulatory period (2012-2015) in which, by means of resolution ARG/elt 199/11, the Authority approved the new integrated texts for the Transport and Distribution (TIT), Electricity Metering (TIME) and Connections (TIC) services respectively.

As regards the distribution service, the main change concerns the introduction of a restriction on regulated revenues defined by company (a similar approach to that taken for gas distribution), calculated for the part of capital invested on a mixed basis (implicit for the perimeter of assets up until 2007 and on the basis of the effective company historical cost for investments from 2008), and for the operating costs part on average national values recorded by AEEG from the 2010 Separate Annual Accounts, adjusted as necessary to take account of the effects of the tariff equalisation of applicable costs in the third regulatory period. The formulation of a restriction by company overcomes the problem of the complex tariff system previously in force and, at the same time, complies with the cost reflection principles of recognised revenues.

In terms of the recognition of capital costs, aside from the adjustment of the return on invested capital, adjusted to 7.6% in view of the changed conditions in the economic-financial system, one particular change came in the form of recognition of the so-called regulatory lag, i.e. an increase in the rate of return on capital to cover the financial charges resulting from the two-year delay, relating to the time investments are made and when they start to be recognised in the tariff; this increase will be 1% and shall apply to investments made from 2012, i.e. applicable to 2014 tariffs. Lastly, worthy of note is the full recognition of the portion of tariff amortisation, which from 2012 no longer discounts the effect of tracking of the price cap applied in previous regulatory periods.

As illustrated in the previous regulatory section, approval of the 2012 reference tariffs of HERA SpA for electricity distribution activities was deferred from resolution 157/2012/R/EE to a later provision. Within said context, the revenue values as at 30.06.2012 are based on the proper prudential estimate, in line with the continuity approach in respect of the values taken from the third regulatory period, isolating the effect of volumes of energy distributed, in order to understand the forecast according to which the new tariff method essentially renders independent revenues permitted by kWh distributed.

Revenues from electricity transmission, distribution and metering as at 30.06.2012 amounted to EUR 25.2 million, up by EUR 1.0 million compared to the result in the first half of 2011, which came to EUR 24.2 million (up 4.1%), despite a decrease of 3.9% in volumes distributed. This result reflects, on one hand, the already mentioned independence from permitted revenues with respect to distributed volumes, and on the other, the trend in inflation and adequate expectations as regards the recognition of the investments made in 2010.

Electricity distribution, metering and transmission, regulated revenues	30/06/2011	30/06/2012	% Change
Hera Spa			
- Revenue (millions of euro)	24.2	25.2	4.1%
- Volumes (millions of kWh)	1,133	1,089	-3.9%
- Average unit revenue (€cent/kWh)	2.14	2.31	7.9%

Water cycle: tariff framework

Regulation of the Integrated Water Service saw some recent legislative developments. First of all, the closure of former ATOs (art. 2, paragraph 186-bis of Law no. 191 of 23 December 2009, as amended by Decree Law no. 2 of 25 January 2010, converted with amendments from Law no. 42 of 26 March 2010) and the creation of ATERSIR, (Regional Authority of Emilia-Romagna for Water and Waste Services) on 1/1/2012; then, on said date, some tariff responsibilities were assigned to AEEG (art. 21 of Decree Law no. 201 of 6 December 2011, converted with amendments from Law no. 214 of 22 December 2011).

One of AEEG's first activities is to define a new definitive tariff model applicable from 2014.

The tariff agreements signed with the former ATOs are still in force in 2012, applicable for the 2008-2012 period for all areas with the exception of Ato Modena and Ato Bologna for which the tariff agreement was renewed for the 2010-2014 and 2011-2015 periods respectively.

The comparison with data of 2011 shows an increase in revenue per unit of 7.3% for 2012. This was a result, in particular, of the tariff agreements resolved by the former ATOs, especially the agreement concluded in December 2011 with the former Ato Bologna, which envisaged the tariff convergence towards full coverage of costs.

Consolidated Hera Group - water cycle - tariff revenues	30-Jun-11	30-Jun-12	% Change
Tariff revenues (millions of euro)	204.18	219.62	7.6%
Volumes (millions of cubic metres)	120.66	120.96	0.3%
Average unit revenue (€cent/cubic metre)	169.22	181.56	7.3%

Urban waste management: tariff framework

As at June 2012, Urban Waste Management services were provided in 181 municipalities, and 51% of these (93 Municipalities) adopted the tariff system pursuant to Presidential Decree no. 158/99, serving a population equal to 66% of the territory served, 49% of the municipalities are still under the TARSU (Urban Solid Waste Tax) regime.

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

Consolidated Hera Group - waste management - tariff revenues (Environmental hygiene tariff + Urban Solid Waste Tax)	2011	2012	% Change
Tariff revenues (millions of euro)	206.1	213.6	3.6%
Inhabitants served* (000)	2,779	2,795	0.6%
Average unit revenue (€/inhabitant)	74.2	76.4	3.0%

* population served as at 01/01

The overall increase in regulated revenues for the Urban Waste Management service to municipalities under a concession arrangement, equal to 3.6%, is due mostly to the average tariff increase of approximately 3.5%, which offsets the increased inflationary costs.

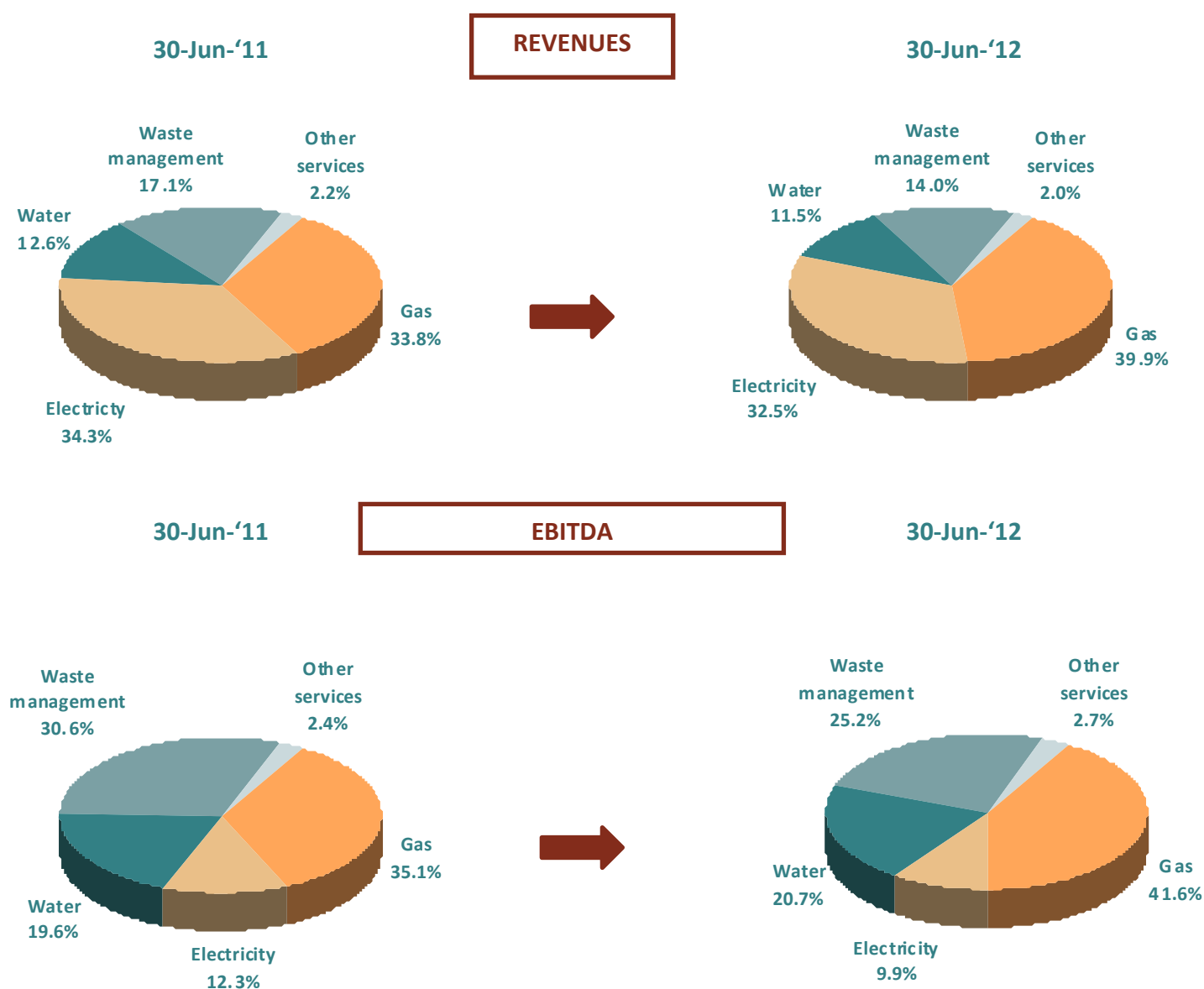
The remainder is attributable to revenue from recoveries as a result of initiatives involving the inspection and control of entities subject to tariffs.

1.03.03 Analysis by business segment

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

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

Breakdown of the business portfolio



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

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

Analysis of the Gas Area

As at 30 June 2012, the Gas area recorded considerable growth over the same period in the previous year, both in absolute terms and as regards the percentage contribution to Group EBITDA, reaching more than 40%, as illustrated in the table below:

(in millions of euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Area EBITDA	120.6	151.1	+30.5	+25.3%
Group EBITDA	344.0	363.6	+19.6	+5.7%
Percentage weight	35.1%	41.6%	+6.5%	

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

Quantitative data	30-Jun-11	30-Jun-12	Abs. Change	% Change
Volumes of gas distributed (millions of cubic metres)	1,351.7	1,406.0	+54.3	+4.0%
Volumes of gas sold (millions of cubic metres)	1,688.5	1,988.0	+299.5	+17.7%
- of which trading volumes	503.0	729.8	+226.8	+45.1%
Volumes of heat supplied (Gwht)	296.1	321.3	+25.2	+8.5%

Volumes distributed increased from 1,351.7 million cubic metres in the first half of 2011 to 1,406.0 million cubic metres in 2012, marking an increase of 4.0%, which is also above the national average (+3.7%), as a result of severe winter temperatures.

By contrast, volumes of gas sold increased from 1,688.5 million cubic metres in 2011 to 1,988.0 million cubic metres as at 30 June 2012, marking an increase of 17.7% over the same period in 2011, due to both the growth in volumes traded, thanks to the expansion in the wholesaler portfolio and higher supplies to large consumption centres, such as thermoelectric plants, and the increase in volumes sold, in respect of which the incorporation of Sadori Gas into Hera Comm Marche should also be noted.

Volumes of heat supplied rose from 296.1 GWht as at 30 June 2011 to 321.3 GWht as at 30 June 2012, marking an increase of 8.5%, linked to both lower average temperatures recorded in the first four months of 2012, which created higher heat consumption, and more activations in the second half of 2011 and in the first half of 2012.

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

Income statement (millions of Euro)	30-Jun-11	Inc.%	30-Jun-12	Inc%	Abs. Change	% Change
Revenues	731.5		996.7		+265.2	+36.3%
Operating costs	(581.1)	-79.4%	(808.3)	-81.1%	+227.2	+39.1%
Personnel costs	(36.8)	-5.0%	(41.2)	-4.1%	+4.4	+11.9%
Capitalised costs	7.0	1.0%	4.0	0.4%	-3.0	-42.9%
EBITDA	120.6	16.5%	151.1	15.2%	+30.5	+25.3%

Revenues increased by 36.3%, up from EUR 731.5 million in the first half of 2011 to EUR 996.7 million in 2012, due to both higher revenues from sales, linked to both the increase in raw material costs and to higher volumes sold and traded, and to higher distribution revenues and greater volumes of heat sold in the district heating business.

The increase of 39.1% in operating costs is due mainly to the increase in the cost of the raw material natural gas, higher volumes sold and traded and greater costs of transporting natural gas.

EBITDA in the Gas area therefore increased by EUR 30.5 million, up from EUR 120.6 million to EUR 151.1 million, despite a decrease in percentage margins from 16.5% as at 30 June 2011 to 15.2% in 2012. The area's result is attributable to higher sales margins, thanks to solid raw material purchase contracts, higher distribution revenues and greater volumes of heat supplied.

Analysis of the Electricity Area

At the end of the first half of 2012, the Electricity Area recorded a decrease over 2011, both in absolute terms and as regards the contribution to the Group's overall margins, as shown in the table below:

(millions of euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Area EBITDA	42.2	35.9	-6.3	-15.1%
Group EBITDA	344.0	363.6	+19.6	+5.7%
Percentage weight	12.3%	9.9%	-2.4%	

EBITDA fell from EUR 42.2 million as at 30 June 2011 to EUR 35.9 million in 2012, marking a decrease of EUR 6.3 million. This decrease was due mostly to hedging transactions relating to electricity sales which, in 2011, in relation to the trend in oil prices, involved a highly positive evaluation of the same over the first half of 2011 and gradually lessened in 2011.

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

Quantitative data	30-Jun-11	30-Jun-12	Abs. Change	% Change
Volumes sold (Gw/h)	4,815.0	4,712.8	-102.2	-2.1%
Volumes distributed (Gw/h)	1,132.9	1,088.9	-44.0	-3.9%

Volumes distributed fell by 3.9%, showing a slowdown in consumption, which is reflected, although to a lesser extent, in the Emilia Romagna and Tuscany reference area (-3.1%) and in the national average (down 2.8%).

The 2.1% decrease in volumes sold was determined by lower consumption linked to the already mentioned current economic situation, despite 14% growth in the customer portfolio.

The main results of the area are briefly summarised below:

Income statement (millions of Euro)	30-Jun-11	Inc.%	30-Jun-12	Inc%	Abs. Change	% Change
Revenues	741.5		812.8		+71.3	+9.6%
Operating costs	(691.5)	-93.3%	(768.4)	-94.5%	+76.9	+11.1%
Personnel costs	(14.0)	-1.9%	(12.4)	-1.5%	-1.6	-11.5%
Capitalised costs	6.2	0.8%	3.8	0.5%	-2.4	-38.9%
EBITDA	42.2	5.7%	35.9	4.4%	-6.3	-15.1%

Revenues increased from EUR 741.5 million in the first half of 2011 to EUR 812.8 million in the corresponding period in 2012, marking an increase of 9.6%, due mainly to the increase in the price of the raw material.

The rise in operating costs (+11.1%) is attributable to the higher costs of purchasing material and transporting electricity. Also worthy of mention, and already outlined previously, is the valuation in the first half of 2011 of hedging transactions on the purchase of the raw material held for sale.

Activities regarding renewable energy sources and industrial cogeneration should also be pointed out, which contributed to the margins of the Electricity area (9.0%), up by 7.5% compared to the same period in the previous year, also thanks to the acquisition of new companies operating in the photovoltaic sector.

At the end of the first half of 2012, as shown previously, EBITDA fell from EUR 42.2 million to EUR 35.9 million.

Analysis of the Integrated Water Cycle Area

At the end of the first half of 2012, the Integrated Water Cycle area recorded growth both in economic and quantitative terms compared to the same period in the previous year.

(in millions of euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Area EBITDA	67.5	75.2	+7.7	+11.3%
Group EBITDA	344.0	363.6	+19.6	+5.7%
Percentage weight	19.6%	20.7%	+1.1%	

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

Income statement (millions of Euro)	30-Jun-11	Inc.%	30-Jun-12	Inc%	Abs. Change	% Change
Revenues	273.3		287.7		+14.4	+5.3%
Operating costs	(156.1)	-57.1%	(159.4)	-55.4%	+3.3	+2.1%
Personnel costs	(52.9)	-19.4%	(54.5)	-18.9%	+1.6	+3.0%
Capitalised costs	3.3	1.2%	1.4	0.5%	-1.9	-58.0%
EBITDA	67.5	24.7%	75.2	26.1%	+7.7	+11.3%

Revenues rose by 5.3% to EUR 287.7 million compared to 30 June 2011, due to higher revenues and volumes from administration to cover higher service management costs.

In fact, operating costs increased by 2.1% compared to the same period in the previous year, relating to: (i) the increase in energy costs due to the operating of systems throughout the entire integrated water service, (ii) the higher cost of the raw material water and (iii) higher operating costs owing to the increased number of services provided.

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

Quantitative data	30-Jun-11	30-Jun-12	Abs. Change	% Change
Volumes sold (millions of cubic metres)				
Aqueduct	120.7	121.0	+0.3	+0.2%
Sewage	104.1	105.2	+1.1	+1.1%
Purification	104.2	104.3	+0.1	+0.1%

Volumes of water supplied were up 0.2% on the first half of 2011; sewage and purification volumes increased by 1.1% and 0.1% respectively.

EBITDA therefore stood at EUR 75.2 million as at 30 June 2012, compared to EUR 67.5 million in the previous year, marking an increase of 11.3%, due to higher volumes sold and revenues for the coverage of the services provided.

Analysis of the Waste Management Area

The Waste Management Area recorded a decrease in margins, as shown in the table below:

(millions of euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Area EBITDA	105.2	91.6	-13.6	-12.9%
Group EBITDA	344.0	363.6	+19.6	+5.7%
Percentage weight	30.6%	25.2%	-5.4%	

The Hera Group integrally operates on complete waste cycle, with an asset base of 80 plants managed by Herambiente Group for treatment and disposal of urban and special waste and with 4 further plants managed by Marche Multiservizi Group.

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

Income statement (millions of Euro)	30-Jun-11	Inc.%	30-Jun-12	Inc%	Abs. Change	% Change
Revenues	370.4		350.8		-19.6	-5.3%
Operating costs	(195.4)	-52.8%	(186.6)	-53.2%	-8.8	-4.5%
Personnel costs	(76.4)	-20.6%	(75.8)	-21.6%	-0.6	-0.8%
Capitalised costs	6.7	1.8%	3.3	0.9%	-3.4	-50.9%
EBITDA	105.2	28.4%	91.6	26.1%	-13.6	-12.9%

Revenues recorded a decrease of 5.3% as at 30 June 2012 when compared to the same period in the previous year, down from EUR 370.4 million to EUR 350.8 million. The decrease is due to: lower revenues from electricity production, for an amount of around 10 m€, the main part of which is related to cessation of CIP6 incentive on FEA WTE plant in Bologna area (around EUR 8.0 million), (ii) lower waste disposal volumes

The decrease in capitalised costs is due mainly to less works on plants and intercompany works; these relate in particular to the completion of the construction of WTE plants.

Separated waste collection, as a percentage of the total volume of waste collected, reached a value of 50.4% at the end of the first half of 2012, against 49.6% in the first six months of 2011.

An analysis of the volumes marketed and treated by the Group in the first half of 2012 is shown below, compared to the same period in 2011:

Quantitative data (thousands of tonnes)	30-Jun-11	Inc.%	30-Jun-12	Inc%	Abs. Change	% Change
Urban waste	904.1	33.2%	859.9	36.6%	-44.2	-4.9%
Market waste	817.1	30.0%	725.8	30.9%	-91.3	-11.2%
Waste marketed	1,721.2	63.2%	1,585.7	67.5%	-135.5	-7.9%
Plant by-products	1,000.9	36.8%	763.8	32.5%	-237.1	-23.7%
Waste treated by type	2,722.1	100.0%	2,349.5	100.0%	-372.6	-13.7%
Landfills	632.5	23.2%	572.7	24.4%	-59.8	-9.5%
Waste-to-energy plants	489.6	18.0%	474.3	20.2%	-15.3	-3.1%
Selection plants and other	151.2	5.6%	154.7	6.6%	+3.5	+2.3%
Composting and stabilisation plants	284.1	10.4%	228.6	9.7%	-55.5	-19.5%
Stabilisation and chemical-physical plants	479.8	17.6%	359.3	15.3%	-120.5	-25.1%
Other plants	685.0	25.2%	560.0	23.8%	-125.0	-18.2%
Waste treated by plant	2,722.1	100.0%	2,349.5	100.0%	-372.6	-13.7%

An analysis of the quantitative data shows a decrease of 7.9% in waste marketed, due to both the decrease in urban waste (-4.9%) and market waste (-11.2%), as a result of the already mentioned negative economic situation. By contrast, the fall in plant by-products is due to the different weather conditions: in particular, less rainfall compared to the same period last year caused lower leachate production.

As regards waste disposal flows per plant, the general fall in waste had an impact on all types, with the exception of selection plants, as a result of the increase in separated waste collection.

Therefore, EBITDA for the area decreased by EUR 13.6 million compared to the previous year, down from EUR 105.2 million as at 30 June 2011 to EUR 91.6 million in 2012. This result is attributable to the fall in disposal volumes and electricity production incentives, as already outlined previously, despite better results in the urban waste management business.

Analysis of Other Services Area

The Other Services Area recorded an increase in EBITDA, up from EUR 8.4 million in the first half of 2011 to EUR 9.8 million in the same period in 2012, as shown in the table below:

(millions of euro)	30-Jun-11	30-Jun-12	Abs. Change	% Change
Area EBITDA	8.4	9.8	+1.4	+16.8%
Group EBITDA	344.0	363.6	+19.6	+5.7%
Percentage weight	2.4%	2.7%	+0.3%	

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

Income statement (millions of Euro)	30-Jun-11	Inc.%	30-Jun-12	Inc%	Abs. Change	% Change
Revenues	48.1		50.1		+2.0	+4.2%
Operating costs	(31.4)	-65.3%	(31.9)	-63.7%	+0.5	+1.6%
Personnel costs	(9.5)	-19.7%	(8.9)	-17.8%	-0.6	-6.3%
Capitalised costs	1.2	2.6%	0.6	1.2%	-0.6	-48.6%
EBITDA	8.4	17.5%	9.8	19.6%	+1.4	+16.8%

The increase in margins in the area is due to both the public lighting service and telecommunications and cemetery services areas.

The main operating indicators, shown in the table below, show a decrease in lighting points, due to the end of service concessions in certain municipalities, the main one being the municipality of Bologna.

Quantitative data	30-Jun-11	30-Jun-12	Abs. Change	% Change
Public lighting				
Lighting points (thousands)	336.1	298.7	-37.4	-11.1%
Municipalities served	59.0	58.0	-1.0	-1.7%

1.04 Commercial policy and customer care

As far as accessibility of channels is concerned, in spite of the constant increase in flows, the level of performance confirms the overall trend of improvement for branches where the effectiveness of the actions implemented for improving processes has led to a considerable improvement in quality.

- *Family call centres*: 92.5% of calls answered, compared with 92.6% for the first half of 2011, with an average queue time (AQT*) of 90 seconds compared with 94.6 seconds for the first half of 2011. Note that in spite of the increased number of calls answered by operators in 2012 compared with the first half of 2011 (+6.74%), there was a 5.11% improvement in the average queue time.
- *Company call centres*: 94.9% of calls answered, essentially unchanged compared with the figure of 95% for the first half of 2011, with an average queue (AQT*) which went down to 60.1 seconds from 71.4 seconds for the first half of 2011, a decided improvement (11.3%) in average queue times for corporate customers too.
- *Branches*: in spite of the increased number of contacts managed at branches (approximately +10.8%) compared with the first half of 2011, the average waiting time improved going from 11.59 to 10.26 minutes; *in detail, with regard to company branches*, specifically as far as average queue times for corporate customers are concerned, the excellent performance achieved in the first half of 2011 was improved upon still further, going down from 3.49 minutes for the first half of 2011 to 3.17 minutes in the first half of this year.

The results achieved also demonstrate the effectiveness of actions set up with a view to creating a lean organisation in several of the top branches during the critical months of February and March when the weather conditions caused several influxes. The actions, together with the flow-prediction management system, which came into full operation at all major branches, allowed KPIs to be maintained within the set targets.

- The above indicators also showed signs of improvement as perceived by customers contacting the call centre and branches. Customer satisfaction, measured on a monthly basis during the year (with scores on a scale ranging from 1 to 100), showed an improvement over the excellent results achieved by the Family Call Centre, the Company Call Centre and the Branches in 2011. Specifically:
 - *Family call centres*: from an average of 76 for the first half of 2011 to 79 for the first half of 2012
 - *Company call centres*: a 5.8% steady and significant increase in satisfaction, reaching an average score of 73 in the first half of 2012 compared with an average score of 69 in the first half of 2011.
 - *Branches*: from an average of 78 for the first half of 2011 to 80 for the first half of 2012

Overall the Hera customer base continues to increase, with a figure of 4.5% in June 2012 for a total of 3,815 electricity, gas, water and environmental hygiene points of delivery. The services of the water and environmental hygiene regulated markets have also contributed to this growth, with inertial growth of approximately 0.6% for these services. The dynamics in the gas and electricity markets are very positive, with free market activity and acquisitions continuing to post positive figures even against the background of the continued economic crisis and strong competition in the market. Specifically, gas recorded growth of 4.62% from both sales activity and the acquisition of Sadori Gas, which took place in July 2011 with its 35,000 points of delivery. Electricity's year-on-year growth was consolidated, with points supplied up 14% at June 2012.

Points of supply	30/06/2012	30/06/2011	Change in supply points (no.)	Change in supply points (%)
Gas	1,116	1,067	49.3	4.62%
Electricity	517	453	63.8	14.08%
Water	1,187	1,179	7.5	0.64%
EHT	997	991	5.5	0.55%

Figures expressed in thousands

The impact of the crisis was felt in volumes of electricity supplied, which saw a 2% drop compared with sales in June 2011. Specifically, volumes at June 2012 stood at 4,713 GWh compared with 4,815 GWh in June 2011**. Gas, on the other hand, went against the trend with the effect of the harsh winter prevailing over the economic climate. An increase of 6% was recorded (+4% net of the acquisition of Sadori in July 2011), going from 1,186 million m3 in the first half of 2011 to 1,258 million m3 at June 2012.

Group policies continued to focus on the internet. Hera is continuing to encourage customers to receive electronic bills which, thanks to below the line activities associated with paper billing, has made it possible to reach the entire Hera customer base and record an 85% increase in the number of customers receiving bills via email. Customers who opted for electronic bills increased to 50,213, over 3% of the customer base. This also had a positive effect on Hera OnLine registrations, which in June 2012 had 148,349 registered customers, 9% of the customer base with a 30% increase compared with June 2011.

Lastly, the new Hera Comm website went live in the first half of the year. It is possible to sign up online for all services offered. With regard to the environment, another step was taken towards dematerialisation. With a view to maximum transparency during the online subscription process, all the stages of the purchase are clearly highlighted so that the customer is aware at all times of which stage of the process they are in, and they can sign up to all the Hera Comm services on offer, receiving all agreements via email.

Notes:

* AQT: In line with AEEG regulations, AQT measures the average time between the beginning of the call until the operator answers or the customer rings off, for calls in which the customer chooses to speak with the operator.

** At 30 June 2011, electricity volumes were relative to Hera Comm and Hera Comm Mediterranea.

1.05 Trading and procurement policy

As far as the gas sector is concerned, the first half of the year has essentially confirmed the dynamics that emerged after the economic-financial crisis of 2008: consumption at the minimum levels of the last six years (-2.2% for the equivalent period of 2011) as a result, especially, of the continuing fall in consumption in the thermo-electric sector. The relative recovery in consumption recorded in the services and domestic sector (+3.1%) and the industrial sector (+0.6%) due also to colder weather conditions, was more than offset by the reduction in use recorded in the thermo-electric sector (-11.7%).

In this market context it did not have a negative impact on the Group's operations in the sector. The first months of the year were dedicated, on the one hand, to the management of the contract portfolio with the aim of balancing and optimising the Group's short-term position and, on the other hand, to finalising new procurement contracts for the 2012-13 thermal year.

As far as shipping activities conducted by Hera Trading are concerned, the daily adjustment of the position prevented significant impacts on costs even though the weather conditions recorded at the start of the February were particularly harsh.

Short-term adjustments, supported by efficient requirement forecasting activities, were made through purchase or sales adjustments at the Virtual Exchange Point (VEP) in Baumgarten using the reserved Trans Austria Gasleitung GmbH (TAG) transport capacity and at NCG Germany. These transactions generally took place at favourable market conditions and made it possible to tackle the market balancing, decided by the AEEG from December 2011 onwards, in terms of opportunity rather than risk.

The purchase of modulated gas intended for Hera Comm regulation and measurement stations was finalised in two stages in February and March, for an amount of approximately 1.6 billion m³ for the 2012-13 thermal year, in market conditions which, even ex-post, were among the best to be found on the market.

During the 2nd quarter, flat procurement amounts were finally defined for the purpose of balancing the portfolio for direct supplies from Hera Trading to regulation and measurement stations and for off-network development by Hera Comm for the 2012-13 thermal year for a further 0.6 billion m³.

As regards the electricity market, the first six months of 2012 featured a slight fall in consumption compared with the same period in the previous year (-2.8%) as a result of the sharp worsening of the economic crisis.

Reduction in demand, combined with significant over capacity, also caused by the turbulent and unplanned development of renewable sources (photovoltaic in particular), caused a further contraction of the spark spread of thermo-electric plants (CCGT) until they were negative many hours of the day. The increase in the price recorded on the Italian stock exchange (national standard price - NSP) was not sufficient to offset the strengthening of commodities prices which determine the price of gas.

The negativity of the market scenario, which is having an impact on producers, in particular, as far as the Hera Group is concerned, taking into account the limited installed capacity compared with the final market, was strongly countered by operations in the DSM (Dispatching Service Market). The Teverola and Sparanise plants managed to achieve satisfactory results, although not as good as those in the same period of the previous year. The situation of the COGEN/Imola plant remains a problem as, despite being offset by the positive district heating results, it is constrained by cogeneration restrictions meaning it cannot operate in the DSM.

As far as trading in the electricity sector and environmental certificates are concerned, operations in France in the half-year increased and operations were launched in Germany and Austria, with positive results, in line with forecasts. Special attention was dedicated to the management/optimisation of Hera Comm's purchase portfolio through transactions carried out on the Stock Exchange and over-the-counter (OTC) platforms.

As regards management of commodity and exchange risk, operations for both gas and electricity through a concentrated portfolio which provides for deconstructing formulas, the netting of positions and hedging of volumes, were particularly effective in the first half of 2012 as well. Hera Trading activated this instrument at the beginning of 2007 to manage hedging activities. It is proving essential for adequate and dynamic operations in both the wholesale and retail markets with risks constantly monitored and in line with the limits set in Group policies.

1.06 Financial policy and rating

In the first half of 2012 financial markets continued to feature a high degree of uncertainty in terms of the solidity and stability of the Eurozone financial system, which continued to be very turbulent and volatile. In spite of the downward levelling off of market curves, a rapid fall in credit spreads was recorded and an increase in bank lending costs.

This phenomenon was immediately overturned for the financial conditions of companies and mainly for those which operate in countries where sovereign risk is high.

Against this background, the Group continued to pursue its goal of maintaining an adequate balance, between assets and liabilities, with the utilisation of capital consistent with sources of funding, in terms of both the repayment schedule and methods and taking into account the need to refinance the current loan structure and corporate transactions and, identifying the optimum mix of financing between fixed and variable rate, under the scope of a prudent strategy towards rate fluctuation risk, which is designed to stabilise financial flows in order to guarantee margins and cash flows.

In order to strengthen the financial structure further and support its business plan, the Group has agreed new medium/long-term financing of €327.5 million, partly used for restructuring the €70 million RBS put loan and partly used for adequately financing its investment plan. Specifically, a significant portion was provided in June through an EIB (European Investment Bank) loan of €125 million, for investments for upgrading and expanding the gas and electricity distribution networks, with a 15-year amortisation schedule, at the six-month Euribor plus a 1.46% spread. Note also the bond issue of €102.5 million which took place on 14 May 2012 and featured particularly long terms of 15 and 20 years at a fixed rate of 5.25%.

Given the current market situation, in order to keep liquidity risk indexes stable, the Group has taken out further committed credit facilities of €170 million for a term of 2-3 years as well as renewing those which expire in the first half of 2012, making a total for these credit facilities of €420 million.

The Group's financial management is based mainly on the principle of risk mitigation, adopting a hedging policy which does not include recourse to speculative derivative instruments.

The policies and principles for management and control of the risks inherent in the Group's financial operations, such as liquidity risk and related default and covenant risk, interest rate risk and exchange rate risk are described below.

Liquidity risk – Credit rating

Liquidity risk is defined as the risk whereby, due to its inability to raise new funds or liquidate assets in the market, a company fails to meet its payment obligations.

The following table represents the "worst case scenario" where assets (cash, trade receivables, etc.) are not considered, while financial liabilities are reflected in principal and interest, trade payables and interest rate derivative contracts. Call credit facilities have matured when they become due, while other financing has been allowed to mature on the date on which repayment can be requested (put bonds are considered to be repaid on the first date the put option can be exercised, even if, given the current market situation, it is out of the money).

Worst Case Scenario	30/06/2012			31/12/2011		
(€ million)	from 1 to 3 months	between 3 months and 1 year	from 1 to 2 years	from 1 to 3 months	between 3 months and 1 year	from 1 to 2 years
Bonds	209	326	228	30	502	221
Payables and other financial liabilities	42	114	114	153	180	46
Payables to suppliers	1.011	0	0	1.229	0	0
Total	1.262	440	342	1.413	682	268

The Group's aim is to have a level of liquidity which allows it to meet its contractual commitments, both under normal business conditions and during a crisis, by maintaining available credit facilities and liquidity and proceeding with the timely negotiation of loans approaching maturity, optimising the cost of funding according to current and future market conditions.

In order to guarantee sufficient liquidity to cover all its financial commitments, over the next two years at least (the worst case scenario time horizon given), as at 30 June 2012, the Group has €507 million in cash, €420 million in unused committed credit facilities and ample space on its uncommitted credit facilities (€1,000 million).

The credit facilities and related financial assets are not concentrated with any one lender, but are distributed among leading Italian and international banks, with utilisation much lower than the total amount available.

At 30 June 2012, long-term debt accounted for 98% of the Group's total financial debt. The average maturity is around nine years and 57% of the debt has a repayment date longer than five years.

The projected nominal flow based on the annual repayment dates over the next five years and the portion after five years is shown below.

Debt nominal flow (€mln)	30/06/2012	31/12/2013	31/12/2014	31/12/2015	31/12/2016	Over 5 years	Total
Bonds	0	0	0	0	500	852	1,352
Convertible bonds	0	140	0	0	0	0	140
Put Bond / Loan	0	0	0	0	0	520	520
Bank debt / other payables	48	86	52	235	33	177	630
Gross financial debt*	48	226	52	235	533	1,549	2,643

*Gross financial debt: does not include cash and other current and non-current receivables.

Default risk and loan covenants

The risk lies in the possibility that loan agreements signed contain clauses that include the right of the financing entity to ask for the early repayment of the loan if certain conditions occur thereby creating a potential liquidity risk.

At 30 June 2012 a significant proportion of the Group's net financial position is represented by loan agreements which include a collection of clauses, in line with international practice, which impose a series of prohibitions. The main ones are pari passu, negative pledge and change of control clauses. In relation to mandatory early repayment clauses, there are no financial covenants on the debt, with the exception of the restriction on certain loans (€220 million), of the corporate rating by only one ratings agency falling below investment grade level (BBB-).

Interest rate risk

The Group uses external funding sources in the form of medium- to long-term financial debt, various types of short-term credit facilities and invests its available cash primarily in immediately realisable highly liquid money market instruments. Changes in market levels of interest rates affect both the financial costs associated with different types of financing technique and the revenue from different types of liquidity investment, causing an impact on the Group's cash flows and net financial charges.

At 30 June 2012, the exposure to the risk of adverse interest rates changes, with a resulting negative impact on cash flows, was 37% of total gross financial debt. The remaining 63% was made up of medium/long-term fixed-rate loans, exposing the Group to the risk of change in fair value hedged by derivative financial instruments.

The application of the risk rate management policy is translated, from time to time, according to market conditions, into a combination of fixed-rated, variable-rate and hedging financial instruments using derivatives.

Derivatives are matched to the underlying debt and are in accordance with IAS standards.

The Group's hedging policy does not allow the use of instruments for speculative purposes and is aimed at optimising the choice between fixed and variable rates as part of a prudential approach towards the risk of interest rate fluctuations. Interest rate risk is essentially managed with a view to stabilising financial flows in order to protect margins and guarantee cash flow from operations.

Gross financial debt (*)	30/06/12			31/12/2011		
(€ million)	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
fixed rate	1920	1638	63%	1889	1620	69%
variable rate	723	1005	37%	563	832	31%
Total	2643	2643	100%	2452	2452	100%

*Gross financial debt: does not include cash and other current and non-current receivables.

Exchange rate risk not related to commodity risk

The Group adopts a prudential approach towards exposure to currency risk, in which all currency positions are netted or hedged using derivative instruments (cross-currency swaps).

The Group currently has a currency bond of JPY 20 billion, fully hedged with a cross-currency swap.

Rating

Hera S.p.A. has long-term ratings of "Baa1 negative outlook" from Moody's and "BBB+ stable outlook" from Standard & Poor's.

In the first half of 2012, Standard & Poor's confirmed its rating of "BBB+ stable outlook".

On 25 January 2012, however, Moody's revised its rating on Hera Group's long-term debt from "A3 stable outlook" to "Baa1 negative outlook". The main reason for the negative outlook was the deterioration in Italy's macroeconomic position and uncertainty on the outlook for Italy.

Given the current environment, the measures and strategies of the plan aimed at ensuring the maintenance/improvement of satisfactory rating levels have been strengthened further.

1.07 Research and development

The Group's research activities in the first half of 2012 chiefly consisted of the technological development of renewable sources, the development of environmental monitoring and control technologies, energy efficiency, and optimisation of network management and waste management services. Particular emphasis was placed on applied research into systems for the production of energy from renewable sources through the construction of Hlab, the Hera Group's energy laboratory.

The main research projects in progress are:

Energy Laboratory. This is an experimental centre for applied research into technologies for the production and utilisation of energy from renewable and alternative sources. Construction was begun in 2011 at Forlì. A large part of the main building works was completed in this half-year.

The Energy Laboratory will make it possible to assess various technologies, from those already available on the market to those still in the prototype phase, thanks to an advanced data measurement and acquisition network. The focus will be the measurement of effective output and development over time, for a better evaluation and comparison of market solutions and state-of-the-art solutions. The other significant aspect will involve the identification and prevention of operating problems and the assessment of real running costs. Initially, the Laboratory will have a photovoltaic section and a unit devoted to the production, storage and use of hydrogen. The construction works are scheduled for completion in the spring of 2013, and experimental activities will be managed in collaboration with the University of Bologna.

Emerging Pollutants Project. The term "Emerging Pollutants" means various biologically active substances of anthropic origin which may be present in water intended for human consumption and in waste water. The presence of these substances in water is considered a significant environmental problem with potential harmful effects on human health. In 2012, research and development activities, begun as far back as 2007, continued with the collaboration of major research institutes (including the Istituto Superiore di Sanità and the Istituto Mario Negri).

In 2011, a joint initiative was agreed with the Politecnico di Milano to identify the best water treatment technologies. Under the scope of this collaboration, analyses were conducted in the first half of 2012 into the treatment technologies and drinking water supply chains currently in use to check their efficiency in removing certain micropollutants and the need for any upgrades.

Automatic leak detection. This project consists of looking at innovative systems for automatic water leak detection, to be used in conjunction with the remote-metering system. A test site was set up in 2007, and tests in different environmental conditions were carried out. The initial test results were extremely promising. In 2008, the investigation techniques were refined with the creation of an automatic field acquisition system, the development of a statistical analysis tool and the creation of a leak simulation tool. The tool was ready in 2009, when it was rolled out to customers together with the acquisition tools completed the previous year. The mass of data collected has been used to enable the Group to better characterise the phenomenon. In 2010, a tool was designed and produced to facilitate data acquisition at different connection points and in various operating conditions. In 2011, acquisitions were made in various territories which allowed further refinement of the signal analysis algorithm.

Experiments continued in the first months of 2012 with the creation of a device equipped with a hydrophone sensor whose performance was compared with that of the (accelerometer) sensor already tested.

An experiment was launched in parallel for the creation of a permanent infrastructure for leak detection in an urban network which is based on hydrophones fitted to hydrants.

Bio-Hydro. The project proposes to develop an organic agro-zootechnical waste-disposal cycle consisting of hydrogen fermentation of at least one type of agro-zootechnical waste and methane co-digestion of the residue from this process with other agro-zootechnical waste or with the organic portion of solid urban waste. The project is being conducted in association with Herambiente and the Faculty of Engineering at the University of Bologna, and is jointly funded by the Ministry of Agricultural, Food and Forestry Policies. In 2010, work began on the characterisation of agro-zootechnical waste, and various waste matrices were acquired, suitable for the hydrogen bio-conversion process and anaerobic co-digestion of the effluent from the hydrogen fermentation. In 2011 work began on the production of hydrogen and methane through biological methods.

In the first half of 2012 work began on assessing the possibility of using hydrogen produced in traditional PEM fuel cells.

Automatic plant management. This project, produced in association with ENEA, involves the development of a system for automatic management of the main operating parameters of water-treatment plants. The system must maintain the process conditions of a given plant at maximum efficiency, depending on the composition of the waste water (depuration plants) or untreated water (potability treatment plants). In 2008, work began at the Calderara di Reno - Bologna depuration plant, chosen as a test site. In 2009, analysis and control instruments were installed at the site and field-data acquisition began. The data acquired in 2010 confirms what we knew about continuous-flow sludge treatment, and reveals new characteristics in the signals relating to the quantities monitored, helping to differentiate between standard operation or malfunctions at the plant. In general, the applicability of automatic control to real-scale plants has been demonstrated. In 2011, the second phase of the project was begun, with the aim of developing a prototype system within three years. In the first months of 2012 the control logics and policies to implement into the system were identified.

Modelling water-treatment plants. The purpose of this project, conducted in collaboration with ENEA, is to develop mathematical models for the simulation of depuration plant hydraulics and processes. The aim is to acquire the instruments and know-how necessary to begin coordinating the mathematical modelling of water-treatment plants for the Group. In 2009, the preliminary work was carried out to produce a model of the sample site and to select calculation software from those commercially available. In 2010, at the end of the evaluation phase, software licences were acquired. 2011 saw the start of modelling activities within the Group, still in the pilot phase throughout the first half of 2012.

Energy recovery from water-treatment plants. In 2010, the possibility of energy recovery from water-treatment plants was investigated, with a study of the technologies involved. An initial feasibility study was developed to recover energy from the Bologna depuration plant using high-performance hydraulic screws. Two other studies were launched in 2011: the first concerns energy recovery from the mains water supply using in-pipe-turbine (IPT) or pump-as-turbine (PAT) systems; the second project involves heat recovery from mains water using low-enthalpy heat-pump systems.

As far as IPT/PAT are concerned, following further data analysis and field tests in the first half of 2012, a decision was taken to continue with the pre-feasibility study of an application at a different pressure reduction regulator in the Municipality of Bologna in order to optimise possible energy recovery.

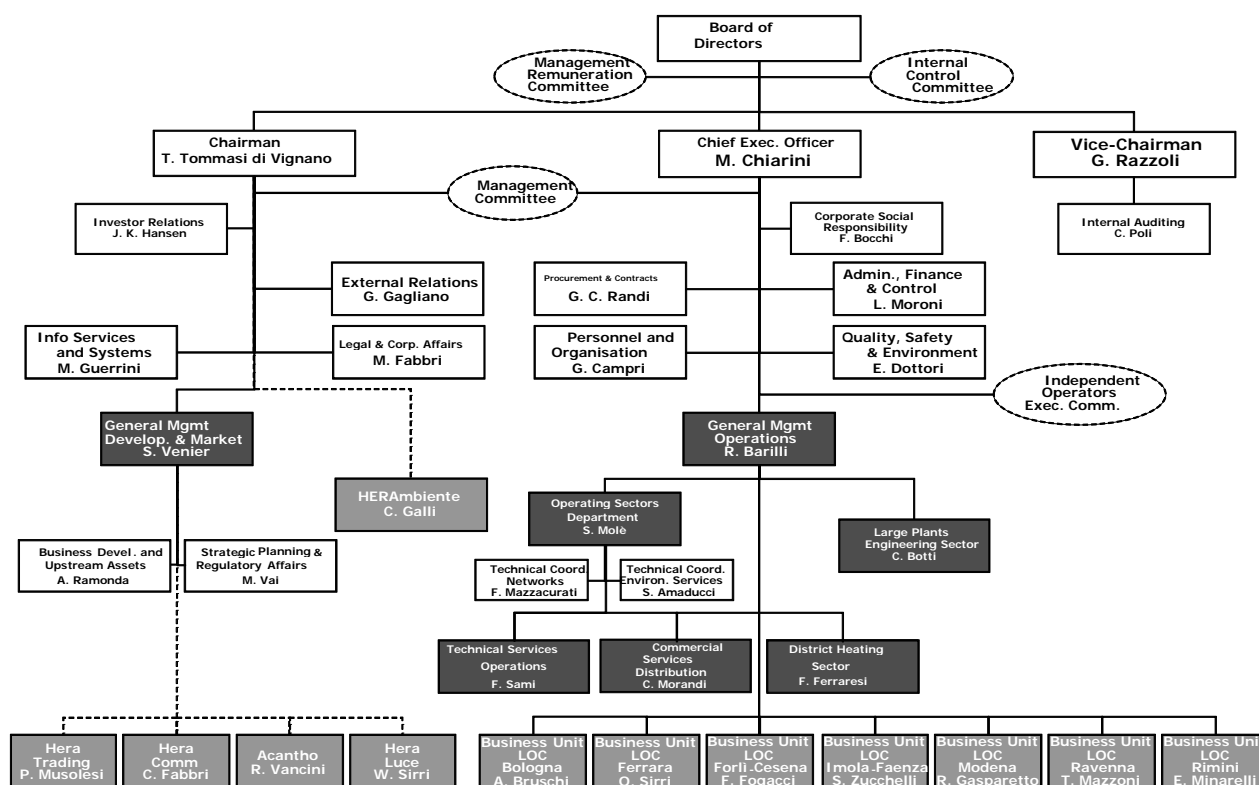
Characterisation and analysis of polyethylene pipes. Polyethylene pipes used for the mains water supply have a higher burst rate than pipes made from other materials. To examine the causes of this situation in greater detail, a project is underway to perform a critical analysis of burst pipes, with the aim of increasing know-how about PE pipes, providing simple criteria for classifying the various types of bursts, identifying the principal causes and designing improvement plans. The project is being conducted in collaboration with LyondellBasell, one of the world's leading manufacturers of polyolefins, and with the Plastics Testing Laboratory at the Department of Chemistry, Materials and Chemical Engineering at the Politecnico di Milano. In 2010, samples were taken from stretches of pipe that had suffered bursts, and a visual analysis was made of these test pieces. A statistical analysis of the bursts was conducted, and laboratory analyses were carried out. In 2011, laboratory tests were carried out for the precise characterisation of fractures, and the results of these tests will serve as the basis for defining action and improvement plans in 2012. The results of the research conducted have been presented at WaterLossEurope 2012, the major international event organised by the IWA on water loss. Work will continue with the preparation and updating of special technical documentation (such as application field, supply specifications, laboratory analysis, etc.).

Study of water meters and "antifreeze" technologies. In 2011, Hera's Research & Development unit designed and conducted a series of tests with a view to identifying meters and other devices which might reduce the incidence of water meter breakdowns under adverse weather conditions. These breakdowns cause inconvenience for the user, operating difficulties for the system operator, increased operating costs and greater water losses. In the first half-year experiments were conducted into an innovative mechanical antifreeze device and further tests on other batches of meters are still in progress. The study, which will be completed by the end of the year, has already made it possible to identify a type of meter, freely available on the market, which is less vulnerable to frost than the standard type used.

1.08 Human resources and organisation

Company organisation and Group structure

Organisational chart



Human resources

At 30 June 2012, the Hera Group had 6,494 employees (consolidated companies), with the following breakdown by role: managers (129), middle managers (356), employees (3,377), and workers (2,632). This workforce was the result of the following changes: new hires (+75), departures (-65). Also note that the new hires were made essentially as a result of the qualitative turnover by adding more qualified staff; lastly, the trend in hiring graduates remained essentially unchanged at 17% of total permanent employees: with 1,082 graduates at 31 December 2011 (out of 6,484 permanent employees) and 1,120 graduates at 30 June 2012.

Organisation

The Hera model stands out from the multi-utility landscape for having created an industrial and operational integration based on a Holding which, through central departments of planning, support and control, ensures an integrated Group vision and favours the exploitation of synergies, and which, through general and sector-specific departments and central technical coordination structures, provides a function of direction and coordination with regard to the managed businesses.

The Hera operational model combines the business sector perspective with the operating unit/company perspective to enable:

- A sharper focus on development and streamlining objectives;
- An optimisation/concentration of assets, skills and specialist roles that can ensure a unified perspective;
- A 'balanced' structure with regard to regulatory constraints on some activities (e.g. energy unbundling);
- The retention of operational control in the region.

The Group's organisational chart therefore displays the following features:

- The following central departments report to the Chairman: Legal and Corporate Affairs; Information Services and Systems; External Relations and Investor Relations. The Development and Market Management Department and Herambiente S.p.A. also report to the Chairman.
- The following central departments report to the CEO: Procurement and Contracts; Administration, Finance and Control; Personnel and Organisation; Quality, Safety and Environment; and Corporate Social Responsibility. The CEO also oversees the Operations General Management Department, which in turn heads the District Heating Sector, the Technical Services Operations Sector, the Commercial Services Distribution Sector, Technical Coordination Environmental Services, Technical Coordination Distribution Networks, and Compliance Measures Planning, Control and Scheduling under the Operating Sectors Department. The Operations General Management Department also oversees the seven Local Business Units and Large Plants Engineering Department.
- The Vice Chairman oversees the Internal Auditing Department.

Under the scope of the Development and Market Management Department, particularly at Hera Comm, the first half of 2012 saw the launch of organisational change (with operations effective from 13 June 2012) in the Families Market, aimed at improving service to the final customer through further standardisation and formalisation of operating processes and through a reduction in management complexity, maximising in-house skills.

With regard to Herambiente S.p.A., in the first half of 2012 the organisational restructuring begun in January 2012 has continued. So too has the process analysis and optimisation programme; the detailed analysis of the waste flow planning and management process, with a view to maximising the saturation of plants and improving the performance of the entire process has been completed under the scope of logistics.

The organisational structure of the Operating Sectors Department launched at the end of 2011 was consolidated further under the scope of the Operations General Management Department and the process analysis and optimisation programme continued.

With reference to the Central Departments and their respective governance and support processes, efforts continue in an attempt to find the best balance between process governance and internal customer orientation, accompanied by actions aimed at making process integration more efficient. A new project aimed at improving integration mechanisms between Holding/Central Management and Subsidiaries has also been launched.

In Administration, Finance and Control, the process analysis and optimisation activities have finally been completed, including through the extensive application of Lean Organisation methodology, with particular reference to certain administrative and accounting processes and credit management. The following measures were also implemented:

- In June 2012 the new organisational configuration of the Credit Management department, aimed at further strengthening the effectiveness of the Group's credit management, with special reference to the origination and monitoring process structure;
- During the first half of the year, the launch of the Management Control project aimed at revising the Group's management control model.

A project was also launched aimed at analysing and optimising Billing and Collection processes through the extended application of the Lean Organisation method with a transverse approach which includes the involvement of various budget units.

Three committees oversee the management of the business:

- - Management Committee: this is responsible for examining and disseminating policies, strategies and operational planning at Group level, and for encouraging integration between the various structures;
- - Steering Committee: every three months, it examines management performance and the progress of projects covered by the balanced scorecard;
- - Local Business Unit Directors Coordination Committee: checks the progress of services managed in the territory and aligns the activities carried out by the various territorial structures.

Industrial relations

Several meetings took place in January aimed at discussing several subjects in detail such as investments, initiatives regarding safety, saving water, protecting water resources, waste cycles and separate waste collection.

An agreement was signed in March with the National Trades Union Organisations and with the Group Union Officials in which the quota was increased from 5% to 15% pursuant to Article 8-*bis* of the Federambiente (Italian federation of public environmental services) collective labour agreement. This article states that personnel in type B cooperatives, which have won contracts through tenders, with reference to waste-collection services, street-sweeping services and the management of ecological islands, may be exempt from the waste-management services national collective labour agreements, in the limits stated above, with regard to the economic volume of the overall activities set out in Article 3, paragraph 1, letter a) of the Federambiente collective labour agreement (street-sweeping, waste collection and transportation (excluding the transfer business), cesspit-emptying and skip cleaning);

In April, the Group signed an agreement with the trade unions on the reorganisation project for the Ravenna laboratory which involves rationalising the management of activities through focusing on the analysis of specialist and industrial waste in the Ravenna laboratory and transferring the other analytical activities to different Group laboratories. The logistics were also streamlined by relocating the laboratories to existing structures in Herambiente returning the previous ones to the company Romagna Acque.

Negotiations with the union about the criteria for identifying personnel dedicated to the Gas Service reached a conclusion. This discussion was initiated after the issuing of the Ministerial decree governing the effects on staff of the new tender arrangements for Gas services.

In June, the Parties agreed upon a final calculation of the Group's performance bonuses for 2011 and identified the Group performance bonus targets for 2012. An understanding was also reached with the Group Union Officials on the distribution of consolidated productivity increases.

Also in June, an agreement between the Parties was reached on the definition of the emergency system in the network valid for all areas served by the Hera Group which can be activated if something happens which has serious and/or far reaching effects on the safety and continuity of the service. The staff involved will be those who possess the necessary skills and opt into the system voluntarily.

Pursuant to the Supplementary Collective Labour Agreement, the Group's training programme for 2012 was presented and an agreement was reached on funded initial training for Hera S.p.A., Herambiente S.p.A. and Hera Comm S.r.l.

Discussions also began on standardising working hours involving employees of Hera S.p.A., excluding organisational structures (Billing Department, Remote Control, Chemical Laboratory, Networks and Environment) which require special hours.

The aim is to create one set of opening times for all of Hera S.p.A. standardising arrival times, flexible start times, lunch breaks and rationalising the number of afternoon returns.

With a view to pursuing the same aims, the subject of working hours will also be tackled for staff working in Customer Management, Family Back Office and the HeraComm Call Centre.

Hera is also collaborating with Employers' Associations taking part in committees and delegations dealing with the collation of national collective agreements in the gas, water and waste-management services sector. Collaboration with the Federutility and Confindustria Energia continued throughout the half-year in order to define the new classification and grading system in the Electricity sector and the regulation, for the entire sector, of exercising the right to strike.

Collaboration continues with the Federambiente on drafting the Articles of Association and regulations for the Federambiente collective labour agreement healthcare fund.

Development

Activities continued in relation to the Group leadership model which, defined in 2010 with a view to identifying the prospective and distinctive behaviour for Hera Group management, saw internally run workshops held in 2011 for all managers and middle managers and seminars on the first three key elements of the model. There was also training for managers and middle managers in the form of team-building exercises. A plan was established in 2012 which, in addition to disseminating the contents of the model, will have a specific annual focus on the individual key elements; in the coming months this focus will be on managing complexity and there will be special dissemination initiatives, in-depth discussions and training programmes.

The seminars launched in 2011 will come to a conclusion in the second half of the year with the fourth seminar on the subject of leading by example.

The managerial training programmes will be supported by individual coaching courses, consistent with the development of the skills set out in the leadership model.

Following the climate survey in 2011, there have been progress reports every three months on the improvement actions identified consistent with the points that have emerged from the survey.

The monitoring of the route embarked upon under the scope of the 2011 Graduate Programme continued. The Programme, which began in 2004, aims to recruit and hire young graduates; since it began 138 graduates have joined the Group.

A Potential Development Programme has been running since 2008, with the aim of maximising the potential of the Group's existing young employees.

The Programme includes all members of the 2004, 2005 and 2006 Graduate Programmes, as well as other young employees with similar qualities and qualifications.

2011 saw the second edition of the Programme, which involved 94 members of the 2007 and 2008 Graduate Programmes, as well as other young employees with similar qualities and qualifications.

Starting in July 2011, the employees first underwent a motivational and orientation interview before taking part in an Assessment Development Centre, during which an evaluation was made of the professional growth potential of each employee.

In the first half of 2012 all participants in the Programme received feedback from their managers on the results of the assessment, discussing their individual strong points and areas for improvement.

Various development initiatives are in the process of being defined as a result of the issues which emerged.

There are plans, in the second half of 2012, for a training scheme which will involve 94 of the employees from part II of the Programme aimed at introducing the contents of the leadership model and also providing opportunities and suggestions for professional development.

Two important projects were launched in June, under the scope of initiatives aimed at valuing differences, taking an in-depth look at different age groups and disabilities.

The "GenerAzioni" project, created in conjunction with the University of Bologna, is designed to canvass opinions about different age groups and to promote dialogue between the generations. The results of the survey conducted in July, in which a sample of approximately 400 employees completed a questionnaire, will be available in the second half of the year.

These results will be the springboard for defining actions to be taken aimed at promoting dialogue between the different generations.

In 2008, the Group launched a programme called DOAR (Da Obbligo A Risorsa) designed to value the skills and potential of disabled people in the company. Hera and the Asphi Foundation (an association which operates to promote the integration of disabled people in schools, in the workplace and in society) were involved in this programme from its inception. In the first half of 2012, an awareness project was established which led to the creation of an e-learning training course designed to raise awareness about disability, which was available to all employees.

Training

With regard to training, note, first of all, activities and initiatives scheduled by HerAcademy, the Corporate University of the Hera Group set up on 15 December 2011, especially the first 2012 workshop and other training development initiatives of territorial importance.

The Work Force Management project training activities conducted in 2011 and relating to further IT applications came to an end; stage two of the ("mobile") project was launched with the completion in March of the training of trainers-instructors and the launch of the cascade approach aimed at final users in all regions.

In order to support the knowledge management approach further, an ad hoc area was set up at the Company Information Portal containing all the teaching material from the training course.

With regard to the training initiatives established in conjunction with Alma Mater – University of Bologna, note the following:

- In February and March, the higher education course "Regulation and markets in public utility services";
- In June, the launch of the "Managerial Skills Development" course, which is expected to be completed in the second half of the year.

In the first half of 2012, training activities that are mandatory by law (fire-fighting, first aid, safety, etc.) have continued, in line with the provisions of the new State-Regional agreement.

Some of the training initiatives with the greatest impact on safety are those related to projects which are part of the "A Year for Safety in the Hera Group" initiative, specifically the "Safety is not a Game" project, which involves a training programme directed at all employees which uses animated software.

In the first months of 2012, the intense training activity and professional refresher courses continued, as usual, for both technical and operating staff, as did 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.

There were around 17,803 participants in training activities, and 91% of Group employees have already been involved in at least one training activity.

The total financial investment incurred in the first half of 2012, excluding costs associated with trainee staff and internal trainers, was €261,765, slightly higher than the figure recorded in the previous year and equal to approximately 33% of the total budget for 2012.

These figures highlight the Hera Group's significant commitment, in terms of both money and other resources, to continually developing and maximising the potential of its employees.

Type of Training	Person-hours
Professional and specialist training	26.600
Quality, safety and environment	22.713
Institutional and managerial training	16.409
IT	5.836
Total	71.558

1.09 Information systems

During 2012, the Hera Group's information systems followed the path mapped out by the business plan, operating in accordance with the following guidelines: satisfying business requirements effectively, consolidating the operating efficiency of the Hera Group's companies and business units and adapting promptly to sector norms.

The information systems' contribution to the Hera Group's business in the first half of 2012 is shown by the following key indicators:

- more than 8 million bills issued, of which over 200,000 were sent electronically – a considerable increase on 2011 and previous years
- more than 2,300 online tenders managed
- approximately 75,000 emergency calls
- more than 4.8 million active contracts for five services (electricity, gas, district heating, water, waste management)
- around 69,000 km of distribution network managed
- 2.2 million service requests, managed through four channels
 - ✓ *call centres*
 - ✓ *branches*
 - ✓ *mail*
 - ✓ *internet*

There have also been significant accomplishments, such as:

- Workforce Management (WFM) – functions relating to the following have been completed:
 - ✓ The introduction of mobile devices;
 - ✓ The creation of reporting systems for the electricity and gas authority.

This project has allowed the management of the following in the first half of 2012:

- ✓ 68,000 emergency orders processed;
- ✓ More than 10,000 quotes;
- ✓ Around 330,000 tasks (Front End, Emergencies, Management and Maintenance).
- MDM – Reading process revision – functions related to the management of reading implemented, allowing a more consistent performance.
- Unbundling (Resolution 11/07 et seq., 2012 function) - important work continues on updating the information systems to comply with regulatory obligations regarding the separation of distribution and sales processes (software unbundling) and of administrative and accounting processes (accounting unbundling) for companies operating in the electricity and gas sectors. The following targets, in particular, were reached:
 - ✓ Completion of software/functional unbundling stage 2 regarding the transmission of readings and the separation of the billing process.
 - ✓ Completion of accounting unbundling (economic and capital) where the functions released were used for the 2012 declarations for the fiscal year 2011.
- With regard to the Commercial Campaigns project, the commercial offering directed at wholesale customers, "PUN Oraria" (Prezzo Unico Netto – Hourly Single Net Price) (approximately 1 TWh of electricity sold in the first six months of 2012) was successfully launched.
- The bill replacement management and tax filing service was launched (approximately 8 million bills have currently been archived).

- The project to extend the document management system to protocol management for the 16 Hera Group companies has been completed; approximately 240,000 documents were managed in the first half of 2012.
- Compliance with the SLAs for the management of infrastructure and application tickets.
- Regular audits were conducted aimed at maintaining the ISO 9001 Quality Certificate achieved in December 2011 with positive results (there was no non-conformity or comments).

The following were the most significant projects in progress, due to their ability to support the business processes and compliance with emerging legislation, with highly innovative and integrated IT solutions:

- Waste Management Services (SSA) the creation of the system designed for the revision and automation of waste management services planning and management (management of shifts, manpower and equipment).
- Waste Management Systems Development (ESA) which includes the implementation of a single integrated system for the management of waste management activities which incorporates logistics, disposal and sale.
- Centralised logistics planning system for the implementation of a system which optimises waste logistics flow management.
- Distribution MDM Stage 2 for the management of validation checks and certification of readings based on checking consistency of consumption.
- EHS project relating to the management of Prevention and Protection activities, Risk Assessment, Accident Management and Occupational Medicine supporting the Group's Health and Safety processes.
- Integrated Information System (SII), with reference to resolutions 131-12 and 132-12, for the creation of a new communication platform for the management of information flows between market players and the Authorities (records, reporting, etc.) and for the communication of requests related to the management of facilities and users.
- Sales MDM for the management of readings in the network and outside the network with the aim of implementing a platform which allows the centralised and standardised management of readings for sales relating to energy services.
- DisasterRecovery: launch of the planning and implementation of the DisasterRecovery (DR) service which will be completed at the end of 2013 and enter into production in 2014.

In addition to the projects cited above, the main projects (80 in total) launched in the first half of the year are classified below according to the following types:

Improve the efficiency of operating processes and support the Hera Group's new business requirements:

- AMM EE – WFM integration: integration of work orders generated by WFM with AMM EE system
- Multifunction Printer Management Project
- WFM – SAP – GIS integration: integration of map systems with management systems
- Implementation of Herambiente Industrial Billing System
- Development of systems dedicated to Risk Control
- Development of systems to support trading
- New 2012 commercial campaigns
- New credit management systems
- Optimisation of commercial processes and completion of communication process systems (SDD)

Update to sector regulatory requirements (the major ones are listed here):

- Update to Resolution 229-12 TISG – Settlement Gas
- AMM GAS (Resolution 155-08)
- Water tariff and regulation updates
- Updates to Resolutions 64-09 and 71-11
- Update to Resolution 99-11 (Gas Default) – Management of customer deposit billing
- Update to Resolution 229-01 – GAS billing adjustment
- Cadastral data (Circular no. 44-2205, Provisions no. 2012/5708 and no. 2008/24511)
- TIA (Environmental Hygiene) Tariff Adjustments

Reduce technological risk and improve security levels:

- Technological renewal of enterprise infrastructure (SAP, ERP and ISU)
- Extension of SFTP and FTP service reliability
- Privacy (2012 part)
- Upgrading and risk containment – Storage and backup
- Upgrade to Oracle 11
- Migration of Exchange and Archiving to central location

The information systems also ensured continuity of their own service, minimising the impact of new projects and fulfilling ordinary maintenance and system-development requests in accordance with agreed priorities.

1.10 Quality, safety and environment

Activities under the scope of Quality, Safety and Environment and Protection and Prevention System coordination

In the first half of 2012 the targets set by the Quality, Safety and Environment Department were reached with very satisfactory results.

Specifically:

➤ At the beginning of June the **certification methods review** project, in compliance with consolidated standards UNI EN ISO 9001 and 14001 and Hera S.p.A. standard OHSAS 18001, came to a conclusion.

The review of the methods involved the activities being seen from a “process” perspective rather than a “site” perspective. This approach led to the inspections being planned through a different sampling method, which was more streamlined than in the past. DNV did not actually check all the requirements at all Local Business Units, indiscriminately, but used a method which involved sampling “by process” whereby all the applicable and important requirements were checked only in the business units where a given process had been selected by DNV as being representative. There has also been a greater focus on Central Departments in order to check the level and approach of standardisation of coordination and direction roles, as confirmation of how central management has an increasingly decisive effect on management methods in the regions as far as every single activity is concerned.

The outcome of the audits was positive with the consolidation of these successful results in Hera S.p.A. certification and the following further results:

- Validation of a new more efficient certification method, closer to the Hera S.p.A. organisation model;
- Adoption of an overview of the certification model better equipped to highlight the most important problem areas at Group level, not dwelling on precise aspects discovered in the Local Business Units;
- Optimising on-site inspections at all Local Business Units;
- Improving the “quality” of activities which have focused on the flow of the entire overall process;
- Optimising the inspection days allowing improved sustainability both for Hera S.p.A. and for Third Parties, with resulting cost savings.

➤ The **Hera Group Information System Audit Management design and development** activities were concluded in June, an application which brings the process of completely overhauling the certification processes to an end, with the planning, audit management and subsequent (audit) output management primary processes having been “computerised”.

The information system is designed to satisfy the various requirements of the processes in question. On average, the DCQSA (Quality, Safety and Environment Department) carries out approximately 250 audits annually, which give rise to approximately 2,000 reports per year, requiring the most suitable instruments to oversee a process which has gradually become more complex and detailed. All the main corporate structures are involved in the auditing process which transversely affects approximately 400 company employees and their co-workers, giving rise to the need for the Group to identify unique processes, language and instruments.

➤ Activities for retaining accreditation were begun in June with work on new parameters for the sampling and analysis activities performed by the **Group Laboratories**, whose QSE internal control was, from the end of 2011, entrusted to the DCQSA when the DSO was reorganised. These activities are expected to conclude in July.

➤ The **Uniflotte** companies were successful at the first renewal of the OHSAS 18001 certification which was gained at the end of 2011; according to the accreditation rules this renewal process has to take place only 6 months after certification is initially granted;

➤ In the first half of 2012, in conjunction with the Group Purchasing and Procurement Department and Head Office Personnel and Organisation Division, the training campaign launched in the second half of 2011 for focusing greater attention on areas surrounding the performance of suppliers, specifically with regard to health and safety, came to a conclusion having delivered approximately 2500 hours worth of training to about 630 participants.

➤ There are plans for around 205 audits in 2012, of which approximately 48% have been conducted by 30/06/2012, in line with forecasts. Internal audits have reinforced the specialisations of in-house employees still further, promoting synergies and the dissemination of shared management methods among the various sector and territorial technical ambits.

All of these activities are in addition to the routine activities planned by the DCQSA, which are carried out to maintain the Group Integrated Management System, which includes the document storage system: QSE Manual, System procedures, risk assessment documents, environmental analyses, support for the various corporate structures in maintaining company targets regarding Quality, Safety and Environment, etc.

Hera's commitment to the project "A Year for Safety in the Hera Group", an important initiative which has involved all of the Group's employees, continues in 2012. The aim of the project is to optimise the cultural aspect of safety and risk prevention and to improve practices in the workplace and in everyday life. The entire project is managed by a Guidance Committee made up of top management. The development of the project is constantly monitored by a Coordination Group which reports to the Guidance Committee on the progress achieved. Also reporting to this Group is a Scientific Committee consisting of three external occupational health and safety specialists in various disciplines (legal, economic and psychosocial). The Scientific Committee supports the development of the project, establishing and evaluating the consistency criteria and the results achieved on the basis of three main principles:

1. Organisational/management, or safety as a responsibility throughout the business, with regard to which a contribution is requested from everyone: from the commitment of strategic senior managers to the behaviour of each individual worker;
2. Economic/competitive, which means demonstrating, including through concrete examples, the costs and benefits of a correct safety management system;
3. Communication/cultural, which constitutes the natural conclusion of the two previous aspects: it allows information and training channels to be developed which ensure that a culture of safety penetrates the organisation, permeating the areas in which "making safety" creates value for the company and highlighting everyone's contribution, so as to increase the tangible and intangible benefits of the commitment made.

"A Year for Safety in the Hera Group" comprises 15 projects, some of which are Group-wide in scope and are therefore centrally managed, while others are assigned to individual territorial structures and may, if the expected results are achieved, also be extended to the territories in a second phase of development of the project.

To date, 11 projects have been successfully completed. As far as the others which are being implemented at the moment are concerned, they should be concluded by 2012 and then possibly rolled out in the regions.

Thanks to this initiative, there was a reduction of approximately 24% in the number of workplace accidents in Hera S.p.A. compared with the previous year. The good results achieved in 2011 were also confirmed in the first half of 2012. Compared with the same period in the previous year there has been a considerable reduction in the overall number of accidents (85 in the first six months of 2012 against 92 in the first six months of 2011). However, there has been an increase in the number of days of absence, but the differential is gradually decreasing. The accident figures for the first half of 2012 confirm that they are in line with the targets set.

Enterprise Award for Safety

In the first half of 2012, Hera S.p.A. took part in the Enterprise Award for Safety, the initiative launched by Confindustria and INAIL, implemented with the technical support of APQI and Accredia, in which 260 businesses in Italy took part.

A Scientific Technical Committee made up of experts scrutinised all the firms taking part, including through on-site meetings, in order to evaluate the degree of proactivity demonstrated by these organisations with regard to health and safety in the workplace and their commitment to innovation, with reference to setting up management systems for risk prevention and the extent to which the culture of safety has permeated all areas of the organisation.

At the end of this careful evaluation process, the Hera Group was awarded the prestigious 2012 Prize **having been judged as one of the top 5 companies taking part in the scheme**. The award ceremony for the finalists took place in Rome on 24 April 2012 and was attended by the Minister of Welfare, Elsa Fornero and the Chair of Confindustria, Emma Marcegaglia.

QSE Management System Development activities

Some of the main objectives planned by Quality, Safety and Environment regarding System Development areas include the following initiatives:

➤ The Management System planning activities compliant with international Social Accountability standard 8000 (SA8000) are in the completion stage. Hera has, for many years, turned the social responsibility of the business into a strategic objective. The choice of adopting a management system in this ambit has become part of the approach begun with the preventive introduction of a Quality Management System, respecting the environment and safeguarding health and safety in the workplace. The project has been developed by setting up working groups known as “taskforces” operating in the main areas of interest: HR Management, Health and Safety, Purchasing and Procurement. Certification activities are expected to be concluded by the first quarter of 2013.

➤ EHS Project: Under the scope of “A Year for Safety in the Hera Group”, the EHS project (Environment – Health – Safety) comes under the development of the Group Information Systems identifying the information requirements in the Health, Safety and Environment ambit necessary to guarantee fulfilment of Article 15 of Legislative Decree 81 regarding the planning of prevention and conformity with the regulations on the subject of the Environment in Group processes. One of the unusual features of the project is the identification and evaluation of all the information interfaces between the information and document systems necessary for collecting information and managing them with regard to the territories, with particular emphasis on map and process aspects. A particularly important aspect is the optimising of the main computerisation projects in progress or those which have already been launched in the production ambit. By 2012, some system modules should be implemented and a prototype aimed at the preventive validation of the development model should be developed.

➤ M.I.M.O.S.A. Project (Methodology for Implementing, Measuring and Organising Safety in the Company): in the first half of 2012 an application protocol of the MIMOSA model was developed in one of the Group companies and experiments conducted to evaluate the health and safety systems in the workplaces developed under the scope of the Thematic Table "Health and Safety in workplaces", an important example of collaboration between Universities and Businesses.

Privacy and Regulatory Oversight

In the first half of 2012 the management reorganisation process came to an end, bringing Privacy protection within the QSE Regulatory Oversight, back in line with the objective of increasing the synergies resulting from a standardised vision of managing to balance the interests of the various regulations, including privacy, and corporate needs.

One of the first results was a more systematic approach to both the consultancy requirements of internal business units and subsidiaries, with a view to standardising the choices on the subject of privacy within the Group, both in the planning and implementation of audit programmes.

The activity of overseeing the QSE and Privacy regulations continued in the first half of the year, which, in practical terms, involved the implementation of an instrument for analysing the regulations with the assessment of the impact on company processes, which translated into 33 information flashes aimed at the process managers, Privacy internal controls, QSEs, and the Health Safety Managers, and into seven investigations into the legal aspects.

Another important activity was the timely analysis of the provisions introduced by Legislative Decree 81/08 and subsequent amendments and additions by work providers on the subject of work equipment and checking related company delegations, specifically with regard to equipment fitted on vehicles.

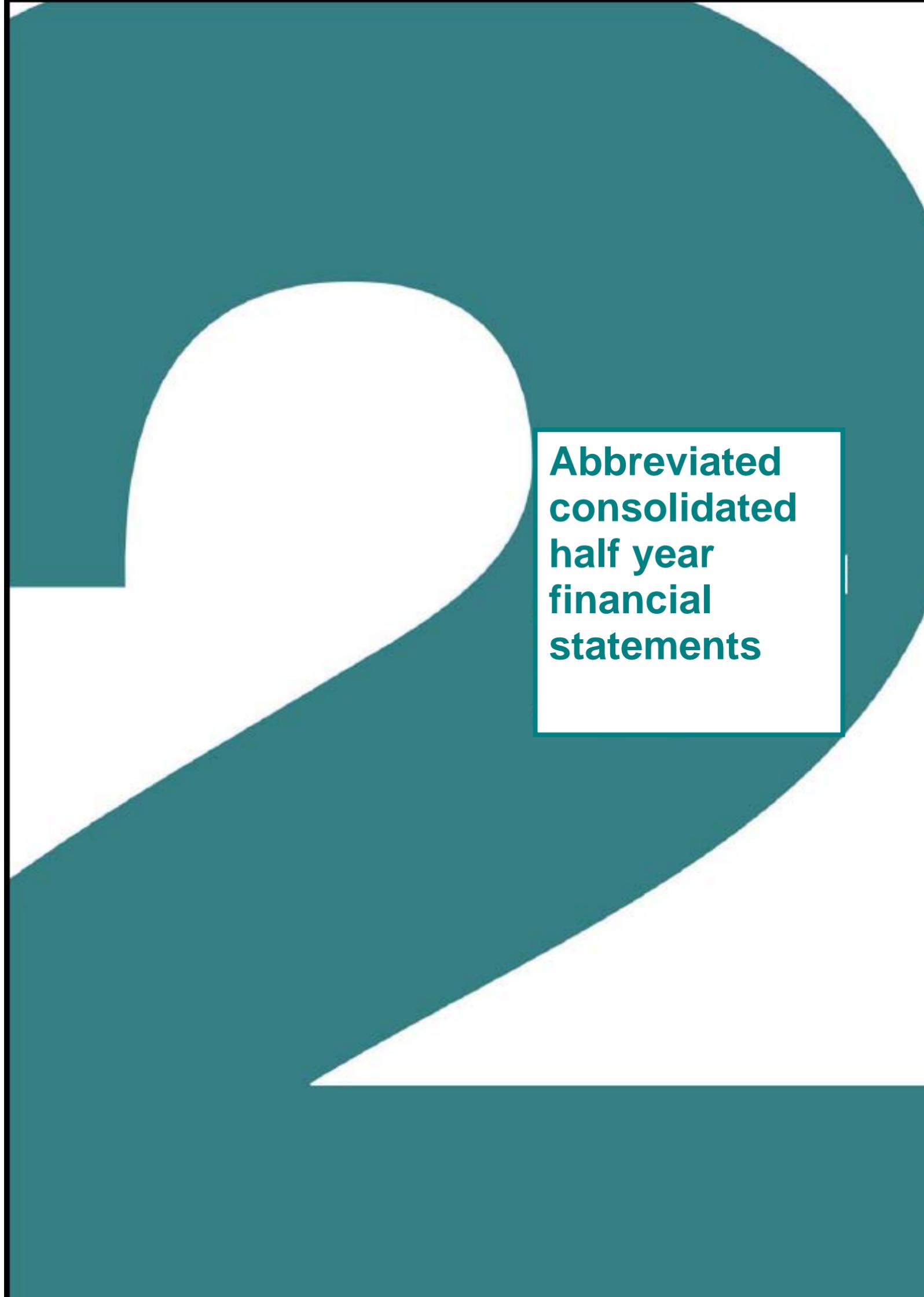
Under the scope of updating documents, the analysis of the legislative conformity of QSE integrated management system procedures and instructions continued and safety compliance in tenders was updated.

A further contribution took the shape of bringing the collaboration with the Supervisory Board for the prevention of environmental offences to a conclusion. Since August 2011, this has come under the scope of the application of Legislative Decree 231/2001, through the definition of information flows which will be provided to the Supervisory Board every six months, consisting of specific indicators and assessments for each environmental offence which could be configured in Hera S.p.A.

"Personal data protection safety measures."

"In accordance with the provisions of Articles 33 and 34 of Legislative Decree 196/03 (known as the Privacy Code) on the subject of safety measures aimed at ensuring a minimum protection level for personal data and in compliance with the recommendations in points 19 and 26 of the Technical Specifications in annex B of the Code, for the reference period Hera S.p.A., as Proprietor, has drafted and updated the Security Planning Document containing the legally-required information."

This document, approved and signed off within the deadline set of 31 March this year, is filed at the Company Protocol Office and can also be consulted at the DCQSA (Quality, Safety and Environment Department) – Privacy Protection."



**Abbreviated
consolidated
half year
financial
statements**

2.01 Consolidated Financial Statements

2.01.01 Income statement

<i>thousands of Euro</i>	<i>notes</i>	<i>1st half 2012</i>	<i>1st half 2011</i>
Revenues	4	2.298.917	1.983.185
Other operating income	5	91.070	87.701
<i>of which non-recurring</i>		6.625	0
Use of raw materials and consumables	6	(1.399.806)	(1.122.021)
Service costs	7	(427.503)	(422.065)
Personnel costs	8	(192.797)	(189.662)
Amortisation, depreciation and allocations	9	(151.550)	(144.589)
Other operating costs	10	(19.337)	(17.536)
Capitalised costs	11	13.057	24.357
Operating profit		212.051	199.370
Portion of profits (losses) pertaining to associated companies	12	2.897	4.723
Financial income	13	45.600	33.795
Financial charges	13	(110.268)	(91.972)
Total financial operations		(61.771)	(53.454)
Pre-tax profit		150.280	145.916
Taxes for the period	14	(66.833)	(62.759)
Net profit for the period		83.447	83.157
Attributable to:			
Shareholders of Parent Company		76.943	71.398
Minority shareholders		6.504	11.759
Earnings per share	14,1		
basic		0,070	0,064
diluted		0,066	0,061

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 outlined in paragraph 2.02.01 of these consolidated half-year financial statements.

2.01.02 Aggregate income statement

<i>thousands of euro</i>	<i>1st half 2012</i>	<i>1st half 2011</i>
Net profit/(loss) for the period	83.447	83.157
Change in the fair value of derivatives for the period	2.538	7.524
Tax effect relating to other components of the Statement of Comprehensive Income	(668)	(2.113)
Change in the fair value of derivatives for the period for companies measured at equity	84	315
Total comprehensive profit/(loss) for the period	85.401	88.883
Attributable to:		
Shareholders of Parent Company	79.021	76.394
Minority shareholders	6.380	12.489

2.01.03 Statement of financial position

thousands of euro	notes	30-giu-2012	31-dic-2011
ASSETS			
Non-current assets			
Tangible fixed assets	15	1.894.691	1.884.476
Intangible assets	16	1.813.690	1.802.521
Goodwill	17	377.903	377.760
Equity investments	18	135.814	135.865
Financial assets	19	14.259	11.039
Deferred tax assets	20	112.615	105.503
Financial instruments - derivatives	21	112.995	80.548
Total non-current assets		4.461.967	4.397.712
Current assets			
Inventories	22	64.703	72.761
Trade receivables	23	1.281.446	1.250.360
Contract work in progress	24	23.599	22.390
Financial assets	25	41.549	42.945
Financial instruments - derivatives	21	43.051	40.642
Assets for current taxes	26	6.297	6.164
Other current assets	27	233.122	211.833
Cash and cash equivalents	28	506.707	415.189
Total current assets		2.200.474	2.062.284
Non-current assets held for sale	29	0	10.606
TOTAL ASSETS		6.662.441	6.470.602

continued

thousands of euro	notes	30-Jun-2012	31-Dec-2011
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	30		
Share capital		1.115.014	1.115.014
-Reserve for treasury shares at par value		(12.782)	(9.674)
Reserves		542.889	537.538
-Reserve for treasury shares exceeding par value		(4.137)	(4.008)
Reserves for derivative instruments valued at fair value		(6.612)	(8.606)
Retained earnings (losses)		2.061	2.061
Profit (loss) for the period		76.943	104.590
Group shareholders' equity		1.713.376	1.736.915
Minority interest share		134.692	142.431
Total shareholders' equity		1.848.068	1.879.346
Non-current liabilities			
Loans - maturing beyond the next year	31	2.660.211	2.405.262
Employee leaving indemnity and other benefits	32	91.211	91.595
Provisions for risks and charges	33	235.861	227.055
Deferred tax liabilities	34	75.382	76.057
Financial leasing payables – maturing beyond the next year	35	4.152	5.277
Financial instruments - derivatives	21	25.499	17.657
Total non-current liabilities		3.092.316	2.822.903
Current liabilities			
Banks and other borrowings - maturing within the next year	31	95.705	118.467
Financial leasing payables – maturing within the next year	35	3.133	3.683
Trade payables	36	1.011.164	1.229.242
Income tax liabilities	37	106.553	36.998
Other current liabilities	38	469.377	332.253
Financial instruments - derivatives	21	36.125	47.710
Total current liabilities		1.722.057	1.768.353
TOTAL LIABILITIES		4.814.373	4.591.256
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES'		6.662.441	6.470.602

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

2.01.04 Cash flow statement

thousands of euro	30-Jun-2012	30-Jun-2011
Pre-tax profit	150.280	145.916
Adjustments to reconcile net profit to the cash flow from operating activities:		
Amortisation and impairment of tangible assets	65.754	61.237
Amortisation and impairment of intangible assets	50.164	50.816
Effect of valuation using the equity method	(2.897)	(4.723)
Allocations to provisions	36.471	33.271
Financial charges/(income)	64.668	58.177
(Capital gains)/losses and other non-monetary elements (including valuation of commodity derivatives)	(40.029)	(24.977)
Change in provisions for risks and charges	(9.970)	(11.150)
Change in provisions for employee benefits	(3.318)	(3.126)
Total cash flow before changes in net working capital	311.123	305.441
(Increase)/decrease in inventories	6.869	(19.863)
(Increase)/decrease in trade receivables	(53.283)	(168)
(Increase)/decrease in trade payables	(232.223)	(166.369)
(Increase)/decrease in other current assets/liabilities	139.648	86.528
Change in working capital	(138.989)	(99.872)
Dividends collected	2.420	965
Interest income and other financial income collected	9.180	8.665
Interest expense and other financial charges paid	(75.202)	(62.948)
Taxes paid	(6.101)	(6.023)
Liquidity generated by operations (a)	102.431	146.228
Investments in tangible fixed assets	(59.634)	(63.647)
Investments in intangible fixed assets	(63.440)	(70.442)
Investments in companies and business units net of cash and cash equivalents	(2.166)	(6.915)
Sale price of tangible and intangible fixed assets	27.086	3.307
Disinvestments in non-consolidated equity investments	(1.916)	0
(Increase)/decrease in other investment activities	(1.631)	2.370
Liquidity generated/(absorbed) by investment activities (b)	(101.701)	(135.327)
New issues of long-term loans	241.810	0
Repayments and other net changes in loans	(34.570)	(71.758)
Financial lease fees paid	(1.815)	(3.242)
Dividends paid out to Hera shareholders and minority interests	(111.399)	(117.242)
Change in treasury shares in portfolio	(3.237)	(704)
Other minor changes	(1)	83
Liquidity generated/(absorbed) by financing activities (c)	90.788	(192.863)
Effect of change in exchange rates on liquidity (d)	0	0
(Increase)/decrease in liquidity (a+b+c+d)	91.518	(181.962)
Cash and cash equivalents at the beginning of the period	415.189	538.226
Cash and cash equivalents at the end of the period	<u>506.707</u>	<u>356.264</u>

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate cash flow statement outlined in paragraph 2.02.03 of these consolidated half-year financial statements.

2.01.05 Statement of changes in shareholders' equity

	Share capital	Reserves	Reserves for derivative instruments valued at fair value	Profit for the period	Shareholders' equity	Minority interest	Total
Balance as at 31.12.10	1.109.074	513.618	(12.407)	117.218	1.727.503	142.720	1.870.223
Profit for the period				71.398	71.398	11.759	83.157
<u>Other elements of comprehensive income as at 30.06.11:</u>							
fair value of derivatives for the period			4.681		4.681	730	5.411
change in the fair value of derivatives for the period for companies measured at equity		315			315		315
Total comprehensive profit for the period		315	4.681	71.398	76.394	12.489	88.883
change in treasury shares in portfolio	2	(90)			(88)		(88)
convertible equity bond component		4.894			4.894		4.894
change in scope of consolidation		26			26		26
other movements		103			103	(17)	86
<u>Appropriation of profits for 2010:</u>							
- dividends paid out				(99.879)	(99.879)	(18.147)	(118.026)
- allocation of retained earnings to reserves		(6.839)		6.839	0		0
- allocation to other reserves		24.178		(24.178)	0		0
Balance as at 30.06.11	1.109.076	536.205	(7.726)	71.398	1.708.953	137.045	1.845.998

	Share capital	Reserves	Reserves for derivative instruments valued at fair value	Profit for the period	Shareholders' equity	Minority interest	Total
Balance as at 31.12.11	1.105.340	535.591	(8.606)	104.590	1.736.915	142.431	1.879.346
Profit for the period				76.943	76.943	6.504	83.447
<u>Other elements of comprehensive income as at 30.06.12:</u>							
fair value of derivatives for the period			1.994		1.994	(124)	1.870
change in the fair value of derivatives for the period for companies measured at equity		84			84		84
Total comprehensive profit for the period		84	1.994	76.943	79.021	6.380	85.401
change in treasury shares in portfolio	(3.108)	(129)			(3.237)		(3.237)
change in perimeter		0			0	0	0
change in scope of consolidation		0			0	523	523
other movements		(1)			(1)	0	(1)
<u>Appropriation of profits for 2011:</u>							
- dividends paid out		(16.925)		(82.397)	(99.322)	(14.642)	(113.964)
- allocation of retained earnings to reserves		16.773		(16.773)	0		0
- allocation to other reserves		5.420		(5.420)	0		0
Balance as at 30.06.12	1.102.232	540.813	(6.612)	76.943	1.713.376	134.692	1.848.068

2.02 Financial statements- Resolution 15519 of 2006 - Related parties

2.02.01 Income statement

thousands of euro	Notes	of which related parties							of which related parties						
		30-Jun-12	A	B	C	D	Total	%	30-Jun-11	A	B	C	D	Total	%
Income Statement															
Revenues	4	2.298.917		15.948	60.608	5.675	82.231	3,6	1.983.185	0	13.713	43.509	2.440	59.662	3,0
Other operating income	5	91.070		112	86	112	310	0,3	87.701	3	93	79	25	200	0,2
of which non-recurring		6.625							0						
Use of raw materials and consumables (net of changes to raw materials inventories and stocks)	6	(1.399.806)		(31.828)	(233)	(18.143)	(50.204)	3,6	(1.122.021)	0	(23.849)	0	(16.744)	(40.593)	3,6
Service costs	7	(427.503)	(6)	(4.391)	(7.295)	(21.767)	(33.459)	7,8	(422.065)	(10)	(4.707)	(2.603)	(18.543)	(25.863)	6,1
Personnel costs	8	(192.797)					0	0,0	(189.662)				(1.755)	(1.755)	0,9
Amortisation, depreciation and allocations	9	(151.550)							(144.589)						
Other operating costs	10	(19.337)		(19)	(1.361)	(543)	(1.923)	9,9	(17.536)	0	(45)	(1.360)	(553)	(1.958)	11,2
Capitalised costs	11	13.057							24.357						
Operating profit		212.051	(6)	(20.178)	51.805	(34.666)	(3.045)		199.370	(7)	(14.795)	39.625	(35.130)	(10.307)	
Portion of profits (losses) pertaining to associated companies	12	2.897		2.897	0	0	2.897	100,0	4.723		4.723			4.723	100,0
Financial income	13	45.600		700	36	89	825	1,8	33.795		615		89	704	2,1
Financial charges	13	(110.268)			(1)	(61)	(62)	0,1	(91.972)					0	0,0
Total financial operations		(61.771)		3.597	35	28	3.660		(53.454)	0	5.338	0	89	5.427	
Pre-tax profit		150.280	(6)	(16.581)	51.840	(34.638)	615		145.916	(7)	(9.457)	39.625	(35.041)	(4.880)	
Taxes for the period	14	(66.833)							(62.759)						
Net profit for the period		83.447	(6)	(16.581)	51.840	(34.638)	615		83.157	(7)	(9.457)	39.625	(35.041)	(4.880)	
Attributable to:															
Shareholders of Parent Company		76.943							71.398						
Minority shareholders		6.504							11.759						
Earnings per share	14.1														
basic		0,070							0,064						
diluted		0,066							0,061						

Key of headings of related parties columns

A Non-consolidated subsidiaries

B Jointly controlled associated companies

C Related companies with significant influence (Municipality shareholders)

D Other related parties, statutory auditors, strategic executives and the Board of Directors

2.02.02 Statement of financial position

thousands of euro	Notes	30-Jun-12	of which related parties					of which related parties							
			A	B	C	D	Total	%	31-Dec-2011	A	B	C	D	Total	%
ASSETS															
Non-current assets															
Tangible fixed assets	15	1.894.691							1.884.476						
Intangible assets	16	1.813.690							1.802.521						
Goodwill	17	377.903							377.760						
Equity investments	18	135.814	41	102.521		32.955	135.517	99,8	135.865	72	102.389		33.080	135.541	99,8
Financial assets	19	14.259		13.859			13.859	97,2	11.039		10.619			10.619	96,2
Deferred tax assets	20	112.615							105.503						
Financial instruments - derivatives	21	112.995							80.548						
		4.461.967	41	116.380	0	32.955	149.376		4.397.712	72	113.008	0	33.080	146.160	
Current assets															
Inventories	22	64.703							72.761						
Trade receivables	23	1.281.446	45	20.456	28.344	14.198	63.043	4,9	1.250.360	37	13.729	19.425	14.045	47.236	3,8
Contract work in progress	24	23.599							22.390						
Financial assets	25	41.549		28.141	2.050	204	30.395	73,2	42.945		28.147		404	28.551	66,5
Financial instruments - derivatives	21	43.051							40.642						
Assets for current taxes	26	6.297							6.164						
Other current assets	27	233.122		2.960	1.236	16.258	20.454	8,8	211.833		2.284	979	16.040	19.303	9,1
Cash and cash equivalents	28	506.707							415.189						
		2.200.474	45	51.557	31.630	30.660	113.892		2.062.284	37	44.160	20.404	30.489	95.090	
Non-current assets held for sale	29	0							10.606						
TOTAL ASSETS		6.662.441	86	167.937	31.630	63.615	263.268		6.470.602	109	157.168	20.404	63.569	241.250	

thousands of euro	Notes	30-Jun-12	of which related parties					of which relat related parties							
			A	B	C	D	Total	%	31-Dec-2011	A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves															
Share capital	30	1.115.014							1.115.014						
-Reserve for own shares at par value		(12.782)							(9.674)						
Reserves		542.889							537.538						
-Reserve for own shares exceeding par value		(4.137)							(4.008)						
Reserves for derivative instruments valued at fair value		(6.612)							(8.606)						
Retained earnings (losses)		2.061							2.061						
Profit (loss) for the period		76.943							104.590						
Group shareholders' equity		1.713.376							1.736.915						
Minority interest share		134.692							142.431						
Total shareholders' equity		1.848.068							1.879.346						
Non-current liabilities															
Loans - maturing beyond the next year	31	2.660.211							2.405.262						
Employee leaving indemnity and other benefits	32	91.211							91.595						
Provisions for risks and charges	33	235.861							227.055						
Deferred tax liabilities	34	75.382							76.057						
Financial leasing payables – maturing beyond the next year	35	4.152							5.277						
Financial instruments - derivatives	21	25.499							17.657						
		3.092.316							2.822.903						
Current liabilities															
Banks and other borrowings - maturing within the next year	31	95.705							118.467						
Financial leasing payables – maturing beyond the next year	35	3.133							3.683						
Trade payables	36	1.011.164	(3)	18.246	13.545	27.280	59.068	5,8	1.229.242	(3)	12.601	10.755	36.473	59.826	4,9
Income tax liabilities	37	106.553							36.998						
Other current liabilities	38	469.377	0	165	3.858	1.146	5.169	1,1	332.253		(7)	2.381	3.415	5.789	1,7
Financial instruments - derivatives	21	36.125							47.710						
		1.722.057	-3	18.411	17.403	28.426	64.237		1.768.353	-3	12.594	13.136	39.888	65.615	
Total liabilities		4.814.373	-3	18.411	17.403	28.426	64.237		4.591.256	-3	12.594	13.136	39.888	65.615	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES'															
		6.662.441	-3	18.411	17.403	28.426	64.237		6.470.602	-3	12.594	13.136	39.888	65.615	

Key of headings of related parties columns

A Non-consolidated subsidiaries

B Jointly controlled associated companies

C Related companies with significant influence (Municipality shareholders)

D Other related parties, statutory auditors, strategic executives and the Board of Directors

2.02.03 Cash flow statement

thousands of euro	30-Jun-2012	of which Related Parties
Pre-tax profit	150.280	
Adjustments to reconcile net profit to the cash flow from operating activities:		
Amortisation and impairment of tangible assets	65.754	
Amortisation and impairment of intangible assets	50.164	
Effect of valuation using the equity method	(2.897)	
Allocations to provisions	36.471	
Financial charges/(income)	64.668	
(Capital gains)/losses and other non-monetary elements (including valuation of commodity derivatives)	(40.029)	
Change in provisions for risks and charges	(9.970)	
Change in provisions for employee benefits	(3.318)	
Total cash flow before changes in net working capital	311.123	
(Increase)/decrease in inventories	6.869	
(Increase)/decrease in trade receivables	(53.283)	(15.807)
(Increase)/decrease in trade payables	(232.223)	(758)
(Increase)/decrease in other current assets/liabilities	139.648	(1.213)
Change in working capital	(138.989)	
Dividends collected	2.420	2.420
Interest income and other financial income collected	9.180	156
Interest expense and other financial charges paid	(75.202)	(62)
Taxes paid	(6.101)	
Liquidity generated by operations (a)	102.431	
Investments in tangible fixed assets	(59.634)	
Investments in intangible fixed assets	(63.440)	
Investments in companies and business units net of cash and cash equivalents	(2.166)	(1.350)
Sale price of tangible and intangible fixed assets	27.086	
Disinvestments in non-consolidated equity investments	(1.916)	(1.927)
(Increase)/decrease in other investment activities	(1.631)	(4.721)
Liquidity generated/(absorbed) by investment activities (b)	(101.701)	
New issues of long-term loans	241.810	
Repayments and other net changes in loans	(34.570)	
Financial lease fees paid	(1.815)	
Dividends paid out to Hera shareholders and minority interests	(111.399)	(52.204)
Change in treasury shares in portfolio	(3.237)	
Other minor changes	(1)	
Liquidity generated/(absorbed) by financing activities (c)	90.788	
Effect of change in exchange rates on liquidity (d)	0	
(Increase)/decrease in liquidity (a+b+c+d)	91.518	
Cash and cash equivalents at the beginning of the period	415.189	
Cash and cash equivalents at the end of the period	506.707	

2.03 Explanatory notes

2.03.01 Consolidated explanatory notes

These consolidated half-year financial statements as at 30 June 2012 were prepared pursuant to the EC Regulation no. 1606/2002 of 19 July 2002, according to the IAS/IFRS International Accounting Standards (hereunder referred to as IFRS), approved by the European Commission, supplemented by the related interpretations (Standing Interpretations Committee – Sic and International Financial Reporting Interpretation Committee – IFRIC), issued by *the* International Accounting Standard Board (IASB) as well as by provisions set forth in application of Art. 9 of the Legislative Decree no. 38/2005.

The same accounting criteria applied to the consolidated financial statements as at 31 December 2011 were adopted in the drawing up of these consolidated half-year financial statements, prepared according to IAS 34 – Interim Financial Statements. As for a more thorough description, refer to the financial statements as at 31 December 2011, except for information given in section "Accounting principles, amendments and interpretations applied on 1 January 2012".

The figures in these consolidated half-year financial statements are comparable with the same balances of the previous financial year, unless otherwise indicated in the notes commenting on the individual items.

While preparing the financial statements as at 31 December 2011, the Municipalities of Cesena, Ferrara, Forlì, Imola, Ravenna and Rimini were also considered related companies with significant influence. The tables in the Income Statement of these half-year consolidated financial statements do not show the associated positions as at 30 June 2011, considering the difficulties related to obtaining said information. Taking account of the ongoing nature of the underlying relations, it is believed said values may reasonably be in line with the same figures as at 30 June 2012.

Non-recurring costs and revenues are indicated separately in the financial statements.

Use of estimates. Preparation of the consolidated half-year financial statements and related notes requires the use of estimates and valuations by the directors, with effects on the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. The main areas characterised by valuations and assumptions, especially the types and assumptions for their processing, together with reference book values, are set forth below.

Allocations to provisions for risks. These allocations have been made by adopting the same procedures as previous periods and hence by referring to the updated reports of the legal counsel and the consultants overseeing 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.

Revenues recognition. Revenues for the sale of electricity, gas and water are recognised and accounted for at supply and include the allocation for services rendered between the date of the last reading and the ending of the period. This allocation is based on estimated of the customer's daily consumption, based on the historic profile, adjusted to reflect the weather conditions or other factors which might affect consumption under evaluation.

Please also note that these valuation procedures, especially those relating to the more complex valuations, such as the determination of any impairment losses on non-current assets, are generally only made definitively at the time the annual report is prepared, except when there are indications of impairment requiring an immediate valuation of any losses in value.

Income taxes are recognised based on the best estimate of the weighted average rate expected for the entire financial year. By effect of the Decree Law Monti (Decree Law 201/2011), calculations were made by taking account of the higher deduction per tax wedge which will be admitted for 2012, pursuant to Art. 11 of the Legislative Decree no. 446/97.

A comparison of single items in both the income statement and the statement of financial position must also take into consideration the changes to the scope of consolidation indicated in the specific section.

Financial Statements

The formats used are the same as those applied to the consolidated financial statements as at 31 December 2011. Specifically, a decremental format has been used for the income statement, with individual items analysed by type. We believe that this type of disclosure, which is also used by our major competitors and is in line with international practice, best represents company results. The statement of financial position makes the distinction between assets and liabilities, current and non-current.

The cash flow statement has been prepared using the indirect method, as allowed by IAS 7. It should be noted that the cash flow statement has been amended with respect to the corresponding period of the previous year in order to best represent the actual cash flows in the year in terms of operations and financial and investment management. Following said improvement, for the purposes of consistency, the figures from the previous period were reclassified so that the data can be directly compared.

The statement of comprehensive income is presented in a separate document from the income statement, as permitted by IAS 1 revised. The statement of changes in shareholders' equity has been prepared as required by IAS 1 revised.

Moreover, with reference to Consob resolution no. 15519 of 27 July 2006 on financial statements, specific supplementary formats of income statement, statement of financial position and cash flow statement have been included, while highlighting the most significant relations with related parties, in order to avoid altering the overall clarity of the financial statements.

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

Scope of consolidation

These consolidated half-year financial statements as at 30 June 2012 include the financial statements of the Parent Company, Hera Spa, and its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, in such a way as to obtain benefits from the company's activity.

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

Equity investments comprising fixed assets in large-scale associated companies are valued under the equity method. Those of an insignificant size are instead carried at cost. Subsidiaries and associated companies that are not consolidated, or valued at equity, are reported in note 18.

Companies held exclusively for future sale were excluded from consolidation and valued at cost or fair value, net of sales costs, whichever is the lesser. These equity investments are recorded as separate items. Equity investments in *joint ventures*, in which the Hera Group exercises joint control with other companies, are consolidated with the proportional method reporting the assets, liabilities, revenues and costs on a line-by-line basis in a measure that is proportional to the Group's investment.

Changes to the scope of consolidation in the first half of 2012, compared with the consolidated financial statements as at 31 December 2011 are shown below.

Changes in the scope of consolidation

Subsidiaries

<i>Consolidated companies</i>	<i>Companies no longer consolidated</i>	<i>Notes</i>
Feronia Srl		Consolidated on a line-by-line basis
Hera Servizi Cimiteriali Srl		Consolidated on a line-by-line basis

On 31 January 2012, Herambiente Spa purchased 30% further share in the share capital of Feronia Srl from Sorgea Srl. The company's equity investment in this company increased to 70%.

Hera Servizi Cimiteriali Srl, incorporated on 22 December 2010, became operative after the disposal, on 1 May 2012, by Hera Spa of the business branch related to the business handling burials and cremations. By virtue of to this transaction, the company, previously measured at cost, is consolidated on a line-by-line basis.

Jointly controlled companies

<i>Consolidated companies</i>	<i>Companies no longer consolidated</i>	<i>Notes</i>
	FlameEnergy Trading Gmbh	Consolidated at equity

Flameenergy Trading Gmbh The company underwent a remarkable reduction in size of its activities by joint decision of shareholders. Therefore, in light of the limited significance of the contribution of this company to the scope of consolidation, this company has been measured at equity as from this consolidated half-year financial statements.

Associated companies

New companies measured at equity	Companies no longer measured at equity	Notes
	Feronia Srl	Consolidated on a line-by-line basis
FlameEnergy Trading Gmbh		Consolidated at equity

Comments on these changes are also given in the section “Subsidiaries” and “Jointly controlled companies”.

Changes in the scope of consolidation

With effect from 1 January 2012, Acantho Spa acquired over 600 residential customers from Geosat Srl, a company with registered office in Bologna and operating in the Romagna region and part of Marche region, as wireless internet services and service provider. In particular, the transferred branch concerns the supply of connections to the internet network through broadband wireless connections in the provinces of Forlì, Cesena, Ravenna, Rimini and Pesaro-Urbino.

Hera Energie Rinnovabili Spa acquired the entire capital of the following companies:

- Amon Srl, on 8 February 2012;
- Esole Srl, on 8 February 2012;
- Ctg Ra Srl, on 8 March 2012;
- Juwi Sviluppo Italia 02 Srl, on 1 March 2012,

which operate in the field of building, operation and production of electricity from photovoltaic plants owned and located in the Municipalities of Copparo (Fe), Alfianello (Bs), Faenza (Ra) and Petriolo (Mc), respectively. On 28 June 2012, these companies merged into Hera Energie Rinnovabili Spa, effective as from 1 January 2012.

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

Seasonal effects on business

Within the Group, water and energy sectors are the most influenced by seasonal factors, taking account of consumption peaks, in the summer and winter season, respectively. In general, however, taking account the Group business portfolio, the half-year economic data are not particularly influenced by the above-mentioned effect. Conversely, equity figures, as also described in the following notes, highlight a decrease in trade payables at end of June, above all with respect to the timing of raw materials supply.

Significant events after the end of the period and business outlook

Information regarding the company’s activity and significant events occurred after year end are included in a special section of the consolidated half-year report (par. 1.2).

Other information

It is also noted that, over the first half of 2012, atypical and unusual transactions were not accounted for, according to Consob communication no. 6064293 of 28 July 2006.

These consolidated half-year financial statements as at 30 June 2012 were drawn up by the Board of Directors and approved by the same at the meeting held on 28 August 2012.

Accounting standards, amendments and interpretations applicable from 1 January 2012

Starting from 1 January 2012, the following amendment to the accounting standards have been applicable as they have already concluded the EU endorsement process:

Amendments to IFRS 7 “Financial instruments: supplementary disclosures”: the amendment promotes transparency in the information presented in the financial statements on transfers (derecognition) of financial assets in the portfolio, improving disclosures on the risks which remain for the entity that performed the transfer and the effects on the financial position, especially if said transfers are carried out at the end of an accounting period.

This amendment entailed not significant effects on the information supplied in these consolidated half-year financial statements as well as on the measurement of the related balance-sheet items.

Accounting standards, amendments and interpretations endorsed by the European Union which are not yet applicable and have not been adopted early by the Group.

Starting from 1 January 2013, the following amendment to the international accounting standards shall be mandatorily applicable as it has already concluded the EU endorsement process:

Amendments to IAS 1 “Presentation of the Financial Statements” published by the IASB on 16 June 2011 and applicable to reporting periods beginning on or after 1 July 2012, modifies the presentation of the statement of comprehensive income, requiring a separate indication of components depending on whether said items can then be reclassified to the income statement or not. The application of this amendment will have no impact on the measurement of balance-sheet items.

Amendments to IAS 19 “Employee benefits”, published by the IASB on 16 June 2011 and applicable from 1 January 2013, eliminates the possibility of applying the corridor method, requiring the recognition in the income statement of the cost of employment and financial interests and recording in the statement of comprehensive income of the entire amount of actuarial gains and losses. Furthermore, the method of calculating the interest cost was modified. The Group, which is currently using the “corridor” method, is evaluating the impacts which will result from the application of this amendment.

Accounting standards, amendments and interpretations not yet endorsed by the European Union

The following updating of IFRS standards (already approved by the IASB) and the following interpretations and amendments are in the process of being endorsed by the competent bodies of the European Union:

- **IFRS 9** “Financial Instruments”, published by the IASB on 12 November 2009 and subsequently amended on 28 October 2010. With effect from 1 January 2015, this standard is the first part of a process taking place in phases for the replacement of IAS 39 and introduces new criteria for the classification of financial assets and liabilities and for the derecognition of financial assets.

- Amendments to **IFRS 7** “Financial instruments: Supplementary Disclosures”, published by the IASB on 16 December 2011 and applicable from 1 January 2013, requires more information on the effects of asset and liability offsetting on the financial position.
- Amendments to **IAS 12** “Income taxes”, published by the IASB on 20 December 2010, clarifies the method of calculation of deferred taxes in the event of real estate investments measured at fair value based on IAS 40. This amendment should have been applicable retrospectively as from 1 January 2012.
- Amendments to **IFRS 1** “First-time Adoption of International Financial Reporting Standards”, published by the IASB on 20 December 2010 and applicable from 1 July 2011.
- **IFRS 10** “Consolidated Financial Statements”, published by the IASB on 12 May 2011 and applicable from 1 January 2013. This standard will replace the SIC 12 standard “Special Purpose Entities” and partly the IAS 27 standard “Consolidated Financial Statements”, which will be renamed as “Separate Financial Statements” and will govern the accounting treatment of equity investments in the separate financial statements. The IFRS 10 standards outlines the new criteria for the preparation of consolidated financial statements and establishes the principle of control as the basis for consolidation of a company in the consolidated financial statements of the Parent Company. This standard also sets out how to apply the principle of control to identify whether a company is controlled.
- **IFRS 11** “Joint arrangements”, published by the IASB on 12 May 2011 and applicable from 1 January 2013, redefines the method of accounting of joint arrangements in the consolidated financial statements and sets out that the only applicable accounting method is at equity.
- **IFRS 12** “Disclosure of interests in other entities”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013, expands the information required regarding various types of investments.
- **IFRS 13** “Fair value measurement”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013, provides a unique definition of the fair value concept, clarifying the calculation methods for financial statement purposes.
- **IAS 27** Revised “Separate financial statements”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013.
- **IAS 28** Revised “Investments in associates”, issued by the IASB on 12 May 2011 and applicable from 1 January 2013.
- **IFRIC 20** – “Stripping Costs in the Production Phase of a Surface Mine”, published by the IASB on 19 October 2011 and applicable from 1 January 2013.
- Amendments to **IAS 32** “Financial instruments: Disclosure and Presentation”, published by the IASB on 16 December 2011 and applicable from 1 January 2014. These amendments clarify the application of some offsetting criteria of financial assets and liabilities included in IAS 32.
- **IFRS 1** (Amendments) - “First-time Adoption of International Financial Reporting Standards”- Government Loans, published by the IASB on 13 March 2012 and applicable from 1 January 2013.
- Ameliorations to **IFRS (2009-2011)** (amendments), published by the IASB on 17 May 2012 and applicable from 1 January 2013.
- **Guide to transition** (amendments to IFRS 10, IFRS 11 and IFRS 12), published by the IASB on 28 June 2012 and applicable from 1 January 2013.

4 Revenues

	1st half 2012	1st half 2011	Changes
Revenues from sales and services	2,297,740	1,981,915	315,825
Change in contract work in progress	1,209	1,155	54
Changes in inventories of work in progress, finished and semi-finished products and contract work in progress	(32)	115	(147)
Total	2,298,917	1,983,185	315,732

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

Revenues are achieved mainly in Italy.

5 Other operating income

	1st half 2012	1st half 2011	Changes
Long term construction contracts	55,378	61,094	(5,716)
Operating grants and grants for separated collection	8,912	7,007	1,905
Capital gains from sale of assets	6,786	195	6,591
White certificates	6,541	6,812	(271)
Use and reassessment of provisions	2,146	2,553	(407)
Portion of capital grants	2,066	1,941	125
Costs reimbursed	1,688	1,547	141
Insurance reimbursements	1,224	553	671
Leases	801	677	124
Grey certificates	708	1,179	(471)
Sale of materials and stocks to third parties	292	719	(427)
Other revenue	4,528	3,424	1,104
Total	91,070	87,701	3,369

The most substantial changes with respect to the same period of the previous year are described below.

“Long-term contracts” include revenues generated from the construction or improvement of infrastructures held under a concession arrangement, in application of IFRIC 12. The reduction, compared to the corresponding previous period, is primarily due to a reduction in investments, as detailed in the comments in the Directors’ report.

“Operating grants and grants for separated waste collection”. Operating grants, equal to EUR 2,364 thousand (EUR 734 thousand as at 30 June 2011) mainly include incentives paid by GSE (Energy Market Authority) for the production of electricity from renewable sources, amounting to EUR 1,717 thousand. This item reported an increase, compared to 30 June 2011 (EUR 653 thousand), due to the entry into operation of 4 new photovoltaic plants, owned by the acquired and subsequently merged companies, during the first half of 2012, by Hera Energie Rinnovabili Spa.

The contributions from separate waste collection, amounting to EUR 6,548 thousand (EUR 6,273 thousand as at 30 June 2011), primarily relate to the value from packaging (cardboard, iron, plastic and glass) transferred to the consortia of the Conai chain and electrical and electronic equipment sold to Raee (electrical and electronic waste collection centre).

“Capital gains on sales of goods” include EUR 6,625 thousand resulting from the sale of a business area in Viale Berti Pichat in Bologna (non-recurring effect). For further details, reference is made to note 29 “Non-current assets held for sale”.

“White certificates” and “Grey certificates” show the revenues recorded for the Compensation Fund of the electricity sector, after energy goals were attained (white certificates) and for the Ministry for the Environment, for the grey certificates mainly pertaining to the cogeneration plant in Casalegno. Specifically, in relation to the latter plant, Decree Law no. 72 of 20 May 2010, later converted with Law no. 111 of 19 July 2010, established that the plants that do not receive free allocation of permits are entitled to monetary repayment.

Item “Use and reassessment of provisions” mainly includes uses for the costs of labour, leachate treatment and resource hour costs as regards Group landfills (EUR 1,468 thousand, compared to EUR 2,372 thousand as at 30 June 2011). Re-assessment of provisions primarily includes the uses of the “provision for sundry risks” in relation to the Mis share for 2007, amounting to EUR 664 thousand.

“Reimbursement of costs” is mainly made up of repayments from companies or entities relating to personnel seconded and the recovery of expenses from customers.

Item “Other revenues” mainly include the recovery of costs for environmental services and relating to the electricity and gas sectors.

6 Use of raw materials and consumables

	1st half 2012	1st half 2011	Changes
Methane ready for sale and LPG net of change in stock	688,167	485,274	202,893
Electricity ready for sale	635,226	564,210	71,016
Maintenance materials: handling and spare parts net of change in stock	22,124	25,190	(3,066)
White, grey and green certificates	21,378	23,937	(2,559)
Water	18,574	17,097	1,477
Electricity for industrial use	14,556	10,842	3,714
Fuels and lubricants	8,132	6,869	1,263
Chemical products	7,214	7,006	208
Consumables and sundry	5,746	6,159	(413)
Methane for industrial use	4,537	2,738	1,799
Fuels for heat generation	3,264	2,959	305
Income and charges from derivatives	(9,351)	(13,857)	4,506
Income and charges from certificates measurement	(19,761)	(16,403)	(3,358)
Total	1,399,806	1,122,021	277,785

Please see the Directors' report and notes showing information by business segment for the analysis of trends in the costs of raw materials and the consumables. Please refer to note 21 of the statement of financial position for the item "Charges and revenues from derivatives".

The most substantial changes with respect to the same period of the previous year are described below.

"White, grey and green certificates," includes the cost for the acquisition of white, gray and green certificates incurred in 2012 of EUR 21,378 thousand (EUR 23,937 thousand as at 30 June 2011), in particular:

- white certificates, EUR 4,280 thousand (EUR 9,376 thousand as at 30 June 2011);
- grey certificates, EUR 2,660 thousand (EUR 10,163 thousand as at 30 June 2011);
- green certificates, EUR 14,438 thousand (EUR 4,398 thousand as at 30 June 2011).

The change, compared to the corresponding previous period, is due to the different procurement trends with respect to the requirement of certificates by the Group.

"Maintenance materials: management and spare parts net of changes in stocks," have decreased compared to the previous year mainly on account of a reduction in investments which are analyzed in further detail in the Directors' Report.

Item "Electricity for industrial use" reported an increase due to price increase of raw materials communicated by the Italian Authority for Electricity and Natural Gas in the first months of 2012. Item "Methane for industrial use" has increased due to higher consumption resulting from both new users of district heating, connected during the second half of 2011 and the first half of 2012, and price increases of raw materials.

Item "Income and charges from certificate measurement" includes the results of fair value measurement of the following certificates:

- green, revenues of EUR 20,621 thousand (EUR 13,091 thousand as at 30 June 2011);
- grey, expenses of EUR 860 thousand (income of EUR 3,312 thousand as at 30 June 2011);

7 Service costs

	1st half 2012	1st half 2011	Changes
Energy transport and storage	108,933	96,943	11,990
Charges for works and maintenance	103,884	113,049	(9,165)
Waste transportation, disposal and collection services	82,158	83,755	(1,597)
Fees paid to local authorities	36,698	34,396	2,302
Legal, tax and organisation professional services	11,091	10,806	285
Rents and leases payable	10,690	10,795	(105)
IT and data processing services	9,224	8,725	499
Postal and telephone costs	7,824	7,806	18
Insurance costs	6,827	6,615	212
Recruitment, training and other staff costs	6,251	6,067	184
Technical services	5,944	6,331	(387)
Bank fees and other charges	5,250	3,800	1,450
Cleaning and security costs	2,993	2,596	397
Published notices, classified and advertising	2,834	4,561	(1,727)
Remuneration to Directors, Statutory Auditors and local committees	2,809	2,757	52
Transports	2,314	761	1,553
Meter readings	2,185	2,259	(74)
Laboratory analyses	2,164	2,190	(26)
Fees payable	1,887	2,042	(155)
Utilities	1,010	949	61
Other service costs	14,533	14,862	(329)
Total	427,503	422,065	5,438

The most significant changes with respect to the corresponding period of the previous year are described hereunder:

“Energy transport and storage”, the increase is attributable to electricity and gas sold on third party grids and networks, amounting to EUR 1,634 thousand and 10,356 thousand. The significant increase reported in the gas sector is attributable to the increase in volumes and in transport and storage tariffs alike. Moreover, the change in the scope of consolidation is to be noted, following the acquisition of Sadori Gas Srl occurred on 1 July 2011.

"Charges for works and maintenance". This item includes the costs for the building or improvement of licensed infrastructures pursuant to IFRIC 12. The decrease compared to the previous period is mainly due to the reduction in investments, as explained in detail in the Directors' Report.

The item "Fees paid to local authorities" includes the charges incurred for the use of public owned grids and networks, fees paid to asset companies for the rent of gas, water and electricity cycle assets and the leasing of the drop-off points. The change, compared to the first half of 2011, is primarily related to higher rentals for the company of assets with respect to the adjustments provided for by Atersir (former Ato) on the territories where Hera operates.

"IT and data processing services", the increase is due to higher costs for IT services, amounting to EUR 111 thousand and telecommunications services, totalling EUR 388 thousand.

"Bank fees and other charges", the change is primarily attributable to costs related to the new committed credit lines signed by the Group (EUR 420 million in June 2012, compared to EUR 280 million in June 2011) and the new bank sureties required by the Group in favour of third parties.

"Published notices, classified, advertising", the decrease is due to the postponement of some advertising campaigns in the second half of 2012.

"Remuneration to Directors, Statutory Auditors and local Committees", includes costs incurred for the different company bodies and for Area Committees.

Item "Other service costs" mainly comprises costs for trade and sale activities of energy-related services.

8 Personnel costs

	1st half 2012	1st half 2011	Changes
Wages and salaries	136,102	133,754	2,348
Social security contributions	45,048	44,389	659
Employee leaving indemnity and other benefits	839	735	104
Other costs	10,808	10,784	24
Total	192,797	189,662	3,135

The increase in labour costs is mainly due to changes in contractual trends.

As shown below, there were no significant changes in the number of employees, both at overall level and in terms of the individual category.

The average number of employees in the period in question, analysed by category, is as follows:

	1st half 2012	1st half 2011	Changes
Managers	130	128	2
Middle managers	356	339	17
Employees	3,391	3,346	45
Workers	2,638	2,707	(69)
Average number	6,515	6,520	(5)

On the whole, the average pro-capita labour cost for the first half of 2012 was equal to EUR 30 thousand, up 1.7% compared to the figures registered in the corresponding period of the previous year.

As at 30 June 2012, the effective number of employees was 6,494 units (6,530 units as at 30 June 2011).

9 Amortisation, depreciation and allocations

	1st half 2012	1st half 2011	Changes
Depreciation of tangible fixed assets	65,754	61,237	4,517
Depreciation of intangible fixed assets	50,164	50,816	(652)
Provisions for doubtful debt	23,108	19,697	3,411
Provision for risks and charges	12,524	12,839	(315)
Total	151,550	144,589	6,961

As regards the breakdown of the items, please refer to the comments under “tangible fixed assets”, “intangible assets”, “trade receivables” and “provisions for risks and charges” in the statement of financial position.

10 Other operating costs

	1st half 2012	1st half 2011	Changes
Special landfill levy	5,217	5,328	(111)
Taxation other than income taxes	4,809	4,426	383
State rentals	1,760	1,422	338
Membership fees and other fees	1,517	1,475	42
Capital losses on disposal of assets	458	525	(67)
Other minor charges	5,576	4,360	1,216
Total	19,337	17,536	1,801

The most significant changes with respect to the corresponding period of the previous year are described hereunder:

“Taxation other than income taxes”, the increase compared to the first half of 2011 is mainly linked to:

- rent for the occupation of spaces and public areas relating to previous periods paid to the Municipalities in the provinces of Bologna and Ravenna;
- payment of higher costs for the Municipal tax on real estate properties (IMU), compared to the previous Municipal tax on real estate properties (ICI).

“State rentals”, the increase, compared to the first half of 2011, is primarily due to higher rentals paid to the Emilia Romagna region, to some concessionaries for the payment of taxes, to various consortia as well as to costs related to the return of purification quotas to customers as provided for by the economic-financial Plan of the 2011-2021 integrated water service – 2011-2015 regulation period, approved by the Shareholders' General Meeting of Atersir (former Ato) in Bologna.

"Capital losses on disposal of assets" generated by the following disposals:

- electricity meters, EUR 215 thousand (EUR 482 thousand as at 30 June 2011);
- resources, waste disposal bins, equipment and other, EUR 64 thousand (EUR 43 thousand as at 30 June 2011);
- real estate property in Via Dozza no. 8 in Bologna, EUR 179 thousand.

Compared to the first half of 2011, item “Other minor charges” includes social charges due to the adhesion by Hera Spa to the collection of funds launched by the Emilia Romagna region in favour of people hit by the earthquake in May 2012.

11 Capitalised costs

	1st half 2012	1st half 2011	Changes
Increases in fixed assets for internal works	13,057	24,357	(11,300)
Total	13,057	24,357	(11,300)

“Increases in fixed assets for internal works” mainly include labour, financial charges and other charges (such as outbound inventory movements and motor car hours) directly attributable to jobs performed within the Group. The decrease is attributable to the reduction in investments compared to the corresponding period of 2011. To this end, it should be noted that the order related to the waste-to-energy plant in Rimini was completed and became operative in the second half of 2011. As regards the analysis of investments, reference is made to comments to Assets in the Statement of financial position and in the Directors’ Report.

12 Portion of profits (losses) pertaining to associated companies

	1st half 2012	1st half 2011	Changes
Profits	3,189	5,009	(1,820)
Losses	(292)	(286)	(6)
Total	2,897	4,723	(1,826)

The “Portion of profits (losses) pertaining to associated companies” include the effects generated from measurement using the equity method.

In particular, as regards the “Portion of profits”, compared to the first half of 2011, the following changes are to be highlighted:

- Aimag Spa, EUR 1,070 thousand as at 30 June 2012 (EUR 2,668 thousand as at 30 June 2011);
- Sgr Spa, EUR 1,810 thousand as at 30 June 2012 (EUR 1,554 thousand as at 30 June 2011);
- Set Spa, EUR 144 thousand as at 30 June 2012 (EUR 653 thousand as at 30 June 2011);

The decrease in the portion of profit related to Aimag Spa is not connected with the fluctuation of the profit/loss for the company, but rather with the availability of financial statements transmitted to the Parent Company. It is acknowledged that, in measuring the associated company based on the equity method as at 30 June 2011, the values inferable from the financial statements of the company as at 31 December 2010 were used. These financial statements were made available only after the approval of the Hera Group’s financial statements; conversely, starting from the financial statements as at 31 December 2011 already, the associated company prepared and transmitted to the Group a statement of financial position at the balance sheet date. The above allowed for the realignment of the measurement of the associated company; a decrease was therefore reported with respect to the corresponding period of the previous year.

The “portion of losses” relates to the companies Refri Srl and Tamarete Energie Srl, for EUR 99 thousand and EUR 193 thousand, respectively.

13 Financial income and charges

Financial income	1st half 2012	1st half 2011	Changes
Derivatives on exchange rates	35,544	13,898	21,646
Income from measurement at fair value of financial liabilities	3,274	14,026	(10,752)
Banks	3,076	3,198	(122)
Customers	2,459	1,740	719
Capital gains on equity investments and dividends from other companies	106	38	68
Other financial income	1,141	895	246
Total	45,600	33,795	11,805

Financial losses	1st half 2012	1st half 2011	Changes
Bond loans	48,147	42,588	5,559
Interest rate and foreign exchange derivatives	24,418	30,681	(6,263)
Charges from measurement at fair value of financial liabilities	16,814	-	16,814
Discounting of provisions and financial leases	7,015	7,379	(364)
Mortgages	5,746	5,420	326
Bank current account overdrafts	1,661	1,441	220
Capital losses and write-downs of equity investment	416	230	186
Other financial losses	6,051	4,233	1,818
Total	110,268	91,972	18,296

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

The most significant items are described hereunder.

For the items "Income and charges from measurement at fair value of financial liabilities" and "Interest rate and foreign exchange derivatives", please see note 21 of the balance sheet.

As regards "Bonds", charges comprise the following:

- EUR 42,583 thousand in financial charges actually paid (EUR 36,718 thousand in 2011);
- EUR 5,564 thousand in financial charges generated by the valuation of said financial liabilities at amortised cost (EUR 5,870 thousand as at 30 June 2011). With regard to the method used, please note that in the recalculation, the maximum duration of the loans was assumed, and it was also assumed that the put options would not be exercised for the duration of the same loans, within the terms set out in the contract.

The increase in charges, with respect to the previous period, is primarily attributable to the change in the net financial indebtedness which, as at 30 June 2012 was equal to EUR 2,099 million, compared to EUR 1,971 million as at 30 June 2011.

For details on bonds subscribed by Hera Spa, please refer to note 31 "Banks and medium/long- and short-term loans".

"Capital gains on equity investments and dividends from other companies", amounting to EUR 106 thousand, relate to dividends received in the first half of 2012 from the companies Service Imola Srl and Banca di Credito Cooperativo.

"Capital losses and write-down of investments" are composed of capital losses recorded as a result of the following transactions:

- disposal of the equity investment in Dyna Green Srl, EUR 46 thousand;
- closure of liquidation of the companies Solhar Bentivoglio Srl, Solhar Ferrara Srl, Solhar Modena Srl e Solhar Faenza Srl, for a total amount of EUR 16 thousand;
- exercise of the withdrawal right in Democenter Scrl, following the transformation of the company from cooperative with limited responsibility to foundation, totalling EUR 29 thousand;
- write-down of the equity investment in Wimaxer Spa, totalling EUR 325 thousand, following the share capital reduction to cover previous losses.

As for "Other financial charges", the item mainly includes the charges borne for the non-without recourse factoring of receivables, amounting to EUR 5,213 thousand (EUR 3,758 thousand as at 30 June 2011).

The item "Discounting of provisions and financial leases" is broken down as follows:

	1st half 2012	1 half 2011	Changes
Landfill post-closure provision	2,789	2,824	(35)
Employee leaving indemnity and other benefits	2,095	831	1,264
Restoration of third party assets	1,991	3,479	(1,488)
Finance leases	140	245	(105)
Total	7,015	7,379	(364)

The increase in financial charges of item "Employee leaving indemnity and other benefits", compared to the first half of 2011, is due to the change in the method of measuring the discounting rate by using the treatment of actuarial calculations in application of clarifications issued by the Board of Actuaries in May 2012.

The decrease in financial charges related to item "Restoration of third party assets" is attributable to the extended duration of concessions regarding the environmental services in the provinces of Bologna and Florence, as well as the water service in the provinces of Pesaro-Urbino and gas in the province of Forlì-Cesena. These concessions were due to expire on 31 December 2011.

14 Taxes for the period

This item is broken down as follows:

	1st half 2012	1st half 2011	Changes
Current taxes (Ires, Irap and substitute tax)	75,654	68,941	6,713
Deferred tax	(950)	1,935	(2,885)
Prepaid tax	(7,871)	(8,117)	246
Total	66,833	62,759	4,074

Taxes for the period amount to EUR 66,833 thousand, compared to EUR 62,759 thousand of the first half of 2011. The tax rate of the first half of 2012 is equal to 44.5%, compared to 43% in the first half of 2011.

Current taxes are broken down as follows:

Current taxes	1st half 2012	1st half 2011	Changes
Ires	57,955	52,188	5,767
Irap	17,538	16,592	946
Substitute tax "scope split-up"	161	161	0
	75,654	68,941	6,713

In calculating the taxes for the period, the effects deriving from the IAS tax reform introduced by Italian Law no. 244 of 24 December 2007 were duly considered, and of the associated implementing decrees, Ministerial Decree no. 48 of 1 April 2009, and Ministerial Decree of 8 June 2011, coordination of the international accounting standards with the rules of calculation of the Ires and Irap taxable base, envisaged under art. 4, paragraph 7-quater, of Legislative Decree no. 38/2005. In particular the strengthened principle of derivation set forth under art. 83 of the Consolidation Act on Income Taxes that now envisages that "the criteria of qualification, time allocation and classification in the financial statements required by the international accounting standards apply to parties that apply the international accounting standards, also in derogation of the provisions of the Consolidation Act on Income Taxes.

Information on the "tax moratorium"

In accordance with Decree Law no. 10 of 15 February 2007, subsequently converted into Law no. 46 of 6 April 2007, governing the terms for reimbursement of government aid declared illegitimate by the Ruling of the European Commission no. 2003/193 dated 5 June 2002, on 6 April 2007 Hera Spa (with respect to the position regarding the former Seabo Spa) was served the notices/orders issued by the Inland Revenue office responsible for the area, demanding the payment of a total amount of EUR 22,313 thousand for the tax periods from 1997 to 1999 involved in the recovery.

The appeals submitted to the Provincial Tax Commission of Bologna were rejected by means of rulings dated 19 April 2008, except for that relating to the tax period 2007. In this case, the commission recognised the legitimacy of the deduction of tax withheld and of the tax receivable carried over from previous years amounting to EUR 3,738 thousand; therefore, in June 2008, a total of EUR 17,400 thousand was paid. Subsequently, on 11 September 2008, the Inland Revenue office sent an additional payment request for interest related to the suspension period, paid in December 2008, for EUR 660 thousand. Appeals were presented on 3 October 2008, rejected by rulings filed on 29 January 2010, by the Regional Tax Commission of Emilia Romagna which, by amending the first instance rulings, derecognised the legitimacy of the deduction of tax withheld and of the tax receivable for tax periods before 2007; therefore, on 27 October 2010, an additional EUR 7,455 thousand was paid in this respect. The appeals in Cassation were filed in on 29 April 2010. The hearing was held on 24 January 2012 and the related rulings were favourable.

Please also note that, under the terms of agreements made between shareholders (and specifically reported in the IPO prospectus) at the time of the incorporation giving rise to the creation of Hera Spa, local authorities undertook "to compensate Hera Spa for any cost, loss or damage sustained by the same in relation to mandatory regulatory measures revoking tax benefits that the company and the companies taking part in the incorporation have enjoyed". Therefore, in relation to the above-mentioned recovery no cost was accounted for. It should be noted that as at 30 June 2012, outstanding receivables for collection from public entities, related to all payments made by Hera Spa for the position related to the former Seabo Spa, amounted to EUR 361 thousand as at the date of these financial statements.

Decree Law no. 185/2008 and Decree Law no. 135/2009

Art. 24 of Decree Law no. 185 of 29 November 2008, converted with amendments into Law no. 2 of 28 January 2009, intervened "in order to fully implement" the repeatedly mentioned decision of the Commission on 5 June 2002. As for this provision, on 30 April 2009, the Emilia Romagna Regional Management sent three tax assessment notices on the position of the former Meta for the 1997, 1998 and 1999 tax periods, for which EUR 4,823 thousand was paid on 8 May 2009. Appeals were filed with the Provincial Tax Commission of Bologna against the aforementioned assessment notices on 7 July 2009; at the hearing on 14 February 2011, following the reunification with proceedings to deal with additional assessment notices, pending before another section of the same provincial tax commission, commented on hereunder, all proceedings were adjourned so that the parties could attempt to reach a reconciliation.

Art. 24 of the Decree Law no. 185 of 29 November 2008, was then amended by art. 19 of the Decree Law no. 135 of 25 September 2009, which added paragraph 1-bis to the above-mentioned art. 24. On 2 October 2009, the Emilia Romagna Regional Management sent two assessment notices for the former company Meta Spa, regarding the 1998 and 1999 tax periods, as a "supplement" to notices already sent on 30 April 2009, in order to cancel two deductions made and previously accepted according to the opinion, shared by the Attorney General, expressed on 28 April 2009 by the Presidency of the Council of Ministers on profits, which were reissued into the public circuit due to the distribution to public bodies shareholders, and the further portion of profits made in the electricity segment. The amounts requested total EUR 22,751 thousand.

On the same date, the Emilia Romagna Regional Management sent four assessment notices for the former company Seabo Spa, regarding the 1997, 1998, 1999 tax periods, in order to acknowledge the irregularities already contained in the report on findings of 17 October 2005. These irregularities could not be taken into account when the notices and injunctions were issued on 6 April 2007, as, at that time, art. 1 of the Decree Law no. 10 of 15 February 2007 granted the Inland Revenue Office powers of "simple settlement" of the tax returns submitted by the taxpayer. The amounts required for the former company Seabo, amounted to EUR 759 thousand.

The total amounts required, by effect of the proceeding provided for by art. 19 of Decree Law no. 135/2009, amounted therefore to EUR 23,510 thousand, and were paid on 20 October 2009.

On 27 November 2009, the Company filed all appeals to the Bologna Provincial Tax Commission to cancel all assessment notices of 2 October 2009, regarding the positions of both former Seabo and former Meta. As regards the former Seabo position, discussion at the public hearing took place on 26 January 2011, in which the Board adjourned the case to attempt a reconciliation between the parties; The lawsuits were discussed on the occasion of the hearing held on 15 February 2012 and four rulings were handed down by the Provincial Tax Commission of Bologna, Section no. 17, and filed on 23 February 2012. These rulings partially upheld the Company's appeal with reference to the recoveries concerning landfill post-closure provisions and have currently become final. To this purpose, it should be specified that, by effect of the agreements between the above-mentioned shareholders, the amounts collected to this end shall be returned. As regards the ex Meta case, discussion at the public hearing occurred on 14 February 2011, with the case adjourned for all proceedings to attempt reconciliation between the parties. Discussion of the disputes could be set at the beginning of 2013.

Except for the still-outstanding disputes, aimed at recovering what has already been paid, the entire "tax moratorium" situation shall be considered concluded, since future disbursements which create financial impacts on the Group's accounts are not expected.

Report on the assessment notices issued in 2010

Seven notices were issued to Hera Spa and Hera Comm Srl on 19 November and 22 December 2010 in their capacities of beneficiary companies of the total spin-off of the company Hera Ferrara Srl effective as at 31 December 2009. Said notices for first and second assessment levels concerning IRES and IRAP followed the tax audit on the Ferrara area operating company for tax years 2005, 2006 and 2007 that came to an end on 16 September 2010 with the report on findings of the Ferrara Tax Police Squad.

The irregularities basically concerned a mere error that took place in financial year 2005 in the intercompany costs accounting between Hera Ferrara Srl and Hera Spa, which caused a double recording of the same cost amounting to about EUR 200 thousand. Nevertheless, after said error of double recording of the same cost was discovered in the following financial year 2006, it was corrected by recording a contingent asset of the same amount, duly subject to taxation. It ensued that in force of the consolidated taxation system, the effect of the double deduction of the cost during tax year 2005 was eliminated by the recording, and subsequent taxation, of the cost as a contingent asset. On 13 January 2011, tax settlement proposals were submitted to the Emilia Romagna Regional Management, Large Taxpayers Office, pursuant to art. 6, paragraph 2, of Legislative Decree no. 218 of 1997, which concluded positively for the companies, solely involving the payment of penalties reduced to one quarter. With reference to said event, on 27 December 2011, the company was notified of a tax assessment for VAT purposes regarding the aforementioned accounting error, amounting to EUR 40 thousand; on 29 February 2012, the company submitted an appeal relating solely to tax, then settled the penalties under facilitated terms; discussions on the dispute could take place by the end of 2012.

Three assessment notices for IRES, IRAP and VAT concerning 2005 tax year were issued to Hera Spa on 29 December 2010 following the tax audit on tax year 2005 that was completed with the report on findings dated 1 October 2010, drawn up by the Financial Police, Bologna Tax Police Squad; the subject matter of the report is an irregularity regarding intercompany services (so-called management expenses regarding use of the trademark) supplied by Hera Spa in its capacity of Parent Company of the Hera Group, to the Area Operating Company subsidiary of Forlì-Cesena, Hera Forlì-Cesena Srl.

Although it found the cost split criteria initially established by the intercompany contracts legitimate, the Tax Authorities question the subsequent reduction of the recharge percentages of the management expenses, generally called management fees, following a subsequent agreement that the parties entered into which adjusted the criteria initially envisaged. In the opinion of the Tax Authorities, said adjustment reducing fees due for the services that the holding company supplied entailed tax evasion on the part of Hera Spa, since the lower recharge of management fees to Sot of Forlì-Cesena ensured said costs remained the responsibility of Hera Spa, which would have therefore "illegitimately deducted" them when calculating its IRES and IRAP tax base in the absence of the inherence principle. Likewise, the failure to charge the fee for using the "Hera Group" trademark would have brought about a lower revenue for Hera Spa compared to what was originally foreseen in the intercompany agreement, and so IRES, IRAP and VAT tax evasion allegedly occurred in this case as well in the opinion of the office. On 18 February 2011, tax settlement proposals were submitted to the Emilia Romagna Regional Management, Large Taxpayers Office, pursuant to art. 6, paragraph 2, of Legislative Decree no. 218 of 1997, which concluded negatively for the company. Therefore, on 20 May 2011, the related appeals were submitted to the Provincial Tax Commission of Bologna.

Following said appeals presented by the company, the Tax Authorities, by means of act notified on 17 August 2011, partially cancelled, under the appeal process, the payment orders already issued in respect of the IRES component regarding royalties for use of the trademark, and for the entire recovery made for VAT purposes. Pending the tax proceedings, the company was notified of a tax payment request on 4 January 2012, for the provisional recording of EUR 653 thousand, which the company paid on 29 February 2012. The hearing at the Province Tax Commission of Bologna was fixed on 19 September 2012.

The Company decided it did not have to make any allocation to the provision for risks for the assessment notices in question as it considers the alleged violations charged against the company groundless. This is also based on the circumstance that the companies involved adhered to the Group taxation system for the period in question pursuant to articles 117 et seq. of the Consolidation Act on Income Taxes, according to which the tax actually due to the Tax Authorities is paid in the consolidated income tax return, based on the algebraic sum total of the taxable incomes of the individual companies adhering to the system. It is therefore believed none of the individual companies can be found to have committed tax evasion.

Information on the tax assessments communicated in the 2011 tax period

On 29 September 2011, a tax assessment commenced at the company regarding income taxes and IRAP, conducted by the Financial Police, Bologna Tax Police Squad. The inspections, concluded in March 2012, examined, for IRES and IRAP purposes, the tax years from 2006 to 2010, with a particular focus on the company's economic-financial transactions with public service AATOs. On 24 October 2011, the report on findings solely relating to the 2006 tax year was drafted and issued to the company, limited to the alleged incorrect tax accounting of AATO running costs. According to the contents of the report on findings, the aforementioned costs, relating solely to the 2006 tax year, totalling EUR 2,581 thousand, regarding the functioning of the AATOs, would be considered, on the basis of the joint provisions of article 148, paragraph 4, and article 154, paragraph 1 of Legislative Decree no. 152 of 3 April 2006, non-deductible as irrelevant, pursuant to art. 109 of T.U.I.R. (Italian Income Tax Code), to the company activities carried out. The company submitted its defensive arguments, following which, the Office did not follow up the assessment proposal formalised in the Financial Police's report on findings.

Another report on findings was drawn up on 26 March 2012 for the tax years from 2006 to 2011, with special reference to VAT for rentals related to the concession for the use of grids, networks and plants and the reimbursements to local entities, as well as lease rents of business branches or related to agreements on assets connected with the management of the integrated water supply service and the municipal waste management charged to Hera Spa by asset companies. According to the contents of the report on findings, the aforementioned rentals relating to the use of infrastructures are to be considered as relevant for VAT calculation purposes, with the application of the pro-tempore ordinary rate (20%) currently in force. In the opinion of auditors, this would result in the eligibility of Hera Spa to administrative penalties with reference to invoices without VAT, or reporting a reduced VAT rate (10%). The Company submitted its defensive arguments on 31 May 2012 and the Office has not sent an assessment notice yet.

Information on the tax assessments communicated in the 2012 tax period

On 7 March 2012, a tax assessment commenced at the company Herambiente Spa regarding income taxes, VAT and IRAP, conducted by the Inland Tax Office – Emilia Romagna Regional Management – Large Taxpayers Office.

The assessment concerned the 2009 tax year and especially the eligibility, then objected, for the IRAP tax facility as per Art. 11, paragraph 1 letter a), no. 2), 3) and 4) of the Legislative Decree no. 446/97, the so-called tax wedge, as well as, for IRAP tax purposes, the application of the provisions set out by Art. 36, paragraph 7, of the Decree Law no. 223/2006 regarding the amortisation of land. Moreover, for VAT purposes, objection was made on the incorrect VAT deduction at 20% and not 10% rate charged to some suppliers as regards waste disposal services. On 22 May 2012, the Company was served with another Report on findings, in which the defensive arguments were entirely objected.

On 12 June 2012, a tax assessment commenced at the company Hera Trading Srl, regarding income taxes, VAT and IRAP and conducted by the Inland Tax Office – Emilia Romagna Regional Management – Large Taxpayers Office.

The assessment concerned the 2009 tax year and the tax years before and after 2009 for any possible impacts resulting to transactions connected with the year in question.

In particular, the increased IRAP tax rate application was assessed, then objected, related to the production and distribution of electricity, gas and heat, as per Art. 1 of the Regional Law of Emilia Romagna no. 19/2006. For IRES and IRAP purposes, objection was made on the Company's non-reporting of a contingent asset related to the lack of alleged payables for invoices to be received, recorded in previous years, pursuant to Art. 88, par. 1, of the Consolidation Act on Income Taxes. Special attention was drawn by auditors to VAT applied by the Company to derivative contracts on commodities and related indexes, with special reference to the qualification of the same transactions as “exempt” from VAT, pursuant to Art. 10, paragraph 1, item 4) of the Presidential Decree 633/72 and following application of the pro-rata deduction of the tax pursuant to Art. 19, paragraph 5, of the Presidential Decree 633/72. Objection was therefore made to the company regarding the identification of the aforementioned transactions on derivatives as excluded from the VAT pro-rata deduction as these transactions are undoubtedly “ancillary” to taxable transactions related to wholesale activities of electricity and natural gas. The assessment also referred to expenses and other negative components resulting from transactions with suppliers resident in Countries in the so-called “black list” and with foreign investees. No irregularities were reported. On 12 July 2012, the Report on findings was delivered to the company. The Group, after hearing its legal advisors, deems that it operated correctly, taking account of the type of transactions carried out and that this dispute would involve no significant liabilities.

14.1 Earnings per share

	1st half 2012	1st half 2011
Earnings (loss) for the year attributable to the owners of ordinary shares of the parent company (A)	76,943	71,398
Interest expense for the liability component of convertible bonds	1,218	1,232
Adjusted earnings (loss) attributable to the owners of ordinary shares of the parent company (B)	78,161	72,630
Weighted average number of outstanding shares for the purposes of calculating earnings (losses) per share:		
- basic (C)	1,102,232,451	1,109,771,408
- diluted (D)	1,178,568,329	1,186,107,286
Earnings (loss) per share (in euro)		
- basic (A/C)	0.070	0.064
- diluted (B/D)	0.066	0.061

The base earnings per share is calculated on the economic result attributable to holders of ordinary shares of the parent company. Diluted earnings per share takes account of the issuing of the convertible bond referred to under note 31.

15 Tangible fixed assets

	30-Jun-2012	of which assets owned through finance lease contracts	31-Dec-2011	of which assets owned through finance lease contracts	Changes
Land and buildings	398,736	10,574	398,860	11,113	(124)
Generic and specific plant and machinery	1,222,849	2,992	1,227,184	4,939	(4,335)
Other moveable assets	106,078	9,645	109,971	15,267	(3,893)
Work in progress and advance payments	167,028		148,461		18,567
Total	1,894,691	23,211	1,884,476	31,319	10,215

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

Thousands of euro	Land and buildings	Plants and machinery	Other moveable assets	Work in progress	Total tangible fixed assets
PURCHASE COST					
Balance as at 31.12.2010	438,972	1,754,232	351,161	211,578	2,755,943
Increases	807	8,447	7,111	47,609	63,974
Disinvestments	-	(1,366)	(3,940)	(71)	(5,377)
Changes in scope of consolidation	6,835	21,009	698	-	28,542
Restatements and other changes	1,137	8,024	2,514	(17,447)	(5,772)
Balance as at 30.06.2011	447,751	1,790,346	357,544	241,669	2,837,310
ACCUMULATED DEPRECIATION					
Balance as at 31.12.2010	70,279	608,902	236,530	-	915,711
Depreciation for the period	4,726	43,358	13,177	-	61,261
Disinvestments	-	(764)	(3,754)	-	(4,518)
Changes in scope of consolidation	108	304	175	-	587
Restatements and other changes	27	(5,956)	(747)	-	(6,676)
Balance as at 30.06.2011	75,140	645,844	245,381	-	966,365
NET VALUE					
As at 31 December 2010	368,693	1,145,330	114,631	211,578	1,840,232
As at 30 June 2011	372,611	1,144,502	112,163	241,669	1,870,945
PURCHASE COST					
Balance as at 31.12.2011	477,712	1,918,710	357,547	148,459	2,902,428
Increases	3,637	7,124	8,376	40,872	60,009
Disinvestments	(8,356)	(4,598)	(4,094)	(1,207)	(18,255)
Changes in scope of consolidation	2,240	14,412	7	5,166	21,825
Restatements and other changes	6,713	23,143	851	(26,262)	4,445
Balance as at 30.06.2012	481,946	1,958,791	362,687	167,028	2,970,452
ACCUMULATED DEPRECIATION					
Balance as at 31.12.2011	78,852	691,525	247,575	-	1,017,952
Increases	5,689	47,191	12,874	-	65,754
Disinvestments	(1,523)	(2,699)	(3,947)	-	(8,169)
Changes in scope of consolidation	-	381	2	-	383
Restatements and other changes	192	(456)	105	-	(159)
Balance as at 30.06.2012	83,210	735,942	256,609	-	1,075,761
NET VALUE					
As at 31 December 2011	398,860	1,227,185	109,972	148,459	1,884,476
As at 30 June 2012	398,736	1,222,849	106,078	167,028	1,894,691

The breakdown and main changes within each category are commented on below.

"Land and buildings", totalling EUR 398,736 thousand, consist of EUR 320,252 thousand in buildings and EUR 78,484 thousand in land. In relation to land, these are mainly company-owned properties on which the majority of the sites and production plants stand. The increase is mainly due to the completion of the building works of the Cogeneration Plant in Imola.

Item "Plants and machinery", amounting to EUR 1,222,849 thousand (of which special plants for EUR 522,976 thousand, large specific plants for EUR 580,331 thousand and general plants for EUR 119,542 thousand), is mainly made of distribution grids and networks and plants related to businesses not falling within the scope of the concession system. They are mainly: district heating, electricity in the Modena area, waste disposal, waste treatment, purification and composting, material recovery and chemical-physical treatment, anaerobic digesters, and special waste treatment plants. The increase in the period mainly reflects the extension of the district heating and cogeneration networks in certain areas of Bologna and Imola, the completion and normalisation of drop-off points, the increase in size of active landfills carried out on the Group's installed park. The decreases also include the disposal of electricity meters.

Item "Other moveable assets", equal to EUR 106,078 thousand (of which EUR 69,182 thousand for equipment, EUR 6,664 thousand for electronic machines, EUR 4,673 thousand for furniture and fittings, EUR 24,612 thousand for vehicles and EUR 947 thousand for cars), includes equipment, waste disposal bins, furniture, electronic machines, motor vehicles and motor cars, including the public works vehicles at the plants for handling and compacting the waste. De-vestments mainly concerned waste disposal bins and motor vehicles.

"Work in progress and advance payments", equal to EUR 167,028 thousand, mainly consist of investments carried out for the development of district heating, electricity distribution and extraordinary maintenance work on structural properties and waste-to-energy plants. Other significant works included the "Disidrat new" sludge treatment plant in Ravenna, the "Digest dry" plants at the Rimini and Lugo (Ra) composting sites, the new CIC slag recovery plant in Modena, plus revamping works on the 3rd line of the waste-to-energy plant in Modena.

The amounts indicated in the item "Change in the scope of consolidation", amounting to a net value of EUR 21,442 thousand, relate principally to:

- EUR 12,596 thousand related to photovoltaic plants located in Copparo (Fe), Alfianello (Bs), Petriolo (Mc) and Faenza (Ra), following the merger of the companies Amon Srl, Esole Srl, Juwi Sviluppo Italia – 02 Srl and CTG Ra Srl into Hera Energie Rinnovabili Spa.
- EUR 8,846 thousand related to plants connected with the landfill of Finale Emilia (Mo), acquired in relation to the control gained of the company Feronia Srl.

For a more accurate analysis of investments in the period, please see the Directors' Report, paragraph 1.03.01.

16 Intangible assets

	30-Jun-2012	31-Dec-2011	Changes
Industrial patent rights and know-how	29,903	30,761	(858)
Licenses, trademarks and similar rights	50,073	53,976	(3,903)
Public services under concession	1,484,091	1,487,399	(3,308)
Work in progress and advance payments for public services under concession	178,032	156,164	21,868
Work in progress and advance payments	34,713	41,892	(7,179)
Other	36,878	32,329	4,549
Total	1,813,690	1,802,521	11,169

Intangible fixed assets are stated net of their accumulated amortisation and are broken down below with details of the changes during the year:

	Industrial patent rights	Concessions, licences, trade marks and similar rights	Public services under concession	Intangible assets in progress and adv.payments on public services under conc.	Investments in progress and advances	Other	Total Intangible Assets
PURCHASE COST							
Balance as at 31.12.2010	165,669	238,716	1,849,943	139,614	33,828	71,462	2,499,232
Increases	1,510	99	11,428	49,639	5,383	2,433	70,492
Disinvestments	-	-	-	-	-	(4,570)	(4,570)
Changes in scope of consolidation	-	-	898	-	-	-	898
Restatements and other changes	6,062	(31,571)	46,813	(16,083)	(6,060)	646	(193)
Balance as at 30.06.2011	173,241	207,244	1,909,082	173,170	33,151	69,971	2,565,859
ACCUMULATED DEPRECIATION							
Balance as at 31.12.2010	135,284	157,939	433,132	-	-	44,379	770,734
Depreciation for the period	7,914	5,911	34,631	-	-	2,361	50,817
Disinvestments	-	-	-	-	-	(1,793)	(1,793)
Changes in scope of consolidation	-	-	-	-	-	-	-
Restatements and other changes	-	(15,712)	15,593	-	-	(27)	(146)
Balance as at 30.06.2011	143,198	148,138	483,356	-	-	44,920	819,612
Net value							
As at 31 December 2010	30,385	80,777	1,416,811	139,614	33,828	27,083	1,728,498
As at 30 June 2011	30,043	59,106	1,425,726	173,170	33,151	25,051	1,746,247
PURCHASE COST							
Balance as at 31.12.2011	183,937	207,711	2,006,908	156,164	41,892	81,523	2,678,135
Increases	908	397	8,598	46,700	5,632	1,213	63,448
Disinvestments	(32)	-	-	-	-	(530)	(562)
Changes in scope of consolidation	-	-	-	-	-	252	252
Restatements and other changes	4,682	(297)	25,135	(24,832)	(12,811)	5,963	(2,160)
Balance as at 30.06.2012	189,495	207,811	2,040,641	178,032	34,713	88,421	2,739,113
ACCUMULATED DEPRECIATION							
Balance as at 31.12.2011	153,176	153,735	519,509	-	-	49,194	875,614
Depreciation for the period	6,434	4,275	36,661	-	-	2,795	50,165
Disinvestments	(18)	-	-	-	-	(476)	(494)
Changes in scope of consolidation	-	-	-	-	-	30	30
Restatements and other changes	-	(272)	380	-	-	-	108
Balance as at 30.06.2012	159,592	157,738	556,550	-	-	51,543	925,423
Net value							
As at 31 December 2011	30,761	53,976	1,487,399	156,164	41,892	32,329	1,802,521
As at 30 June 2012	29,903	50,073	1,484,091	178,032	34,713	36,878	1,813,690

The breakdown and main changes within each category are commented on below.

“Industrial patents and know-how”, totalling EUR 29,903 thousand relates mainly to costs incurred for the purchase and implementation of IT systems SAP R/3 ECC6 and related applications. These costs are amortised over five years.

“Concessions, licences, trademarks and similar rights”, amounting to EUR 50,073 thousand, mainly includes the value of the rights held by the Parent Company Hera Spa in relation to the gas, water and purification plants. The decrease in this item is due to the transfer from “Concessions, licences, trademarks and similar rights” to “Public services under concession” of assets related to the purification services in the Municipality of Monte San Pietro, as provided under the related contracts on reaching the expiry dates of said concessions and partly by the amortisation rate for the period.

“Public services under concession”, equal to EUR 1,484,091 thousand, made up of the assets relating to the gas, water, purification, sewerage, and public lighting businesses throughout the entire territory managed by the Hera Group, and the electricity distribution business in the Imola area only. The assets mainly relate to distribution grids and networks and plants. This item also includes costs for improvement to said assets, receivables due from the asset-owning companies, as well as reclassifications of amounts from the item “Concessions, licences, trademarks and similar rights” following the expiry of the aforementioned concession related to the Municipality of Monte San Pietro.

“Intangible assets under construction and advance payments for public services under concession”, amounting to EUR 178,032 thousand, relate to said assets detailed above which are still to be completed as at the end of the period.

“Work in progress and advance payments”, equal to EUR 34,713 thousand, essentially comprise still incomplete IT projects.

The item “Other”, equal to EUR 36,878 thousand, mainly relates to other sundry long-term charges, rights of use of networks and infrastructures for the passage and laying of optical fibre telecommunication networks. These also include the costs incurred for applications for AIA (Integrated Environmental Authorisation) certification of the WTE plants and landfills.

Item “Change in scope of consolidation”, equal to a net value of EUR 222 thousand, is entirely attributable to the portion pertaining to the Group of “Other intangible fixed assets” resulting to the merger of the companies Amon Srl, Esole Srl, Juwi Sviluppo Italia – 02 Srl e CTG Ra Srl into Hera Energie Rinnovabili, in effect as from 1 January 2012.

The above operations are commented on in the section “Change in the scope of consolidation” in these notes.

17 Goodwill

	30-Jun-12	31-Dec-11	Changes
Goodwill	321,168	320,972	196
Goodwill from consolidation procedure	56,735	56,788	(53)
Total	377,903	377,760	143

The main values are as follows:

- residual goodwill from the 2002 integration resulting in the creation of Hera Spa, EUR 81,258 thousand;
- goodwill relating to the integration of Agea Spa in 2004, for EUR 41,659 thousand. Said goodwill represents the additional value of the purchase cost compared to the fair values of the Group's portion of assets and liabilities recorded. In particular, with regard to the fair value of Hera Spa shares issued following the increase in capital for the merger by incorporation of Agea spa, in accordance with IFRS 3 the share value was calculated as at the effective date control was taken of Agea Spa (1 January 2004);
- goodwill and goodwill from consolidation procedure, related to the integration operation of the Meta Group, EUR 117,686 thousand. This goodwill, entered in assets and initially measured at cost, represents the additional value of the purchase cost compared to the fair value of the assets and liabilities recognised for the Group. Specifically, with regard to the current value of Hera Spa shares issued following the increase in capital to service the merger by incorporation of Meta Spa, this value was calculated as at the end of 2005, accepted as the effective date that control was taken of Meta Spa;
- goodwill relating to the merger of Geat Distribuzione Gas Spa into Hera Spa. This goodwill of EUR 11,670 thousand represents the excess purchase cost over and above the fair value of assets and liabilities recognised for the Group as at 1 January 2006 (the date at which effective control was taken by Hera Spa);
- goodwill relating to the merger of Sat Spa. This goodwill of EUR 54,883 thousand represents the excess acquisition cost over and above the fair value of the assets and liabilities recognised for the Group. Specifically, with regard to the fair value of the Hera Spa shares issued following the increase in capital from the merger by incorporation of Sat Spa, this value was determined referring to 1 January 2008, date at which the transaction was actually concluded.

The increase, compared to the previous year, is due to the acquisition, by Geosat Srl, of the business branch for the "supply of connections to the internet network through the broad band wireless connection" within the territories of some municipalities of the Romagna region.

The main "goodwill from consolidation procedure" arises from the following companies consolidated on a line by line basis:

- Marche Multiservizi Spa, EUR 20,790 thousand;
- Hera Comm Marche Srl, EUR 4,565 thousand;
- Medea Spa, EUR 3,069 thousand;
- Asa Scpa, EUR 2,789 thousand;
- Hera Luce Srl, EUR 2,328 thousand;
- Gastecnica Galliera Srl, EUR 2,140 thousand;
- Nuova Geovis Spa, EUR 1,775 thousand.

The decrease, compared to the previous year, is due to the change in the consolidation method of the company FlameEnergy Trading GmbH, as shown in the section on the scope of consolidation in these Explanatory Notes. Goodwill is now included in the value of the related equity investment (see note 19 "Equity investments").

The remaining goodwill and goodwill from consolidation procedure items refer to minor operations.

18 Equity investments

	30-Jun-12	31-Dec-11	Changes
Non-consolidated subsidiaries			
Calor Più Italia Srl	6	6	-
Consorzio Frullo	4	4	-
Hera Servizi Comiteriali Srl	0	20	(20)
Solhar Alfonsine Srl	5	5	-
Solhar Bentivoglio Srl in liquidation	0	5	(5)
Solhar Faenza Srl in liquidation	0	5	(5)
Solhar Ferrara Srl in liquidation	0	5	(5)
Solhar Modena Srl in liquidation	0	5	(5)
Solhar Piangipane Srl	5	5	-
Solhar Ravenna Srl	5	5	-
Solhar Rimini Srl	5	5	-
Sviluppo Ambiente Toscana Srl	10	0	10
Total	40	70	(30)
Associated companies			
Aimag Spa	39,476	39,910	(434)
Dyna Green Srl	0	37	(37)
Feronia Srl	0	705	(705)
FlamEnergy Trading Gmbh	1,686	0	1,686
Ghirlandina Solare Srl	47	65	(18)
Modena Network Spa	1,203	1,201	2
Refri Srl	2,313	2,413	(100)
Set Spa	36,087	35,860	227
Sgr Servizi Spa	17,036	17,111	(75)
Sei Spa	702	702	-
So.Sel Spa	632	600	32
Tamarete Energia Srl	3,305	3,498	(193)
Other minor companies	35	288	(253)
Total	102,522	102,390	132
Other companies			
Calenia Energia Spa	9,073	9,073	-
Energia Italiana Spa	13,233	13,233	-
Galsi Spa	10,524	10,524	-
Other minor companies	422	575	(153)
Total	33,252	33,405	(153)
Total Equity Investments	135,814	135,865	(51)

Equity investments in non-consolidated subsidiaries

Illustrated below are the main changes with respect to 31 December 2011.

- Hera Servizi Cimiteriali Srl became operative after the disposal, on 1 May 2012, by Hera Spa of the business branch related to the business handling burials and cremations. The company is consolidated on a line-by-line basis.
- Solhar Bentivoglio Srl in liquidation, Solhar Faenza Srl in liquidation, Solhar Ferrara Srl in liquidation and Solhar Modena Srl in liquidation, on 7 February 2012 Herambiente Spa acquired 49% of the company's share capital from Energetica Spa, thus becoming its sole shareholder. Following this transaction, on 27 June 2012, the companies were placed under liquidation and erased from the Company's Register.
- Following the awarding of works regarding the tender launched by Quadrifoglio Spa for the building of a waste disposal plant in Florence, Hera Spa and Herambiente Spa created the company Sviluppo Ambiente Toscana Srl, having as a corporate object the development, design and building of interventions and investments connected with environmental services. As at 30 June 2012, this company was not operating yet; Hera Spa and Herambiente Spa hold 95% and 5% of the company's share capital, respectively. Within the same transaction, on 16 May 2012, Sviluppo Ambiente Toscana Srl and Quadrifoglio Spa then founded Q.Thermo Srl, a company having as corporate object the design, building and management of the Energy plant in Sesto Fiorentino. They hold 40% and 60% of the new company's share capital, respectively.

Equity investments in associated companies

Compared to 31 December 2011, changes of quotas owned in Aimag Spa, Set Spa, Sgr Servizi Spa e Tamarete Energia Srl reflect the updating of pro-quota profit/losses reported from the respective companies.

As regards FlamEnergy Trading GmbH, on 1 January 2012, the company was consolidated with the equity method following a remarkable reduction in the activities carried out, which determined the limited significance of the contribution of this company to the scope of consolidation. Until 31 December 2011, the company was valued using the proportional method.

As at 31 January 2012, the Group acquired from Sorgea Srl a further 30% of Feronia Srl's share capital, a company operating in the environmental sector, thus holding now 70% of the share capital. The company is now consolidated on a line-by-line basis while as at 31 December 2011 it was measured by using the equity method.

On 13 March 2012, the Group sold the entire shareholding held in Dyna Green Srl, a company operating in the R&D sector of hydrocarbon purchase sources, thus causing the exit of the company from the scope of consolidation.

The change in item "Other" is due to the impairment of the equity investment in Oikothen Scarl. On 29 June 2012, the Shareholders' General Meeting resolved a share capital reduction to cover losses accrued and simultaneously the winding up of the company. The related equity investment was therefore netted through the partial use of the provision created on 31 December 2011.

19 Financial assets

	30-Jun-12	31-Dec-11	Changes
Loan receivables from associated and other companies	13,861	10,621	3,240
Fixed income securities	309	309	0
Receivables for mortgages to be collected and advanced commissions	89	109	(20)
Total	14,259	11,039	3,220

“Loan receivables from associated and other companies”, comprises non-interest bearing loans or loans regulated at market rates, granted to the following companies:

	30-Jun-12	31-Dec-11	Changes
Set Spa	6,939	5,964	975
Sei Spa	3,388	3,348	40
Oikothen Scarl	2,572	322	2,250
Modena Network Spa	960	960	0
Dyna Green	-	25	(25)
Other minor companies	2	2	-
Total	13,861	10,621	3,240

Illustrated below are the changes with respect to 31 December 2011:

- Sei Spa, a further disbursement made in June 2012 totalling EUR 40 thousand;
- Set Spa, a further disbursement made in June 2012 totalling EUR 975 thousand;
- Oikothen Scarl in liquidation, for a further disbursement made in January 2012 of EUR 2,250 thousand;
- Dyna Green, redemption of the loan following the disposal of the equity investment.

20 Deferred tax assets

	30-Jun-12	31-Dec-11	Changes
Prepaid taxes	108,371	100,987	7,384
Receivables for substitute tax	4,244	4,516	(272)
Total	112,615	105,503	7,112

“Prepaid taxes” are generated from the temporary differences between balance sheet profit and taxable income, primarily in relation to the following items: “taxed provision for doubtful receivables”, “taxes provisions for risks and charges” and “statutory amortisation greater than amortisation subject to tax”. This item also includes the “prepaid taxes” that were generated from the application of the International Accounting Criteria.

“Receivables for substitute tax” relate to tax paid for the tax sheltering of 2002 goodwill, which is an advance payment of current taxes.

21 Financial instruments - derivatives

Non-current Assets/Liabilities € / 000	Fair value hierarchy	Hedged underlying asset	30-Jun-12			31-Dec-11		
			Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Val. of Liabilities
Derivatives on exchange rates								
- Interest rate Swap	2	Loans	502.1 mln	47,133		502.3 mln	18,864	
- Interest rate Swap	2	Loans	319.1 mln		24,868	331.5 mln		16,991
- Interest rate Option	2	Loans	8.3 mln		631	9.1 mln		666
Total derivatives on exch. rates			47,133	25,499		18,864		17,657
Derivatives on exch. rates (financial transactions)								
- Cross Currency Swap	2	Loans	20 mld JPY	65,862		20 mld JPY	61,684	
Total derivatives on exch.rates (fin.transactions)			65,862	0		61,684		0
Total			112,995	25,499		80,548		17,657

Non-current Assets/Liabilities € / 000	Fair value hierarchy	Hedged underlying asset	30-Jun-12			31-Dec-11		
			Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Val.of Liabilities
Derivatives on exchange rates								
- Interest rate Swap	2	Loans				3.9 mln	22	
- Interest rate Swap	2	Loans	200.6 mln		1,969	203.9 mln		4,712
- Interest rate Option	2	Loans				3.6 mln		105
Total derivatives on exch. rates			0	1,969		22		4,817
Derivatives on commodities								
- Swap	2	Foreign Gas Hub	600,800 MWh	1,294				
- Swap	2	Crude oil	625,500 Bbl	4,695		1,232,300 Bbl	4,866	
- Swap	2	Commodity	259,500 Ton	11,986		21,550 Ton	562	
- Swap	2	El. Energy formula	5,122,291 MWh	21,103		3,833,855 MWh	32,782	
- Swap	2	Fuel formula	131,760 MWh	392		153,590 MWh	610	
- Swap	2	Crude oil	533,200 Bbl		2,949	508,300 Bbl		1,694
- Swap	2	Commodity	53,300 Ton		2,599	163,250 Ton		3,274
- Swap	2	El. Energy formula	5,069,979 MWh		25,305	2,992,735 MWh		35,548
- Swap	2	Fuel formula	21,590 MWh		103			
Total derivatives on commodities			39,470	30,956		38,820		40,516
Derivatives on exch.rates (commercial transactions)								
- Swap	2	Exchane rate	95,5 mln Usd	3,581		68,5 mln Usd	1,800	
- Swap	2	Exchane rate	80,0 mln Usd		3,200	55,5 mln Usd		2,377
Total derivatives on exch.rates (commercial transactions)			3,581	3,200		1,800		2,377
Total			43,051	36,125		40,642		47,710

Derivative financial instruments classified under non-current assets amount to EUR 112,995 thousand, (EUR 80,548 thousand as at 31 December 2011); EUR 47,133 thousand refer to interest rate derivatives, and EUR 65,862 thousand refer to exchange rate derivatives. Derivative financial instruments classified under non-current liabilities amount to EUR 25,499 thousand, (EUR 17,657 thousand as at 31 December 2011), and all refer to interest rate derivatives.

Financial instruments recorded under current assets and liabilities represent derivative contracts expected to be realised within the next year. Derivative financial instruments classified under non-current assets amount to EUR 43,051 thousand, (EUR 40,642 thousand as at 31 December 2011); EUR 39,470 thousand refer to commodity derivatives, and EUR 3,581 thousand refer to exchange rate derivatives related to commercial transactions. Derivative financial instruments classified under current liabilities amount to EUR 36,125 thousand, (EUR 47,710 thousand as at 31 December 2011); EUR 1,969 thousand refer to exchange rate derivatives, and EUR 30,956 thousand refer to commodity derivatives and EUR 3,200 thousand refer to exchange rate derivatives related to commercial transactions.

With regard to **derivatives on current and non-current interest rate** as at 30 June 2012, the Group net exposure is negative by EUR 19,665 thousand, compared to a negative exposure of EUR 3,588 thousand as at 31 December 2011. The highly positive change in fair value compared to the previous year is mainly due to the decrease in the interest rate curve within the various types of hedges and to a lesser extent to the realisation of cash flows, corresponding to contractual maturities, linked to derivatives with a negative fair value as at 31 December 2011.

The fair value of the **derivatives subscribed to hedge the exchange rate and the fair value of the loans denominated in foreign currency** as at 30 June 2012, is positive by EUR 65,862 thousand, compared with a positive value, equal to EUR 61,684 thousand, as at 31 December 2011. The increase in fair value recorded over the period is attributable to the trend of interest rate curves, given a euro/Japanese yen Exchange rate substantially unchanged compared to 31 December 2011.

As at 30 June 2012, the net fair value of **commodity derivatives** and **derivatives related to commercial transactions** is positive by EUR 8,895 thousand compared to a negative fair value, equal to EUR 2,273 thousand as at 31 December 2011. The change in fair value, recorded over the period, is attributable to the price trend of commodities related to the type of hedging transactions as well as to a simultaneous change in volumes subject to hedging. In particular, the increase in value of the notional of assets and liabilities, compared to 31 December 2011, is attributable to the type of trading activities, which generated contracts with a yearly duration, expiring by the end of the financial year.

The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices; in the absence prices quoted on active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. The fair value of the commodity derivatives is calculated using input directly observable on the market. All derivative contracts entered into by the Group are with leading institutional counterparties.

Interest rate and foreign exchange derivative instruments held as at 30 June 2012, subscribed in order to hedge loans, can be classed into the following categories (figures in thousands of €):

Hedging derivatives on interest/exchange rates (financial transactions)	Underlying assets	30-Jun-12					31-Dec-11			30-Jun-11				
		Notional	Fair Value of Assets	Fair Value of Liabilities	Inc.	Char.	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities	Inc.	Char.
- Cash Flow Hedge	Loans	374.2 mln	0	15,963	1	5,501	386.2 mln	0	18,117	387.8 mln	0	15,348	40	5,946
- Fair Value Hedge	Loans	649.8 mln	112,994	11,477	35,382	18,858	649.8 mln	80,548	4,191	649.8 mln	26,628	10,299	13,363	24,265
- Non Hedge Accounting	Loans	6.1 mln	1	28	161	59	18.3 mln	22	166	37.2 mln	61	374	495	470
Total			112,995	27,468	35,544	24,418		80,570	22,474		26,689	26,021	13,898	30,681

Interest rate derivatives identified as cash flow hedges show a residual notional amount of EUR 374.2 million (EUR 386.2 million as at 31 December 2011) against variable rate loans of the same amount.

Income and charges associated to said class of derivatives predominantly refer to cash flows realised, or to the recording of shares of future flows, which shall have a financial impact in the following period.

As at 30 June 2012 the breakdown of net charges relating to derivatives classified as cash flow hedges, amounting to EUR 5,500 thousand, is as follows:

Cash Flow Hedge	30-Jun-12	30-Jun-11
€/000	Income / (Charges)	Income / (Charges)
- Realised Cash Flow	-5,116	-6,121
- Accrued Interest	-337	238
- Ineffective portion	-47	-23
Total	-5,500	-5,906

The reduction in net financial charges compared with the same period in the previous year (see Note 13 "Financial income and charges") is predominantly due to the trend (in the context of hedges entered into) in interest rates. The interval between the end of 2011 and the first months of 2012 is in fact characterised by higher Euribor rates than those reported in the compared period, generating a positive effect on fixed rate hedges entered into. Another factor which contributed marginally to the decrease in net cash flows paid was the gradual reduction in the notional value of some derivatives linked to loans in the repayment phase.

The ineffective portion relating to this class of interest rate derivative led to the recording of net charges totalling EUR 47 thousand in the income statement. All the hedging relationships between the aforementioned derivatives contracts and the related underlying liabilities are qualified as "Cash Flow Hedges" and involved the recording in the Group shareholders' equity, of a specific negative reserve, amounting to EUR 6,612 thousand, net of the related tax effect.

Interest rate and foreign exchange derivatives identified as fair value hedges of liabilities recorded in the income statement show a residual notional amount of EUR 649.8 million (unchanged compared to 31 December 2011),

against loans of the same amount. In the case of loans denominated in foreign currency, the notional amount of the derivative expressed in EUR is the translation to the original exchange rate hedged. Specifically, the financial liabilities hedged comprise a bond loan in Japanese Yen with a residual notional amount of JPY 20 billion and a ten-year fixed rate bond of EUR 500 million. These derivatives required the recognition of EUR 35,382 thousand in financial income and financial charges of EUR 18,858 thousand; it is hereby noted that concurrently the underlying loans were measured at fair value which resulted in net financial charges of EUR 13,540 thousand.

As at 30 June 2012, the breakdown of income and charges relating to derivatives classified as fair value hedges and the related underlying liabilities valued at fair value was as follows:

Fair Value Hedge	30-Jun-12			30-Jun-11		
€/000	Income	Charges	Total	Income	Charges	Total
- Evaluation of derivatives	20,825	-7,285	13,540	0	-14,026	-14,026
- Accrued Interest	11,622	0	11,622	10,762	0	10,762
- Realised Cash Flow	2,935	-11,573	-8,638	2,601	-10,239	-7,638
- Ineffective portion	0	0	0	0	0	0
Totale effetto economico derivati	35,382	-18,858	16,524	13,363	-24,265	-10,902

Hedged underlying	30-Jun-12			30-Jun-11		
€/000	Income	Charges	Total	Income	Charges	Total
Evaluation of financial liabilities	3,274	-16,814	-13,540	14,026	0	14,026
Total	3,274	-16,814	-13,540	14,026	0	14,026

The economic effect connected with this type of hedges is substantially unchanged compared to the previous year. The slight decrease reported in net income is due to higher Euribor rates reported between the end of 2011 and the first months of 2012, compared with those recorded in the compared period.

The remaining **interest rate derivatives not in the hedge accounting** have a notional residual value of EUR 6.1 million (EUR 18.3 million as at 31 December 2011); some of these contracts are the result of mirroring transactions carried out in previous years as part of a restructuring of the derivatives portfolio. The remaining contracts which, under the criteria envisaged by the international accounting standards, cannot be accounted for under hedge accounting, were however put in place for hedging purposes only.

Commodity derivative instruments held as at 30 June 2012 can be classed into the following categories (figures in thousands of €):

Commodity / foreign exchange derivatives (commercial transactions)	Underlying	30-Jun-12				31-Dec-11		30-Jun-11			
		Fair Value of Assets	Fair Value of Liabilities	Income	Charges	Fair Value of Assets	Fair Value of Liabilities	Fair Value of Assets	Fair Value of Liabilities	Income	Charges
- Cash Flow Hedge	Electricity formula	0	0	0	0	0	0	0	0	0	0
- Non Hedge Accounting	Commodity transactions	43,051	34,156	51,247	41,896	40,620	42,893	21,548	15,455	26,432	12,575
Total		43,051	34,156	51,247	41,896	40,620	42,893	21,548	15,455	26,432	12,575

There are no **commodity derivatives recognised under hedge accounting** at the closing date.

The **commodity derivatives classified as non-hedge accounting** also include contracts put in place substantially for hedging purposes, but which, on the basis of the strict requirements set forth by international accounting standards, cannot be formally classified under hedge accounting. In any event, these contracts generate income and charges referring to higher/lower purchase prices of raw materials and, as such, are recognised as operating costs.

In the first half of 2012, in aggregate, these derivatives generated income totalling EUR 51,247 thousand and charges amounting to EUR 41,896 thousand, with a positive net effect to the income statement equal to EUR 9,351 thousand, compared to a net positive effect of EUR 13,857 thousand as at 30 June 2011. The significant change of the net economic effect is connected with the change in fair value, the reasons of which have already been described. It is worth noting that the economic effect of the sale of these swap commodity contracts is substantially offset by a change in purchase costs of raw materials. A more thorough description of the latter can be found in the specific analysis of costs.

Interest rate risk and currency risk on financing transactions

The Group's financial requirements are also met by turning to outside resources in the form of debt. The cost of the various forms of borrowing can be affected by market interest rate fluctuations, with a consequent impact on the amount of the net financial charges. Equally, interest rate fluctuations also influence the market value of financial liabilities. In the case of loans denominated in foreign currency, the cost may also be affected by exchange rate fluctuations with an additional effect on net financial charges. To mitigate interest rate volatility risk and, at the same time, guarantee the correct balance between fixed rate indebtedness and variable rate indebtedness, the Group has stipulated derivatives on interest rates (Cash Flow Hedges and Fair Value Hedges) against part of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives (Fair Value Hedges) to fully hedge loans in foreign currency.

Market risk and currency risk on commercial transactions

In relation to the wholesale activities carried out by the subsidiary Hera Trading Srl, the Group must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas linked to the sale of said commodities, including therein fixed price contracts stipulated, as well as any exchange rate risk in the event that the commodity purchase/sale agreements are concluded in currencies other than the EUR (essentially the US dollar).

With reference to those risks, the Group objective is to lessen the risk of fluctuation in the forecast budget margins. The instruments used for handling price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, are carried out through swap agreements, aimed at pre-establishing the effects on the sales margins irrespective of the changes in the aforementioned market conditions.

Though these transactions are substantially put in place for hedging purposes, in order to realise all possible synergies and decrease operating costs, they are concretely implemented by deconstructing the indices included in the underlying contracts and reaggregating them by individual type and net external exposure. As a result, in most cases, the direct correlation of the hedging transactions with the related underlying elements is lost, thereby making these transactions non-compliant with the requirements of IAS 39 for hedge accounting.

22 Inventories

	30-Jun-12	31-Dec-11	Changes
Raw materials and inventories	64.079	68.926	(4.847)
Finished products	624	701	(77)
Advance payments		3.134	-3.134
Total	64.703	72.761	-8.058

“Raw materials and inventories”, stated net of an obsolescence provision of EUR 661 thousand (EUR 675 thousand as at 31 December 2011) are comprised mainly of gas stocks, EUR 40,193 thousand (EUR 45,157 thousand as at 31 December 2011) and raw materials and stocks (spare parts and equipment used for maintenance and running of operating plants), equal to EUR 23,886 thousand (EUR 23,769 thousand as at 31 December 2011).

The decrease, compared to 31 December 2011, is attributable to lower stocks in gas due not only to seasonal trends, but also to the absorption of high accumulation previously achieved.

In the first half of 2012, changes in the provision are as follows:

	31-Dec-11	Allocations	Changes in scope of consolidation	Uses and other mov.	30-Jun-12
Obsolescence provision for inventories, consumables and goods	675	-	-	(14)	661

23 Trade receivables

	30-Jun-12	31-Dec-11	Changes
Trade receivables	818,853	689,312	129,541
Trade receivables for invoices to be issued	441,987	547,319	(105,332)
Receivables from associated companies	20,606	13,729	6,877
Total	1,281,446	1,250,360	31,086

Trade receivables as at 30 June 2012 total EUR 1,281,446 thousand (EUR 1,250,360 thousand as at 31 December 2011) and include estimated consumption, for the portion pertaining to the period, relating to bills and invoices to be issued after 30 June 2012. Receivables are stated net of a provision for doubtful receivables of EUR 120,014 thousand (EUR 105,244 thousand as at 31 December 2011) deemed fair and prudent in relation to the estimated realisable value of said receivables.

With reference to the disputed receivables linked to electricity supply under the “protection” service relating to 8 customers falling within the scope of the Terni chemical hub (technical dispute, requiring intervention from the Italian Authority for Electricity and Gas), it should be noted that, compared to the existing situation at the end of the previous year, already widely described in the Explanatory Notes as at 31 December 2011, the residual amount of receivables as at 30 June 2012 (already paid in advance by the Group to CCSE) was equal to EUR 4,770 thousand (EUR 11,614 thousand as at 31 December 2011), while EUR 1,074 thousand of extraordinary charges had already been collected over a total amount of EUR 1,242 thousand recognised as at 31 December 2011.

The changes occurring in the provision during the year are provided below:

	31-Dec-10	Changes in scope of consolidation	Allocations	Uses and other movements	30-Jun-11
Provisions for doubtful receivables	77,294	-	19,697	(5,845)	91,146
Total	77,294	-	19,697	(5,845)	91,146

	31-Dec-11	Changes in scope of consolidation	Allocations	Uses and other movements	30-Jun-12
Provisions for doubtful receivables	105,244	-	23,108	(8,338)	120,014
Total	105,244	-	23,108	(8,338)	120,014

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on historic analyses of the receivables regarding the general body of the customers (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the following paragraph “credit risk”.

Credit risk

The book value of the trade receivables shown in the financial statements is the maximum theoretical exposure to credit risk for the Group as at 30 June 2012. Even if not standardised, there is a procedure for providing credit to customers that provides for individual evaluations to be made. These operations make it possible to reduce the concentration and exposure to credit risk posed by both business and private customers. Analyses are periodically made of the credit standings still open so as to single out any critical issues. Should individual positions turn out to be entirely or partially uncollectible, an adequate write-down is provided. With regard to the receivables that do not undergo individual write-downs, allocations are made to the provision for doubtful receivables, on the basis of historic analysis (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the creditor).

24 Contract work in progress

	30-Jun-12	31-Dec-11	Changes
Contract work in progress	23,599	22,390	1,209
Total	23,599	22,390	1,209

Contract work in progress as at 30 June 2012 relates to long-term orders for plant works. Increases include the starting of activities connected with the waste-to-energy (Wte) plant in Florence (following the awarding to Hera of the tender launched by the company Quadrifoglio Spa) and the planning activities aimed at the acquisition of orders on the domestic and international markets.

25 Financial assets

	30-Jun-12	31-Dec-11	Changes
Financial receivables from associated companies	28,670	28,146	524
Receivables for loans granted to others	7,708	7,392	316
Portfolio securities and financial policies	4,470	4,470	-
Receivables for mortgages to be collected	701	2,937	(2,236)
Total	41,549	42,945	(1,396)

The item “Financial receivables from associated companies” comprises interest-bearing loans granted to the following companies:

	30-Jun-12	31-Dec-11	Changes
Tamarete Energia Srl	27,227	26,816	411
Modena network spa	900	900	-
Ghirlandina Solare	244	250	(6)
Other minor receivables	299	180	119
Total	28,670	28,146	524

Increases relate to interest accrued and not yet collected on original loans.

“Receivables for loans given to others”. Of note we report:

- the disbursement of an interest-bearing loan for a nominal EUR 4,000 thousand from the Group, through its subsidiary Asa Scpa to a minority shareholder;
- the interest-bearing loan granted to the jointly controlled company Enomondo Srl, amounting to EUR 2,050 thousand, which represents the residual portion of the assets recorded in the separate financial statements of Parent Company Herambiente Spa.

“Portfolio securities and financial policies” includes bonds issued by Banca di Credito Cooperativo, amounting to EUR 4,150 thousand, and investment policies with banks, amounting to EUR 320 thousand.

26 Current tax assets

	30-Jun-12	31-Dec-11	Changes
Current tax assets	6,297	6,164	133
Total	6,297	6,164	133

“Current tax assets” relate to the surplus of advance payments made for direct IRES and IRAP taxes in 2011, with respect to the payable accrued.

27 Other current assets

	30-Jun-12	31-Dec-11	Changes
Energy efficiency bonds and emissions trading	102,850	76,080	26,770
Security deposits	18,727	18,507	220
VAT, excise and surtaxes	17,830	43,287	(25,457)
Deferred costs for employees	9,533	-	9,533
Equalisation fund for the electricity and gas sectors for standardisation and continuity income	8,895	6,656	2,239
Contributions	5,292	4,796	496
Advance costs for waste disposal	5,217	5,463	(246)
Advances to suppliers/employees	5,209	4,372	837
Receivables for tariff components	4,621	12,382	(7,761)
Insurance costs	4,285	3,819	466
Receivables due from asset companies	4,029	4,029	-
Sundry tax receivables	3,966	7,399	(3,433)
Rent liabilities and rents for network services	3,474	144	3,330
Costs advanced for leasing and rentals	3,420	3,799	(379)
Receivables for dividends	1,609	-	1,609
Receivables from municipalities for tax moratorium	361	1,061	(700)
Receivables from social security institutions	244	539	(295)
Other receivables	33,560	19,500	14,060
Total	233,122	211,833	21,289

The breakdown and changes in the main items are described compared with 31 December 2011.

“Energy efficiency bonds and emissions trading”, include:

- green certificates, EUR 64,558 thousand (EUR 44,951 thousand as at 31 December 2011);
- white certificates, EUR 25,954 thousand (EUR 19,280 thousand as at 31 December 2011);
- grey certificates, EUR 12,338 thousand (EUR 11,849 thousand as at 31 December 2011).

As regards green certificates, it should be noted that, in December 2011, certificates relating to the years 2008, 2009 and 2010 for the waste-to-energy plant in Ferrara were sold to GSE (Energy Services Operator). Hera Spa accounted for the green certificates regarding the WTE plant in Ferrara, for a total amount accrued for these years, equal to EUR 18,117 thousand, based on provisions envisaged by art. 1, subsections 1117 and 1118 of Law no. 296/2006 (2007 Finance Act). On 10 March 2011, GSE gave official communication that the conditions were satisfied for obtaining 100% of said certificates. In this table, the Administration body recognises the incentives in favour of electricity power plants from renewable sources and sources assimilated to renewable sources, without making any distinction between organic and inorganic portion of waste, safeguarding the purchase right of plants, as the one located in Ferrara which, at the date of entry into operation of the financial bill itself (1 January 2007), met all the conditions required by the aforementioned law and in particular: a) signature of the appropriate agreement with GSE, b) almost completed plant and c) necessary authorisations.

It should be noted that, during the phase of recognition of green certificates of the WTE plant in Ferrara, GSE identified all the consumption of said incineration plant with the auxiliary services, without taking into due consideration the unique features and objectives of a waste-to-energy plant. In respect of said dispute, the Group, based on in-house technical analyses and having consulted its legal advisors, reviewed its credit positions recorded for the years 2008, 2009 and 2010 relating to the Forlì and Modena plants, and promoted all the initiatives necessary, not least the appeal before the competent administrative offices, in order to obtain payment of the amount held to be due.

“Security deposits”, composed mainly of:

- the deposit made to Acosea Impianti Srl for EUR 12,000 thousand;
- other minor deposits in favour of public institutions and companies, EUR 4,467 thousand (EUR 4,248 thousand as at 31 December 2011);
- deposits in favour of the Property Valuation Office, EUR 2,260 thousand (EUR 2,259 thousand as at 31 December 2011) to guarantee the payment of revenue tax collected from customers.

The Item "VAT, excise and surtaxes", amounting to EUR 17,830 thousand, consists of VAT credits due from the tax authorities, for EUR 5,577 thousand, and of excise and regional surtaxes of EUR 12,253 thousand. The change, compared to 31 December 2011, is due to a decrease in receivables for excise and additional regional taxes amounting to EUR 27,830 thousand (EUR 40,083 thousand as at 31 December 2011) and an increase in VAT credits, amounting to EUR 2,373 thousand (EUR 3,204 thousand as at 31 December 2011). These changes are to be considered together with changes highlighted in item “Other current liabilities” – note 38. To understand these changes, particularly with regard to excise duties and additional components, note must be taken of the procedures that govern financial relations with the Tax Authorities. In particular, advance payments during the year were calculated according to quantities of gas and electricity billed in the previous year. Using these methods, credit/debit positions can be generated with differences that are also significant between one period and another.

“Deferred costs for employees”, equal to EUR 9,533 thousand, refer to the accrual of the fourteenth month payment accrued as at 30 June 2012.

The item "Equalisation fund for the electricity and gas sectors for standardisation and continuity income" shows a balance of EUR 8,895 thousand (EUR 6,656 thousand as at 31 December 2011). The increase, compared to the previous year, relates to receivables for gas distribution equalisation. In this regard please refer to note 38 “Other current liabilities”, in the item “Equalisation Fund for the Electricity Sector”.

The item “Contributions”, amounting to EUR 5,292 thousand (EUR 4,796 thousand as at 31 December 2011), chiefly relates to receivables for payments to a sinking fund by various Entities, but still to be collected at the reference date.

“Advance costs for waste disposal” relate to the difference in value between contributions to disadvantaged customers, already paid to Municipalities and other companies (based on agreements and conventions) and the actual economic competence for the year calculated on the tons actually disposed of.

“Receivables for tariff components”. The balance is composed of tariff components charged to distributors to the Group, which are then debited to end customers. The change, compared to the previous year, is attributable to “recoveries” in invoicing with respect to the same end customers.

“Insurance costs” are equal to EUR 4,285 thousand (EUR 3,819 thousand as at 31 December 2011). These are costs to cover insurance and guarantee policies, advanced with respect to the reference date of these consolidated half-year financial statements.

“Sundry tax receivables”, equal to EUR 3,966 thousand (EUR 7,399 thousand as at 31 December 2011). They primarily relate the tax credits on district heating; compared to 31 December 2011, they report a decrease due to the offsetting made over the first half of 2012.

Item “Rent liabilities and rents for network services”, equal to EUR 3,474 thousand (EUR 144 thousand as at 31 December 2011), relates to prepaid costs regarding rentals charged by Atersis (former ATOs).

“Receivables for dividends”, equal to EUR 1,609 thousand, relate to the companies Service Imola Srl and Aimag Spa for dividends distributed in 2012 but referring to 2011 and not cashed yet as at 30 June 2012.

As regards “Receivables from municipalities for tax moratorium”, please refer to note 14 “Taxes for the period”.

28 Cash and cash equivalents

As at 30 June 2012, cash and cash equivalents totalled EUR 506,707 thousand (EUR 415,189 thousand as at 31 December 2011) and include cash, cash equivalents, and bank cheques and drafts held in centralised and decentralised accounts for a total of EUR 126 thousand. They also include bank and financial institution deposits in general, available for current transactions and post office accounts totalling EUR 506,581 thousand. To get a better grasp of the financial trends in the first half of 2012, please refer to the cash flow statement and the comments shown in the Directors' report.

29 Non-current assets held for sale

	30-Jun-12	31-Dec-11	
Land and buildings	-	9,930	(9,930)
General and specific plants	-	676	(676)
	-	10,606	(10,606)

Non-current assets held for sale, reclassified from the item Tangible fixed assets in application of IFRS 5, amount to EUR 10,606 thousand as at 31 December 2011 and relate to:

- the portion of the property complex in Berti Pichat area known as Area P1, amounting to EUR 8,003 thousand (preliminary sale agreement of 30 November 2011). In this regard, it should be noted that the area in question is to be redeveloped which will involve the construction, by a third party construction firm, of a new management building and urbanisation of the surrounding spaces; the agreement signed with the construction firm envisages that part of said building will then be leased to Hera Spa;
- the property in Via Dozza no. 8 in Bologna, amounting to EUR 2,603 thousand (preliminary sale agreement of 21 July 2011).

Both real estate properties were transferred with notary deed on 30 June 2012.

30 Share capital and reserves

The statement of changes in shareholders' equity is shown in section 2.01.05 of these consolidated half-year financial statements.

Share capital

The share capital at 30 June 2012 was 1,115,013,754 Euro units, fully paid in, and represented by 1,115,013,754 ordinary shares with a nominal value of EUR 1 each.

Reserves for treasury shares

The "Reserve for treasury shares" has a negative value of EUR 12,782 thousand; it reflects the number of treasury shares in the portfolio as at 30 June 2012 and is considered a reduction of share capital. The items "Reserve for gains/losses on sale of treasury shares" and "Reserve for treasury shares exceeding nominal value" are recorded among the shareholders' equity reserves for a negative value of EUR 930 thousand and a negative value of EUR 3,207 thousand, respectively. These reserves, established in compliance with the accounting standards of reference, reflect the treasury shares transactions carried out as at 30 June 2012. The change during the period generated losses amounting to EUR 143 thousand.

Reserves

The item "Reserves", equal to EUR 542,889 thousand, includes the following reserves:

- "legal" for EUR 36,142 thousand,
- "extraordinary" for EUR 14,170 thousand,
- "revaluation" for EUR 4,356 thousand,
- "share premium reserve" for EUR 15,269 thousand,
- "capital account payments" for EUR 5,400 thousand,
- "retained earnings" for EUR 52,637 thousand,
- "share swap surplus" for EUR 42,408 thousand,
- "IFRS 3 reserve" for EUR 227,008 thousand, deriving from the integrations of Agea Spa, Meta Spa, Geat Distribuzione Gas Spa, Sat Spa, Agea Reti Srl, Con.Ami and Area Assets Spa;
- "IAS/IFRS reserve" for EUR 143,473 thousand, generated after adoption of international accounting standards;
- "reserve for dividends received on treasury shares" for EUR 2,026 thousand.

Cash Flow-Hedge Reserve

As at 30 June 2012, this reserve had a negative balance of EUR 6,612 thousand following changes determined by fair value valuation of reference derivatives.

Retained profit

The item totals EUR 2,061 thousand.

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

As at 30 June 2012, medium/long-term loans of the Hera Group amounted to EUR 2,660,211 thousand (EUR 2,405,262 thousand as at 31 December 2011) and mainly comprise bond loans (EUR 2,026,384 thousand), mortgages and loans (EUR 633,827 thousand).

The change in payables, with respect to the previous year, is due to the entering of new medium/long-term loans, amounting to EUR 327.5 million, partly used for the restructuring of the Put Loan RBS of EUR 70 million and partly used to adequately finance the investment plan. In particular, a contribution was supplied in June with the granting of a IEB bank loan of EUR 125 million, to support strengthening and enlargement investments of gas and electricity distribution grids and networks, with a 15-year amortisation and a 6-month Euribor rate at 1.46% spread. It should be also noted the bond issue of EUR 102.5 million occurred on 14 May 2012 and was characterised by particularly long terms (15 and 20 years) at 5.25% fixed rate.

Medium/long-term payables to banks also include loans underwritten by subsidiaries FEA Srl and Nuova Geovis Srl, for EUR 48,900 thousand and EUR 1,781 thousand respectively. These loans are guaranteed by mortgages and special privileges for the banking pool underwriting them. The reimbursement of these loans, with final maturity term at 30 June 2019 and 30 June 2014, respectively, is contractually established in six-month instalments.

The table below shows the bonds and loans as at 30 June 2012, stated at their residual nominal value (millions of Euro), with an indication of the portion expiring within and after 5 years:

Type	Residual amount 30/06/2012	Portion due within the year	Portion due within 5 years	Portion due after 5 years
Bond	1,352	-	500	852
Convertible bond	140	-	140	-
Puttable Bond/Loan	520	-	-	520
Amortizing	239	28	172	39
Amortizing backed by collateral security	57	7	33	17
Bullet IEB	180	-	180	-
Amortizing IEB	125	-	22	103
Total	2,613	35	1,047	1,532

The main terms and conditions of the puttable bonds and loans are shown below:

Bond and puttable loans		Duration (years)	Maturity	Nominal value	Coupon	Annual rate
<i>Convertible bond</i>	Luxembourg Stock Exchange	3	01/10/13	140	Fixed, half-yearly	1.75%
<i>Eurobond</i>	Luxembourg Stock Exchange	10	15/02/16	500	Fixed, annual	4.13%
<i>Eurobond</i>	Luxembourg Stock Exchange	10	03/12/19	500	Fixed, annual	4.50%
<i>Bond (former put bond)</i>	Listed on EuroTLX Markets	13	17/11/20	100	Fixed, half-yearly	6.32%
<i>Bond</i>		15/20	14/05/27-34	102.5	Fixed, annual	5.25%
<i>Put Loan</i>	From 2010 the holder has the option every two years of requesting redemption at par	13	06/12/20	70	Fixed, quarterly	4.44%+CS
<i>Bond</i>	Cross Currency Swap 149.8 €mln	15	05/08/24	20.000 JPY	Fixed, half-yearly	2.93%
<i>Put Bond</i>	From 2012 the holder has the option every two years of requesting redemption at par	23	10/10/31	250	Fixed, quarterly	4.65% +CS
<i>Put Bond</i>	From 2011 the holder has the option every two years of requesting redemption at par	27	08/08/34	200	Fixed, quarterly	Euribor 3m - 0.45%

As at 30 June 2012, outstanding bonds, equal to a nominal EUR 1,942 million, featured a fair value of EUR 2,083 million, of which EUR 653 million related to Puttable Bonds.

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

At as 30 June, this parameter is met.

As at 30 June 2012, short term loans totalled EUR 95,705 thousand (EUR 118,467 thousand as at 31 December 2011) 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 prospective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.

Current cash, cash equivalents, and credit facilities, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. In particular, as at 30 June 2012, there are unused credit lines totalling more than EUR 1,000 million.

32 Employee leaving indemnity and other benefits

This includes provisions for employee leaving indemnities and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations. The calculation is made using actuarial methods and updating future liabilities at the date of the balance sheet. These liabilities comprise the matured receivables of the employee at the presumed date of leaving the company.

The item "Gas discount" represents 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 entitled retirees only. In both cases, recalculations have been made using the same actuarial methods implemented for the employee leaving indemnities. The item "**tariff reduction provision**" was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

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

	31-Dec-11	Allocations		Uses and other movements	Changes in scope of consolidation	30-Jun-12
		Allocations	Financial charges			
Employee leaving indemnity prov.	83,964	280	1,913	(2,719)	-	83,438
Tariff reduction provision	3,353	242	93	(245)	-	3,443
Premugas provision	2,209	237	50	(213)	-	2,283
Gas discount	2,069	80	39	(141)	-	2,047
Total	91,595	839	2,095	(3,318)	-	91,211

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

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

	30-Jun-12	31-Dec-11
Annual technical rate of discounting	3.99%	4.78%
Annual rate of inflation	1.70%	1.70%
Average rate of increase in total salaries and wages	3.50%	3.50%
Annual rate of increase in employee leaving indemnity	2.78%	2.78%
Annual frequency of leaving employment due to causes other than death	1.71%	1.71%
Average annual frequency of use of the provision for employee leaving indemnity	1.42%	1.42%

While interpreting these assumptions the following information should take into consideration:

1. for probabilities of death, those relating to Istat SIMF 2006 tables;
2. for probabilities of disability, those, distinguished by gender, adopted in the Inps model for 2010 projections;
3. as regards the pension age, the new effective dates were considered for pension treatment envisaged by the Decree Law no. 201 of 6 December 2011, including "Urgent provisions for growth, equity and consolidation of public accounts", as well as the adjustment policy of requirements to access the pension system, the increased life expectancy pursuant to Art. 12 of the Decree Law no. 78 of 31 May 2010, converted, with amendments, by Law no. 122, of 30 July 2010.

33 Provisions for risks and charges

	31-Dec-11	Allocations	Uses and other movements	Changes in scope of consolidation	30-Jun-12
		Allocations	Financial charges		
Provision for landfill closure and post-closure costs	96,638	1,425	2,789	(2,406)	98,446
Provision for restoration of third party assets	94,651	3,753	1,991	-	100,395
Provision for staff disputes and legal costs	19,934	1,836	-	(1,569)	20,201
Other provisions for risks and charges	15,832	5,597	-	(4,610)	16,819
Total	227,055	12,611	4,780	(8,585)	235,861

The **provision for landfill closure and post-closure costs**, equal to EUR 98,446 thousand, represents the amount set aside to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently in use. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted back in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component inferred from the discounting back procedure, while the uses represent the effective outlays which came about during the year.

“Uses and other movements” decreased by EUR 2,406 thousand, as follows:

- “uses” for EUR 4,482 thousand, of which EUR 1,468 thousand booked as a contra entry to “other revenues” (please refer to note 5 of the income statement),
- “other movements”, up by EUR 2,076 thousand for the provision, are attributable to estimates of closure and post-closure costs pertaining to newly built landfills, which involved an adjustment of equal amount to the value of Tangible assets (Note 15).

The **provision for the restoration of third party assets**, equal to EUR 100,395 thousand, includes the provisions made in relation to the legal and contractual restrictions encumbering Hera Spa and Group companies in their capacity as leaseholders of the distribution networks owned by the asset companies. The allocations are made on the basis of economic-technical amortisation rates held to be representative of the residual possibility of use of the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. Pursuant to IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the period, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The **provision for staff disputes and legal costs** amounting to EUR 20,201 thousand reflects the assessments of the outcome of lawsuits and disputes brought by employees. The provision includes EUR 8.5 million relating to ongoing litigation with the INPS over the payment of contributions on social security benefits (CIG, CIGS, Mobility) and on the reduction of contribution rates for family allowances (CUAF) and for the maternity contribution with regard to employees governed by the electricity sector collective labour agreement in the Modena area.

In relation to the contributions on CIG, CIGS and mobility, the Hera Group deems that said contribution is not due, not only based on legal rules but also on the fundamental consideration that these social shock absorbers are effectively unusable since the Hera Group runs essential services, which must be constantly insured. By contrast, INPS believes that the transformation into a joint-stock company and the transfer to private parties of even just a portion of the share capital, support the belief that the contributory obligation is enforceable.

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

Following a declaratory action brought in 2000 by Amir Spa, Hera Spa submitted an appeal to the Supreme Court. This appeal was concluded with ruling 14847/09 rejecting the CIG contributions. The Supreme Court could, however, review the opinion, also following appeals we filed against other negative second instance rulings. At the very least, it should confirm the waiver of contributions to the redundancy fund (CIG) for periods prior to May 2005, according to the specific opinion of the Council of State, also confirmed by some rulings awarded in the first instance at the Courts of Modena and Ferrara.

In addition, it should also be noted that the INPS shall not file any new claims regarding CIG, CIGS, or Mobility following the new classification in the Service sector, from 2010, of nearly all the Group companies (the contribution in question shall only apply to the Industrial sector).

Regarding the contribution for family allowances (Cuaf) and the maternity contribution, this type of litigation only concerns the INPDAP personnel regulated by the electricity sector collective labour agreement, and is based on the interpretation of Article 41 of Law no. 488/1999 (Finance Act 2000). In particular, this contribution relates to the area of Modena only, as it results from the former Meta Spa. Following a comparison made at the time with the Modena INPS Positions Management Office, the former Meta Spa applied reduced rates starting in 2001, at the same requesting reimbursement of the greater contributions it had paid in, but which were not due, for the financial year 2000 (reimbursement which was actually made between 2001 and 2002). As from November 2003, however, INPS served notices requesting payment of the contributions at the full rate, completely amending the interpretative position previously adopted, deeming that the reduction of the CUAF and maternity rates owed by the electricity sector was not applicable for the workers enrolled with INPDAP.

Meanwhile, this reduction was applied without objection in the case of the Enel Spa Group companies. The CUAF and maternity contribution differential that service companies have to pay for personnel registered with INPDAP until 31/12/2008 is equivalent to a total of 4.29% more than what has to be paid for INPS personnel; from 1/1/2009, with the equalisation of the maternity rate, the CUAF differential of 3.72% continues to exist, however.

This higher rate penalises the "former municipal enterprises" severely by comparison with other market operators. Confservizi has brought this failed contribution harmonisation consequent to Law no. 335/1995 to the attention of the Employment Ministry several times, which in turn has consulted the Council of State. The Council deemed a special legislative initiative necessary (circular no. 88 of 31 May 2004), which rules out the possibility of an administrative solution. In spite of Confservizi's efforts to push through this legislative initiative, as of today no result is yet to be seen.

Finally, a note on the evolution of the regulatory framework for unemployment and sickness contributions. Art. 20 of Decree Law no. 112/2008 has forfeited any past INPS claims relating to Unemployment and Sickness contribution. As regards Sickness, the aforementioned regulation no longer allows INPS to ask for the payment of contributions for the periods before 2005; starting from 2005, the Hera Group is paying the related contributions. As regards unemployment contributions, made compulsory for all sectors starting from 1 January 2009, the previous periods are still marginally subject to a dispute for only one territory.

In view of the information reported above, and particularly the uncertainty of the outcome of the CIG, CIGS and Mobility cases, an allocation of EUR 8.5 million was made for liabilities deriving from filings received up until the present day and still suspended, amounting to approximately EUR 17.4 million. This amount refers to the contributions contained in the filings by way of CIG, CIGS Mobility, CUAF and Maternity, excluding however the portion of contributions on Unemployment and Sickness for the above reasons. This provision is deemed to be appropriate, in view of both the likely development of the litigation and the opinions of the appointed legal advisors.

Item **other provisions for risks and charges**, amounting to EUR 16,819 thousand, comprises provisions made against sundry risks. The main items are summarised below:

- EUR 2,990 thousand, related to possible non-contract charges for environmental issues for sites located in some municipalities. As regards environmental issues, it should be noted that order no. 252 of 20 May 2010 of the Supreme Court sanctioned the fiscal nature of said expenses. Therefore, having also consulted its legal advisors, the Group believes there are no longer any legal or substantive obligations to pay said amounts to the municipalities of Modena and Forlì. The allocation made therefore represents the best estimate of the amount the Group could be required to pay, only in the case where a dispute develops with counterparties and a settlement reached.
- EUR 2,042 thousand in spending on restoration of goods reverting freely, relating to the water supply system of the river Rosola, held under concession and other provisions for risks of very modest amounts connected with environmental problems;
- EUR 1,604 thousand, relating to the provision set up to cover losses actually recorded, taking account of the future prospects of Oikothén Scrl;
- EUR 1,218 thousand, charges for electrical service continuity;

- EUR 1,106 thousand relates to the provision made in relation to the possible effects of Italian Authority for Electricity and Gas resolution no. 89/08 (ec79/07), which creates an obligation on the part of companies selling gas, of a financial payout to final customers under OTB (base tariff option) for the period referred to in the first half of 2006. The residual amount, as at 30 June 2012, corresponds to the most prudent scenario expected in relation to the amount that might be paid to end customers;
- EUR 989 thousand, provision for the cost of disposal of waste stored at Group plants;
- EUR 989 thousand in allocations for future expenses relating to the construction of a landfill of a subsidiary;
- EUR 422 thousand relates to the provision known as "Valle Savio", established to address the works for the community adjacent to the Busca landfill, in the municipality of Cesena, as set out by the concession contract;
- EUR 313 thousand related to possible charges for ICI tax, resulting from possible changes in debenture attributed to some environmental plants;
- EUR 248 thousand relate to the estimate of potential charges for environmental issues to be paid for waste coming from locations outside the region and disposed of in the Landfill of Ostellato;
- EUR 75 thousand relates to the provisions made in relation to customer compensation for water service leaks.

34 Deferred tax liabilities

	30-Jun-12	31-Dec-11	Changes
Deferred tax liabilities	75,382	76,057	(675)
Total	75,382	76,057	(675)

Deferred tax liabilities are generated by temporary differences between the balance sheet profit and taxable income. This item also includes deferred taxes generated after the application of the IAS/IFRS international accounting standards on the “Provision for restoration of third party assets”, “Provision for landfill post-closure”, “Tangible fixed assets”, “Financial leases”, and “Employee leaving indemnity and other employee benefits”.

35 Financial leasing payables

	30-Jun-12	31-Dec-11	Changes
Financial leasing payables due within one year	3,133	3,683	(550)
Financial leasing payables due after one year	4,152	5,277	(1,125)
Total	7,285	8,960	(1,675)

This item represents the recording of payables arising from the accounting of leasing transactions using the financial method. The net change compared to the same period last year is due to the payment of rents that became due in the year.

Details of financial leasing payables, broken down by asset category, are shown below:

Financial leasing payables	31-Dec-11			
	Payables due within 12 months	m/l payables due between 1 and 5 years	m/l payables due after 5 years	Rent falling due
Land and buildings	1,838	1,138	-	3,054
Plants and machinery	1,117	2,424	-	3,927
Other moveable assets	728	1,715	-	2,688
Total financial leasing payables	3,683	5,277		9,669

Financial leasing payables	30-Jun-12			
	Payables due within 12 months	m/l payables due between 1 and 5 years	m/l payables due after 5 years	Rent falling due
Land and buildings	1,446	831		2,317
Plants and machinery	1,023	1,941		3,247
Other moveable assets	664	1,380		2,156
Total financial leasing payables	3,133	4,152	-	7,720

The net value of assets recorded in the financial statements is shown below (please refer to the values indicated in note 15 “Tangible fixed assets”):

Net value of assets recorded in the financial statements	31-Dec-11	Assets held under financial leasing agreements		30-Jun-12
		Increases	Decreases	
Land and buildings	10,776	-	(202)	10,574
Plants and machinery	3,640	-	(648)	2,992
Other moveable assets	11,724	-	(2,079)	9,645
Total assets held under financial leasing agreements	26,140	-	(2,929)	23,211

36 Trade payables

	30-Jun-12	31-Dec-11	Changes
Payables to suppliers for invoices to be received	487.493	599.357	(111.864)
Payables to suppliers	494.730	608.496	(113.766)
Payables for advances received	19.405	12.861	6.544
Payables to associated companies	9.539	8.531	1.008
Payables to non-consolidated subsidiary companies	(3)	(3)	-
Total	1.011.164	1.229.242	(218.078)

“Trade payables”, all of a commercial nature and inclusive of sums set aside to cover invoices due, total EUR 994,955 thousand as at 30 June 2012 compared to EUR 1,207,853 thousand as 31 December 2011.

“Payables for advances received” relate to advances received in relation to tender contracts for environmental reclamation and gas supply. The increase, compared to 31 December 2011, relates to advances paid for sales contracts of green and grey certificates by the associated Set Spa, amounting to EUR 4,708 thousand and a different classification made by a Group company which, as at 31 December 2011, stated a payment for an advance payment under item “Other current liabilities”, for a total amount of EUR 1,706 thousand.

The majority of trade payables are the result of transactions carried out in Italy.

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

	30-Jun-12	31-Dec-11	Changes
Set Spa	3,032	3,241	(209)
So.Sel Spa	1,830	1,782	48
Estense Global Service Soc.Cons.a r.l.	1,706	2,145	(439)
FlamEnergy Trading GmbH	1,092	-	1,092
Service imola Srl	970	893	77
Modena Network Spa	553	363	190
Aimag Spa	298	69	229
Other minor payables	58	38	20
Total	9,539	8,531	1,008

37 Current tax liabilities

	30-Jun-12	31-Dec-11	Changes
Payables for income taxes	81,911	12,355	69,556
Payables for substitute tax	24,642	24,643	(1)
Total	106,553	36,998	69,555

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

“Payables for income taxes” is attributable to the setting aside of taxes accrued on the income generated during the period.

“Payables for substitute tax” relate to sheltering operations already accounted as at 31 December 2011 (reference is made to note 14 of the related financial statements).

38 Other current liabilities

	30-Jun-12	31-Dec-11	Changes
Excise and surtaxes	110,542	21,168	89,374
Guarantee deposits	72,184	73,465	(1,281)
Contributions for plants	67,345	67,620	(275)
VAT	51,821	18,710	33,111
Employees	30,553	24,936	5,617
Payables to social security institutions	27,532	22,003	5,529
Payables for tariff components	14,235	14,345	(110)
Equalisation fund for the electricity and gas sectors	12,523	11,706	817
Payables to shareholders for dividends	11,336	8,771	2,565
Employee withholding taxes	11,020	10,857	163
Payables due to municipalities for environmental disruption and establishment of securities	8,845	13,547	(4,702)
Work on behalf of third parties for study/projects/consulting	4,278	4,478	(200)
Other tax liabilities	3,591	3,182	409
Insurance and deductibles	2,967	3,047	(80)
Customers	2,563	2,350	213
Energy efficiency bonds and emissions trading	2,420	2,795	(375)
Sewage fees	579	577	2
Directors and Auditors	249	275	(26)
Other payables	34,794	28,421	6,373
Total	469,377	332,253	137,124

Comments are provided below on the most significant items and the associated changes as at 31 December 2011.

“Excise and surtaxes” significantly increased compared to 31 December 2011. For an explanation please see note 27 “Other current assets”, and particularly the mechanism that governs the financial relations with the tax authority.

“Guarantee deposits” reflect the sums paid by customers for gas, water and electricity administration agreements.

“Contributions for plants” refer to investments in the water and waste management sector. This item will decrease in proportion to the amount of depreciation calculated on the reference assets.

Item “VAT”, the increase, compared to 31 December 2011, relates to advance payments made at this date, which reduce the Group indebtedness.

Item “Personnel” relates to holidays accrued but not yet taken as at 30 June 2012, productivity bonus and accrued salaries recorded.

Item “Payables to social security institutions” relates to contributions due and accrued for the month of June 2012.

Item “Equalisation Fund for the Electricity and Gas Sectors” reflects the debt positions for equalisation on the gas distribution/measurement, some components of the gas service system and equalisation of the electricity service.

Item “Payables due to shareholders for dividends” relates to the indebtedness with respect to minority shareholders in the following subsidiaries:

- Fea Srl, EUR 8,820 thousand (EUR 8,771 thousand as at 31 December 2011);
- Romagna Compost Srl, EUR 364 thousand;
- Sinergia Spa, EUR 287 thousand;
- Hera Comm Marche Srl, EUR 422 thousand;
- Marche Multiservizi Spa, EUR 1,443 thousand;

Item “Payables due to municipalities for environmental disruption and establishment of securities”, relates to contributions to be paid to municipalities for indemnities due to environmental damages, calculated proportionally with waste disposed of in treatment plants as at 30 June 2012. The decrease, compared to 31 December 2011, is due to payments made in the first half of 2012.

Item “Other tax liabilities” includes the payables for the ecotax related to the second quarter of 2012, which will be paid in July 2012.

“Energy efficiency bonds and emission trading” relate to grey certificates (EUR 2,267 thousand) and green certificates (EUR 154 thousand). These figures were EUR 1,625 thousand for grey certificates and EUR 1,170 thousand for green certificates as at 31 December 2011. This entry reflects the obligation to redeliver the certificates to the competent authorities based on applicable legislation.

IFRS 8

Income Statement June 2012

	Gas	Electricity	Water Cycle	Waste management	Other Services	Structure	Total	Consolidated Financial Statement
Direct revenues	963.1	775.0	282.0	305.7	42.7	21.5	2,390.0	2,390.0
Intra-cycle revenues	28.2	36.5	3.3	31.2	7.1	1.6	108.1	
Total direct revenues	991.3	811.5	285.3	336.9	49.9	23.2	2,498.0	2,390.0
Indirect revenues	5.3	1.3	2.5	13.8	0.2	-23.2	0.0	
Total revenues	996.7	812.8	287.7	350.8	50.1	0.0	2,498.0	2,390.0
EBITDA	151.1	35.9	75.2	91.6	9.8	0.0	363.6	363.6
Direct depr., amort. and alloc.	24.8	20.2	34.0	49.9	8.8	13.9	151.5	151.5
Indirect depr., amort. and alloc.	3.2	1.8	4.5	4.0	0.4	-13.9		
Total depr., amort. and alloc.	28.0	21.9	38.5	53.9	9.2	0.0	151.5	151.5
EBIT	123.0	13.9	36.7	37.8	0.6	0.0	212.0	212.0

Income Statement June 2011

	Gas	Electricity	Water Cycle	Waste management	Other Services	Structure	Total	Consolidated Financial Statement
Direct revenues	715.6	716.4	269.9	318.2	36.7	14.0	2,070.9	2,070.9
Intra-cycle revenues	16.3	25.1	3.5	33.4	11.4	4.2	93.9	
Total direct revenues	731.9	741.5	273.4	351.6	48.2	18.2	2,164.8	2,070.9
Indirect revenues	3.2	1.3	2.0	11.6	0.2	-18.2	0.0	
Total revenues	735.0	742.8	275.4	363.2	48.3	0.0	2,164.8	2,070.9
EBITDA	120.6	42.2	67.5	105.2	8.4	0.0	344.0	344.0
Direct depr., amort. and alloc.	24.4	17.1	31.9	46.6	8.2	16.5	144.6	144.6
Indirect depr., amort. and alloc.	4.0	2.3	4.7	4.9	0.6	-16.5	0.0	
Total depr., amort. and alloc.	28.3	19.4	36.6	51.5	8.8	0.0	144.6	144.6
EBIT	92.3	22.9	30.9	53.7	-0.3	0.0	199.4	199.4

Income Statement June 2012

	Net Working Capital	Net Fixed Assets	Reserves	Shareholders' Equity	Net Financial Position	Consolidated Financial Statements
Total Assets	1.652,2	4.334,7	0,0	0,0	675,5	6.662,4
Financial assets and cash and cash equivalents					675,5	675,5
Tax assets	29,0	112,6				141,6
Non-allocated Group assets	0,0	332,9				332,9
Business Sector Assets	1.623,2	3.889,2	0,0	0,0	0,0	5.512,4
- of which:						
GAS	620,9	922,4				1.543,3
Electricity	459,0	555,0				1.014,0
Water Cycle	200,8	1.141,2				1.341,9
Waste management	291,8	1.141,6				1.433,4
Other services	50,8	129,1				179,9
Total Liabilities	1.623,2	14,0	402,5	1.848,0	2.774,7	6.662,4
Financial liabilities and loans					2.774,7	2.774,7
Tax liabilities	264,2	0,0	75,4			339,6
Non-allocated Group liabilities	2,0	14,0	4,2	1.848,0		1.868,3
Business sector liabilities	1.357,1	0,0	322,8	0,0	0,0	1.679,9
- of which:						
GAS	440,6		82,1			522,7
Electricity	351,7		14,5			366,2
Water Cycle	209,2		70,6			279,8
Waste management	308,9		147,9			456,8
Other services	46,7		7,7			54,4
Total	29,0	4.320,7	-402,5	-1.848,0	-2.099,2	0,0

Income Statement December 2011

	Net Working Capital	Net Fixed Assets	Reserves	Shareholders' Equity	Net Financial Position	Consolidated Financial Statements
Total Assets	1,614.7	4,306.1	0.0	0.0	549.8	6,470.7
Financial assets and cash and cash equivalents					549.8	549.8
Tax assets	57.0	105.5				162.5
Non-allocated Group assets	10.2	327.1				337.3
Business Sector Assets	1,547.6	3,873.5	0.0	0.0	0.0	5,421.1
- of which:						
GAS	521.9	921.2				1,443.1
Electricity	479.5	541.8				1,021.3
Water Cycle	217.9	1,126.6				1,344.5
Waste management	282.1	1,153.3				1,435.4
Other services	46.2	130.7				176.8
Total Liabilities	1,646.2	13.5	394.7	1,879.4	2,536.9	6,470.7
Financial liabilities and loans					2,536.9	2,536.9
Tax liabilities	91.5		76.1			167.5
Non-allocated Group liabilities	4.8	13.5	4.1	1,879.4		1,901.9
Business sector liabilities	1,549.9	0.0	314.5	0.0	0.0	1,864.4
- of which:						
GAS	478.1		78.3			556.4
Electricity	472.0		16.0			488.0
Water Cycle	219.4		68.0			287.5
Waste management	335.5		145.6			481.1
Other services	44.8		6.6			51.4
Total	-31.5	4,292.7	-394.7	-1,879.4	-1,987.1	0.0

2.03.02 Explanatory notes for related parties

Management of the services

The Hera Group, through Parent Company Hera Spa, holds concessions of local public services of economic interest (distribution of natural gas via local gas pipelines, integrated water service and waste management services, including sweeping, collection, transport and waste recovery and disposal) in a large amount of its territory of competence and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini).

The electricity distribution service has been carried out in the Imola district, in the municipality of Modena and in some municipalities of the province of Modena. Other public utilities (including urban heating, heat management and public illumination) are carried out under the free market system or through specific agreements with relevant local bodies. Under specific contractual relationships with local bodies, Hera is required to provide waste processing and disposal services, excluding regulatory activities carried out by the ATO (formerly AATO, now Atesir).

Regional and national legislation assign the responsibilities for appointment, planning and control concerning integrated water and municipal hygiene to the ATOs.

The Hera Group has signed special agreements with the AATOs, determining the implementation of technical planning and local tariffs, in compliance with the aforesaid regional and national laws of reference.

Water sector

The water service managed by Hera in its area of competence is carried out on the basis of agreements entered into with the former AATOs (now Atesir), of varying duration, normally twenty years. The assignment to Hera of management of the integrated water service includes all activities involving the capture, purification, distribution and sale of drinking water for civil and industrial use, and the sewerage and purification service. The agreements also provide for the operator's execution of new network design and construction activities and the building of new plants to be used in managing the service. The management of the service is assigned exclusively to Hera for the different area municipalities involving the obligation of the Municipality not to grant to third parties usage of the subsoil of its property and of the state aqueducts without the prior consent of the company.

The agreements regulate the economic aspects of the contractual relationship, the forms of management of the service, as well as service and quality standards. The unit tariffs are established annually by the ATO Atesir on the basis of economic agreements covering periods of several years, in accordance with law.

The local authorities awarding the concession give the manager the right to use the network and plant for the provision of integrated water supplies (and this may be free of charge). In the majority of the cases concerning the areas managed by Hera, the local authorities have conferred the ownership of networks and plants to special asset companies. At the end of the concession, Hera is obliged to return the goods used to provide the service to the asset companies, or to the municipal authorities.

Any works carried out to upgrade or expand the networks must be compensated at the end of concession with the payment of the residual value of the assets in question. Hera's relationships with users are mainly governed by regulations applicable in the sector, measures laid out by the regional legislator and the agencies for the area. The operator's obligations in terms of service quality and resources, as well as the rights of users, are described in the relevant service charters drawn up by the operator, according to a scheme of reference approved by the AATOs.

Waste management sector

Hera performs the service of municipal waste management. The purpose of agreements with the former AATOs (now Atersir) is the exclusive management of the waste collection, waste transport, road cleaning and waste recovery and disposal, etc. services. The agreements regulate the economic aspects of the contractual relationship, the forms of organisation and management of the service, as well as levels of service quality and quantity. The amount payable to the operator for the services performed is defined annually in accordance with Italian Presidential Decree no. 158/1999, where the tariff is established. For the running of waste treatment plants, the Hera Group must obtain authorisations from the authorities of the Italian provinces.

Management of the networks, plants and equipment

The infrastructure required for the provision of services whose management has been assigned to Hera, including local gas pipelines and aqueduct and sewage systems, are partly owned by Hera and partly owned by third parties (municipalities, asset companies owned by local authorities).

In particular, the asset companies are the owners of assets instrumental in the management of services following the direct contribution of assets by the Municipalities (generally Hera shareholders) or following the assignment to the same of "assets" constituting business units which took place, in almost all cases, at the time of business combinations involving companies in the Emilia-Romagna region with Seabo Spa (then Hera Spa).

In the case of assets owned by Local Entities and asset companies, relations between the service operator and the owners are governed by service assignment agreements or business unit lease contracts, and on a residual basis, industry legislation.

As regards the economic aspect, business unit lease contracts fix the amount due from the operator to the owners for the use of networks and plants. On the basis of these contracts Hera must carry out, at its own expense, ordinary and extraordinary maintenance as well as the expansion of the networks, as provided for in the investment plans agreed with the asset companies and, where relevant, by the area plans defined by the former AATOs.

Upon expiry of the lease contracts, provision is made for the return of the business units to the owner, in a normal state of repair. All works performed by Hera, involving expansion and extraordinary maintenance, will be similarly returned to local authorities in return for the payment to the operator of the corresponding compensation/equalisation, as a general rule, at the net book value or residual industrial value of the associated assets.

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 no. 164/2000 (Letta Decree, implementing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report accompanying the financial statements. Hera Spa has longer residual terms than those set out for managing entities that have promoted partial privatisations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing.

The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. The gas distribution tariffs are set in accordance with the regulations in force and with the deliberations adopted from time to time by the Italian Authority for Electricity Energy and Gas. The territory in which Hera carries out the gas distribution services consists of "tariff areas" in which a distribution tariff is uniformly applied to the various categories of customers.

In the case of electricity, the purpose of the concessions (30 years in duration and renewable according to current regulations) is energy distribution activity, including, amongst other things, management of the distribution networks and operation of connected plants, ordinary and extraordinary maintenance and programming and identification of development initiatives and measurement. A suspension or expiry of the concession may be ordered by the authority regulating the sector if the concession holder is found to be inadequate or to be in breach of regulations in force, in such a way as to prejudice provision of the electricity distribution service in a serious and far-reaching manner.

The concession holder is obliged to apply the tariffs set by regulations in force and resolutions adopted by the Italian Authority for Electricity and Natural Gas to the consumers. The tariff regulation in force when the Consolidated Half-Year Financial Statements were approved (to which this report is attached) was resolution ARG/elt no. 199/2011 of the Italian Authority for Electricity and Gas and subsequent amendments and additions ("Provisions of the Italian Authority for Electricity and Gas for carrying out electricity transmission, distribution and measurement services for the regulatory period 2012-2015 and provisions regarding the economic conditions regulating the provision of the connection service"), which replaced the previous resolution no. 348/2007 applicable up to 31/12/2011 ("Integrated law of provisions for the supply of electricity transmission, distribution and measurement services for the regulatory period 2008-2011 and provisions regarding the economic conditions regulating the provision of the connection service").

Values shown in the table as at 30.06.12, refer to the related parties hereunder:

Group A. Non-consolidated subsidiaries:

Calorpiù Italia Scarl in liquidation
Consorzio Frullo in liquidation
Q.Thermo Srl
Solhar Alfonsine Srl
Solhar Piangipane Srl
Solhar Ravenna Srl
Solhar Rimini Srl
Sviluppo Ambiente Toscana

Group B. Jointly controlled associated companies:

Adriatica Acque Srl
Aimag Spa
Enomondo Srl
Estense Global Service Soc.Cons.a r.l.
FlameEnergy Trading Gmbh
Ghirlandina Solare Srl
Modena Network Spa
Natura Srl in liquidation
Oikothen Scrl
Refri Srl
Sei Spa
Service Imola Srl
Set Spa
Sgr Servizi Spa
So.Sel Spa
Tamarete Energia Srl

Group C. Related parties with significant influence*:

Municipality of Bologna
Municipality of Cesena
Municipality of Casalecchio
Municipality of Ferrara
Municipality of Forlì
Municipality of Imola
Municipality of Modena
Municipality of Ravenna
Municipality of Rimini
Livia Tellus Governance Spa
HSST - Modena Spa

Group D. Other related parties:

Acosea Impianti Srl
Amir - Assets
Aspes Spa
Azimut - Assets
Calenia Energia Spa
Con.Ami
Energia Italiana Spa
Fiorano Patrimonio Srl
Formigine Patrimonio Srl
Galsi Spa
Holding Ferrara Servizi srl
Maranello Patrimonio Srl
Megas Net Spa
Ravenna Holding Spa
Rimini Holding Spa
Romagna Acque Spa
Sassuolo Gestioni Patrimoniali Srl
Serramazzoni Patrimonio Srl
Sis - Assets
SIS Società Intercomunale di Servizi Spa in liquidation
Team - Assets
Unica Reti - Assets
Wimaxer Spa

*As of 1 January 2011, the Municipalities of Cesena, Ferrara, Forlì, Imola, Ravenna and Rimini were also considered related companies with significant influence. The Income Statement tables do not show the associated positions as at 30 June 2011, considering the difficulties related to obtaining said information. However, in view of the ongoing nature of the underlying relations, it is believed said values may reasonably be in line with the same figures as at 30 June 2012. By contrast, the figures as at 31 December 2011 and 30 June 2012 are shown.

2.04.01 Consolidated net financial debt

in millions of Euro		30-Jun-12	31-Dec-11
a	Cash and cash equivalents	506,7	415,2
b	Other current financial receivables	41,5	42,9
	Current bank indebtedness	(58,8)	(78,8)
	Current portion of bank indebtedness	(36,4)	(39,1)
	Other current financial payables	(0,5)	(0,5)
	Financial leasing payables – maturing within the next year	(3,1)	(3,7)
c	Current financial indebtedness	(98,8)	(122,1)
d=a+b+c	Net current financial indebtedness	449,4	336,0
e	Non-current financial receivables	14,3	11,0
	Non-current bank liabilities and bonds issued	(2.558,7)	(2.328,8)
	Other non-current financial payables	0,0	0,0
	Financial leasing payables – maturing beyond the next year	(4,2)	(5,3)
f	Non-current financial indebtedness	(2.562,9)	(2.334,1)
g=e+f	Net non-current financial indebtedness	(2.548,6)	(2.323,1)
h=d+g	Net financial indebtedness	(2.099,2)	(1.987,1)

In accordance with the requirement under Consob notification of 28 July 2006 and in compliance with the CERS recommendation of 10 February 2005 “*Recommendations for the standard implementation of European Commission rules on information prospectuses*” we note that the net financial position is as follows:

2.04.02 Net financial debt – Resolution 15519 of 2006

in millions of Euro		30-Jun-2012	of which related parties				31-Dec-2011	of which related parties			
			A	B	C	D		A	B	C	D
a	Cash and cash equivalents	506,7					415,2				
b	Other current financial receivables	41,5					42,9				
	<i>of which related parties</i>			28,7		0,2			28,1		0,4
	Current bank indebtedness	(58,8)					(78,8)				
	Current portion of bank indebtedness	(36,4)					(39,1)				
	Other current financial payables	(0,5)					(0,5)				
	Financial leasing payables – maturing within the next year	(3,1)					(3,7)				
c	Current financial indebtedness	(98,8)					(122,1)				
d=a+b+c	Net current financial indebtedness	449,4		28,7		0,2	336,0		28,1		0,4
e	Non-current financial receivables	14,3					11,0				
	<i>of which related parties</i>			13,9					10,6		
	Non-current bank liabilities and bonds issued	(2.558,7)					(2.328,8)				
	Other non-current financial payables	0,0					0,0				
	Financial leasing payables – maturing beyond the next year	(4,2)					(5,3)				
f	Non-current financial indebtedness	(2.562,9)					(2.334,1)				
g=e+f	Net non-current financial indebtedness	(2.548,6)		13,9			(2.323,1)		10,6		
	<i>of which related parties</i>										
h=d+g	Net financial indebtedness	(2.099,2)					(1.987,1)				
	<i>of which related parties</i>			42,6		0,2			38,7		0,4
Changes in related parties:											
	Hera spa disbursed an interest-bearing loan to Tamarete Energia Srl			27,2					26,7		
	Herambiente disbursed an interest-bearing loan to Refri Srl			0,2					0,2		
	Acantho Spa disbursed an interest-bearing loan to Modena Network Spa			0,9					0,9		
	Hera Spa disbursed an interest-bearing loan to Modena Network Spa			1,0					1,0		
	Hera Spa disbursed an interest-bearing loan to Oikothén Scrl			2,6					0,3		
	Hera spa disbursed an interest-bearing loan to Set Spa			7,1					5,9		
	Hera spa disbursed an interest-bearing loan to Sei Spa			3,4					3,3		
	Hera Energie Rinnovabili Spa disbursed an interest-bearing loan to Ghirlandina Solare Srl			0,2					0,2		
	Acantho disbursed a non-interest bearing loan to Wimaxer Spa					0,2					0,4
	Trading disbursed a non-interest bearing loan to Dyne Green										
				42,6		0,2			38,7		0,4

2.05 Equity investments: list of consolidated companies

Subsidiary companies

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Capogruppo: Hera Spa	Bologna	1.115.013.754			
Acantho Spa	Imola (Bo)	22.500.000	79,94%		79,94%
Acque Srl	Pesaro	102.700		40,64%	40,64%
Akron Spa	Imola (Bo)	1.152.940		43,13%	43,13%
ASA Scpa	Castelmaggiore (Bo)	1.820.000		38,25%	38,25%
Consorzio Akhea Fondo Consortile	Bologna	200.000		59,38%	59,38%
Eris Srl	Ravenna	300.000		51,00%	51,00%
Famula On-line Spa	Bologna	4.364.030	100,00%		100,00%
Feronia Srl	Finale Emilia (Mo)	2.430.000		52,50%	52,50%
Frullo Energia Ambiente Srl	Bologna	17.139.100		38,25%	38,25%
Gal.A. Spa	Bologna	300.000		45,00%	45,00%
HeraAmbiente Spa	Bologna	271.148.000	75,00%		75,00%
Hera Comm Srl	Imola (Bo)	53.136.987	100,00%		100,00%
Hera Comm Marche Srl	Urbino (Pu)	1.977.332		69,37%	69,37%
Hera Energie Srl	Bologna	926.000		51,00%	51,00%
Hera Energie Rinnovabili Spa	Bologna	1.832.000	100,00%		100,00%
Hera Luce Srl	San Mauro Pascoli (Fc)	1.000.000	89,58%		89,58%
Hera Servizi Cimiteriali S.r.l.	Bologna	20.000	100,00%		100,00%
Hera Servizi Funerari S.r.l.	Bologna	10.000	100,00%		100,00%
Herasocrem Srl	Bologna	100.000	51,00%		51,00%
Hera Trading Srl	Imola (Bo)	22.600.000	100,00%		100,00%
Marche Multiservizi Spa	Pesaro	13.450.012	40,64%		40,64%
Medea Spa	Sassari	4.500.000	100,00%		100,00%
MMS Ecologica Srl	Pesaro	95.000		40,64%	40,64%
Naturambiente Srl	Pesaro	50.000		40,64%	40,64%
Nuova Geovis Spa	Sant'Agata Bolognese (Bo)	2.205.000		38,25%	38,25%
Romagna Compost Srl	Cesena (Fc)	3.560.002		45,00%	45,00%
Sinergia Srl	Forlì (Ce)	579.600		59,00%	59,00%
Sotris Spa	Ravenna	2.340.000	5,00%	52,50%	57,50%
Uniflotte Srl	Bologna	2.254.177	97,00%		97,00%

Jointly controlled companies

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Enomondo Srl	Faenza (Ra)	14.000.000		37,50%	37,50%

Associated companies

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Aimag Spa*	Mirandola (Mo)	*	78.027.681	25,00%	25,00%
FlameEnergy Trading Gmbh	Vienna	3.000.000		50,00%	50,00%
Ghirlandina Solare Srl	Concordia Sulla Secchia (Mo)	60.000		33,00%	33,00%
Modena Network Spa	Modena	3.000.000	14,00%	23,98%	37,98%
Oikothen Scarl in liquidazione	Siracusa	63.332	46,10%		46,10%
Refri Srl	Reggio Emilia	6.800.000		15,00%	15,00%
Set Spa	Milano	120.000	39,00%		39,00%
So.Sel Spa	Modena	240.240		26,00%	26,00%
Sgr Servizi Spa	Rimini	5.982.262		29,61%	29,61%
Tamarete Energia Srl	Ortona (Ch)	3.600.000	32,00%		32,00%

* the share capital is composed of € 67,577,681 of ordinary shares and da € 10,450,000 of related shares

2.06 Declaration in accordance with Art. 154 bis of LD 58/98

1 – The undersigned Mr. Maurizio Chiarini in his capacity as Managing Director, and Mr. Luca Moroni, in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154 *bis*, paragraphs 3 and 4, of the legislative decree no. 58 dated 24 February 1998:

- the adequacy with reference to the nature of the company; and
- the actual application

of the administrative and accounting procedures for the preparation of the Half-Year Financial Statements for 2012.

2 – We also declare that:

2.1 – The Half-Year Financial Statements:

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

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

The Managing Director

Manager in Charge of the
preparation of the corporate
accounting documents

Mr. Maurizio Chiarini

Mr. Luca Moroni

Bologna, 28 August 2012

2.07 Report by the Independent Auditing Firm


AUDITORS' REPORT ON THE REVIEW OF CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

To the Shareholders of
Hera SpA

- 1 We have reviewed the consolidated condensed interim financial statements of Hera SpA and subsidiaries (hereinafter also "Hera Group") as at 30 June 2012 and for the six month period then ended, comprising the statement of financial position, the income statement and the statement of comprehensive income, the statements of changes in shareholders' equity and cash flows and the related selected explanatory notes. Hera SpA's Directors are responsible for the preparation of the consolidated condensed interim financial statements in accordance with the international accounting standard (IAS 34) applicable to interim financial reporting, as adopted by the European Union. Our responsibility is to issue this report based on our review.
- 2 Our work was conducted in accordance with the criteria for a review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with Resolution no. 10867 of 31 July 1997. The review consisted principally of inquiries of company personnel about the information reported in the consolidated condensed interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the above mentioned consolidated condensed interim financial statements. The review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual consolidated financial statements, we do not express a professional audit opinion on the consolidated condensed interim financial statements.

Regarding the amounts of the consolidated financial statements of the prior year and the consolidated condensed interim financial statements of the prior year presented for comparative purposes, reference should be made to our reports dated 5 April 2012 and dated 25 August 2011, respectively.

- 3 Based on our review, nothing has come to our attention that causes us to believe that the consolidated condensed interim financial statements of Hera Group as at 30 June 2012 and for the six month then ended have not been prepared, in all material respects, in accordance with the international accounting standard (IAS 34) applicable to interim financial reporting, as adopted by the European Union.

Bologna, 28 August 2012

PricewaterhouseCoopers SpA

Signed by
Edoardo Orlandoni
(Partner)

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

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro I.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob - Altri Uffici: Bari 70124 Via Don Luigi Guanella 17 Tel. 0805640211 - Bologna Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 - Brescia 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - Catania 95129 Corso Italia 302 Tel. 095753231 - Firenze 50121 Viale Gramsci 15 Tel. 0552482811 - Genova 16121 Piazza Dante 7 Tel. 01029041 - Napoli 80121 Piazza dei Martiri 58 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 10122 Corso Palestro 10 Tel. 011556771 - Trento 38122 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 37135 Via Francia 21/C Tel. 0458263001

www.pwc.com/it



HERA S.p.A.
Holding Energia Risorse Ambiente
Sede legale: Viale Carlo Berti Pichat 2/4 40127 Bologna
tel. 051.287.111 fax 051.287.525
www.gruppohera.it
C.F./Partita IVA Registro Imprese BO 04245520376
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