sustainability report 2006

"the facts and figures behind our commitment"

GRUPPO HERA

Contents

Letter from the Chairman of the Board

This Sustainability Report represents the account of a year of operations, 2006, in which the commitment of many people enabled us to achieve new results.
From the time of its birth, Hera's intention was to present this document alongside its Annual Report in order to provide for integration between information of an economic nature and social and environmental concerns. It also provides an opportunity for in-depth examination of the fundamentals of the idea of development proposed in Hera's strategy.
The efforts made over the last few years provide increasingly clear evidence not only of the validity of the project is but also our ability to provide concrete results. The creation of a large group with deep roots in the local areas, our industrial management of services managed, our organisational methods, our specialisation with respect to the services provided to customers: these are the distinctive features of Hera's strategy, which have generated wealth and wellbeing for the area – and will continue to do so.
In 2006, following the creation of Hera Modena, the acquisition of the electricity grid in the province of Modena, and the increase in the shareholding in Aspes Multiservizi, the size of the company increased even further. The annual business customer satisfaction survey confirmed the Group's capacity to operate on the market, going beyond guaranteeing the services "managed", which only four years ago were the almost exclusive area of the companies which had combined to give rise to Hera. Lastly, on the economic front, our results prove that economic development is only possible if the legitimate demands of corporate stakeholders are met.
We see these results as the starting line – no more than that – in our drive forward, while maintaining the corporate management traditions of local public services which are so deeply rooted and consolidated within the Emilia Romagna region.

Tomaso Tommasi di Vignano
Chairman of the Board of Directors

Letter from the Managing Director

Hera's Sustainability Report is a yearly appointment which the company uses to summarise the results we have achieved, and to set new targets for the future. We intend this appointment to become increasingly important for the company. For this reason, the Sustainability Report 2006 was presented to, discussed and approved by the Board of Directors of Hera SpA

The public services which local authorities have asked us to manage are extremely important for the general public, companies within the area and the environment: for this reason, they must be managed with transparency, compliance with regulations and the desire to work well. In one word, with responsibility.

Our belief is that orientation of day-to-day management in line with the principles of Corporate Social Responsibility is a prerequisite of sustainable development, but also an opportunity to enhance corporate competitiveness.

Hera's commitment to achieving sustainable development cannot be divorced from adoption of forms of dialogue with, and involvement on the part of, our main stakeholders. Of particular significance are the Hera actions relative to generating involvement and participation on the part of communities hosting high environmental impact plants.

For Hera, it is extremely important to listen to and dialogue with our stakeholders. For the last two years, we have presented our strategies not only to financial investors (who request economic results), but also to all of our employees and the mayors of shareholder municipalities (which request, in addition to economic results, stability, and the guaranteed security, safety, and reliability of services).

Following the listening and dialogue actions, we take the decisions that we intend to continue to manage with transparency, seriousness and responsibility.

Maurizio Chiarini
Managing Director

The Report

Reading this Report

The Sustainability Report produced by the Hera Group provides the most important and representative documentation of our dialogue with stakeholders and local communities.
The report provides the facts and figures behind the company's activities regarding the environmental and social concerns arising out of corporate management activities: the principles which guide our actions, the views and opinions of our stakeholders, improvement objectives and achieved performance ratings.
The terminology used to present the facts and figures in this report is designed to be as accessible as possible to the non-specialised reader. The more technical terms are defined in the glossary in the last pages of the report.

This report also contains in-depth information on areas of particular interest:

- data and projects significant to local areas;
- prizes and awards received.

Further information and explanations can be obtained by visiting the internet site, www.gruppohera.it, including the on line version of this Sustainability Report (in Italian and English).

A version of the report is also available on CD, including other corporate documentation and details regarding the social responsibility of Hera.
This report also includes an evaluation form you can use to give us your opinion. Your views are extremely important since they will enable us to improve the content matter and presentation of the Sustainability Report. Please fill out the form and send it back to us.

We hope you will enjoy reading our report!

The greenhouse gas emissions created by the use of paper for the preparation of this Sustainability Report have been neutralised through the acquisition of 3 VERs (Verified Emission Reductions), voluntary reductions deriving from a project involving the reforestation of a large area in Chiapas (Mexico), currently threatened by indiscriminate cutting and intense farming.
This Sustainability Report has been rendered CarbonNeutral protecting our climate by Azzero CO2.

This report was prepared with Ecolabel-certified 100% recycled ecological paper (Cyclus Offset) and digital photographs.

Hera is a member of Impronta Etica, an association for promoting Corporate Social Responsibility.

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Drawing up this Report

Standards

The Sustainability Report 2006 was drawn up on the basis of the AA1000 standard which provides the steps required for preparing social and sustainability reports. The report content matter was selected in compliance with GRI and GBS guidelines, and taking into consideration the information deemed useful for corporate stakeholders. In this version of the report, G3 guidelines have been used for the first time.

The G3 Reporting Guidelines were drawn up in 2006 by the *Global Reporting Initiative* to evaluate economic, environmental and social performance of companies. The *Gruppo di studio per il Bilancio Sociale* (GBS) had, instead, proposed its Principles for the Preparation of Social Reports in 2001.

Structure of the document

The first three sections of the report provide an account of how the company was created, its identity, mission, corporate strategies, sustainability strategies, the key indicators for assessing economic, environmental and social sustainability, and dialogue actions with stakeholders.

The fourth section highlights corporate economic returns by means of the methodology based on value added allocated to stakeholders proposed by the GBS.

The next sections provide an account of the results achieved for each class of stakeholder, given as performance ratings of a qualitative and quantitative nature and related to the objectives set forth in the previous report and achievement of these. The objectives for the coming years for each class of stakeholder have been set in line with the company's strategic planning instruments; in certain cases, future targets of the company have been specified.

Reporting actions

The reporting actions comply with the AA1000 standard.

The process of setting sustainability objectives entailed analysis of the corporate strategic planning instruments and pinpointing projects prospected as objectives that impact stakeholders according to the Balanced Scorecard system. This information was integrated by interviews with the managers of the major divisions and pertaining to management teams.

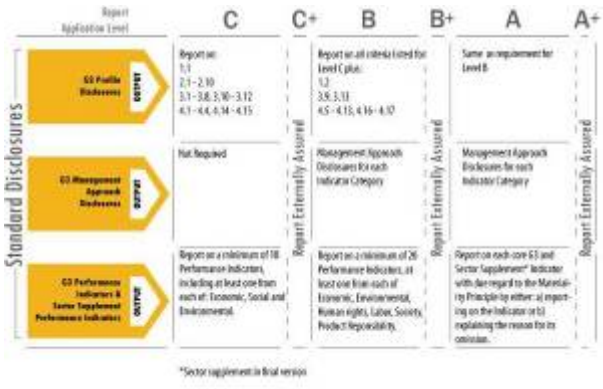
The data collection actions required for the report entailed the preparation and distribution of forms providing the technical indications used for construction of indicators.

Integration with the Industrial Plan, Balanced Scorecard and the yearly Budget has been foreseen in order to ensure consistency, with respect to the indications provided and the instruments for planning and internal controls.

Auditing of the Report

This Report was audited by an external company, which certified its compliance with the GRI – G3 and GBS guidelines. The corporate quality management system, certified in compliance with the ISO 9001:2000 standard, foresees collection of quality KPIs on a regular basis.

The Hera Group Sustainability Report 2006 was drawn up using the G3 guidelines set forth by the Global Reporting Initiative. In terms of the levels of application identified for these guidelines (shown in the figure), this Report reached a level of application of A+, which corresponds to complete application of the requirements of the guidelines, and an independent external audit.



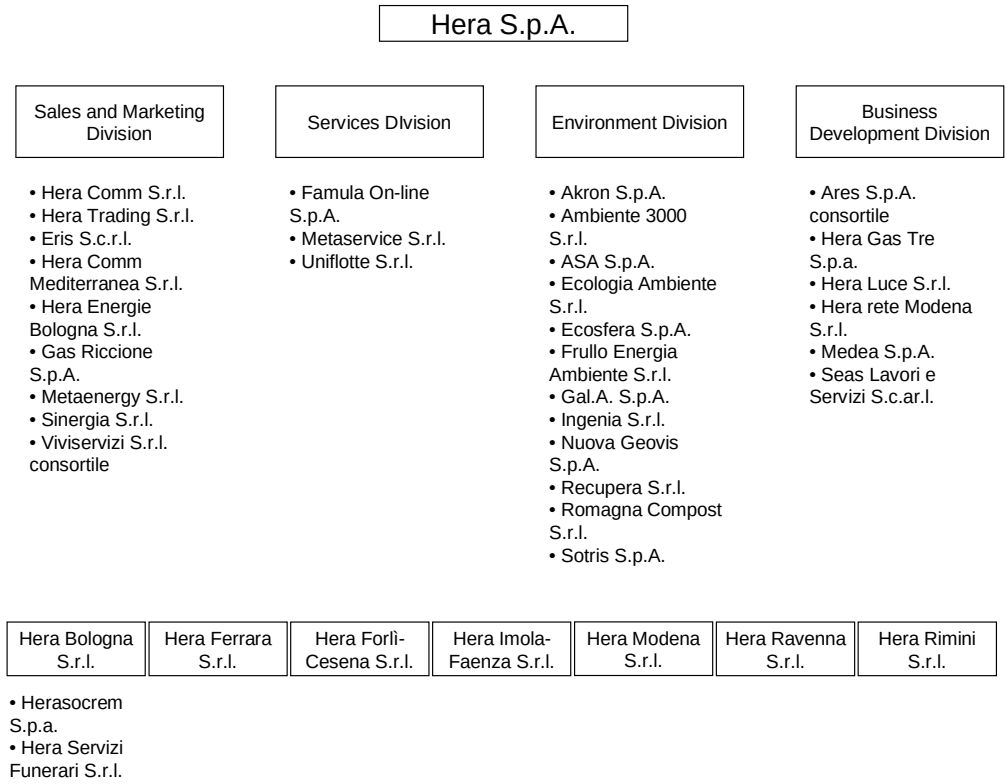
Scope of reporting

The scope of this documents includes all the companies in the Hera Group, consolidated in the Consolidated Group Financial Statements using the line-by-line method, with the exception of the company Aspes Multiservizi SpA, in which Hera holds a 49.8% share, and which was consolidated in the Parent Company Financial Statements using the line-by-line method. Aspes Multiservizi is a multiutility which operates in the public utility sector (mainly integrated water services, distribution and sale of methane, and waste management services) in the Pesaro-Urbino province. Aspes Multiservizi has published a yearly Sustainability Report since 2003.

The third section, regarding the Group's economic results and the distribution of value added is consistent with the data from the Group's Consolidated Financial Statements, and thus includes Aspes Multiservizi and its subsidiaries.

In certain cases, the findings do not tally fully with the report, in terms of scope of reporting. The data gaps in question (indicated by notes accompanying the individual tables) may be ascribed, variously, to the lack of certain items, or to the fact that certain items are not sufficiently significant, or to the fact that the pertaining data cannot be collected in a manner complying satisfactorily with quality standards or, alternatively, in an economically feasible manner.

Hera Group companies included in the scope of reporting of the Sustainability Report



Major size and structure changes

The major corporate changes compared to the scope of the previous report, published in June 2006, involve the merger with Great Distribuzione Gas and the purchase of the Enel power grid in 18 municipalities in the province of Modena.

The working group

A Guidance Committee was set up with the task of providing guidelines and controls with respect to the tasks at hand. This committee is made up of the Managing Director, the General Manager, and the managers of the Environment Division, the Networks and R&D Division and the External Relations Manager.

The operational working group, coordinated by the Corporate Social Responsibility Unit, was made up of staff representing the Personnel and Organisation Management Team, the Environment Division, Hera Comm, the Sales and Marketing and External Relations Divisions.

This work involved the Quality, Safety and Environment managers and the managers of the Territorial Operative Companies.

Guidance Committee: Maurizio Chiarini, Roberto Barilli, Giuseppe Gagliano, Claudio Galli, Giancarlo Leoni, Susanna Zucchelli.

Working Group: Filippo M. Bocchi, Gianluca Principato, Gabriele Magli, Annarita Lovito, Paola Brandolini, Ennio Dottori, Silvia Malservisi, Fabrizio Salieri, Emanuel Zamagni, Sandro Bosso, Veronica Musiani, Giorgia Freddi.

Many people contributed to this report through data collection activities or by providing explanatory notes and comments. The list is as follows: Patrizia Albertazzi, Marta Alesi, Stefano Amaducci, Claudio Anzalone, Alberto Apollo, Claudio Artioli, Silvia Baccarani, Valentina Balducci, Chiara Barausse, Giovanni Barberis, Andrea Basso, Roberto Bazzani, Paola Bazzocchi, Marina Bellei, Irene Bruni Prato, Angelo Bruschi, Guglielmo Calabrese, Giancarlo Campri, Dario Casone, Alberto Cicognani, Michele Corradini, Elisa Costa, Roberta De Carli, Alessia Evangelisti, Mila Fabbri, Dario Farina, Luca N. Favilli, Fausto Ferraresi, Giovanna Filanti, Myriam R. Finocchiaro, Luca Flamigni, Franco Fogacci, Marco Ganimede, Roberto Gasparetto, Cristina Gasperini, Virna Gioiellieri, Luca Giulianelli, Massimo Grandi, Adriano Guarnieri, Marcello Guerrini, Valeria Guizzardi, Claudia Guzzinati, Jens K. Hansen, Salvatore R. Iaconis, Katia Laffi, Giangiuseppe Lengueglia, Diego Lignana, Patrizia Lombardi, Nicoletta Lorenzi, Loris Lorenzi, Tiziana Lusiani, Carla Macrelli, Maria Cristina Magni, Micaela Maini, Rita Malossi, Tiziano Mazzoni, Edolo Minarelli, Laura Minelli, Mariarita Montevecchi, Cinzia Morandi, Lucia Morcione, Laura Morelli, Lorena Morelli, Pietro Musolesi, Carla Petraglia, Vanessa Pezzi, Stefania Pilan, Claudio Poli, Giancarla Predieri, Roberta Raddi, Marco Rambaldi, Paolo Emilio Rambelli, Gian Carlo Randi, Mirko Regazzi, Carmelo M. Riccio, Loris Rusticelli, Beatrice Sandri, Andrea Santinelli, Donatella Simonazzi, Oriano Sirri, Walther Sirri, Edera Spinelli, Carlo Sussi, Giovanni Taglialatela, Gianluca Tambosso, Stefania Tomaro, Gianluca Valentini, Stefano Venier, Stefano Venturi, Stefania Virgili, Paola Za.

About us

Hera today

Hera is one of the major multiutility companies in Italy, operating in approximately 180 municipalities of the provinces of Bologna, Ferrara, Forlì-Cesena, Modena, Ravenna and Rimini. Hera is also operational in a number of municipalities in the provinces of Florence and Pesaro-Urbino.
Hera provides energy (gas, electricity), water (potability waste water treatment, sewers) and waste management (collection and disposal) services to a total customer base of approximately 2,7 million users.
Hera is a company renowned for its reliability, soundness and competitiveness. Its main strengths lie in:

- **the balance of its services**, comprised of services managed according to free market criteria (e.g. sale of gas and disposal of special waste) and regulated services (e.g. gas distribution, integrated water services, collection and treatment of urban waste);
- **the roots in the areas in which it operates**;
- **the widespread shareholding structure**.

On the date of dividend share-out, Hera had 183 public shareholders (holding 58% of shares, in all), 155 institutional investors and approx. 26,000 private shareholders (natural persons and corporate bodies not classifiable as banks or investment funds).

History

The group was founded at the close of 2002 following one of the most significant business combination operations ever conducted in Italy within the public utilities sector. Within our sector, this process of aggregation was particularly noteworthy, and indeed unique, in terms of size. Historically, in Italy, with its wide range of operators, this sector has been a highly fragmented one.
Aggregation came out of a shared vision among the shareholders, who were keen to build up a modern concern capable of combining the activities of wealth generation with environmental protection and the legitimate demands of all stakeholders.

The group was founded in 2002 after mergers involving 11 local public service concerns. The company has been partly privatized via the Milan stock exchange (Borsa di Milano) placing 44.5% of the share capital.

The shared aggregation process which led to the formation of Hera has continued over time through various operations concentrated on companies in the energy, water and waste management sectors, operating in geographical areas bordering the areas managed.
In 2003, the public lighting and municipal waste management services of the company, Geat, in Riccione were acquired.
Agea joined Hera in 2004 (Agea is an energy and waste management operator in the province of Ferrara), as did Acosea (integrated water service in the province of Ferrara) and Ecologia Ambiente (treatment of special waste).
The merger with Meta took place in September 2005. Meta is operational in Modena in the energy, water and environmental sectors. Shares were also purchased in 2005 in the companies, SGR Servizi (sale of gas in the province of Rimini, Pesaro-Urbino and Macerata), Hera Energie Bologna (sale of energy and heat in the province of Bologna), ASA, Unieco, Uniflotte, and Hera Luce. Small local gas distribution operators were also acquired (Tecnometano, Gasgas, Argilegas, TS Distribuzione Gas, TS Energia).
The company Geat Distribuzione Gas (gas distribution in Riccione) merged with the group in early 2006. Always in 2006, Hera acquired the power grid from Enel in 18 municipalities in the province of Modena, increased its shareholding in the companies Aspes Multiservizi and purchased share in SAT (multiutilities operating respectively in the provinces of Pesaro-Urbino and Modena).

The services of Aspes Aspes Multiservizi operates in the local public services sector, specifically in the management of integrated water service for 11 municipalities with a total of 141,000 inhabitants served, distribution and sale of methane (over 83 million cubic meters distributed) and waste management services, collecting over 100,000 tonnes of municipal waste per year, and managing two landfills which dispose of a total of approximately 122,000 tonnes of municipal and special waste.

Hera – key statistics	2006
Revenues (millions of euro)	2,311.5
Gas customers (thous.)	958.4
Gas sold (million m^3)	2,409.0
Water customers (thous.)	982.4
Water sold (million m^3)	243.6
Electricity customers (thous.)	263.7
Electricity sold (GWh)	3,133.1
Waste treated (thous. t)	3.975.1
Workforce, open-ended contract (as at 31/12) (no.)	6,227

The figures include Aspes Multiservizi and its subsidiaries.

Services managed

Energy services

Hera is one of the major operators in Italy, in terms of managed volumes for the sale and distribution of gas. Sales total approx. 2.4 million cubic metres per year to approx. 960,000 service customers. Electricity sale and distribution has grown considerably following the merger with Meta. Currently, Hera sells approx. 3.1 terawatt-hours of energy per year to approx. 260,000 customers.

Hera is also operational in the district heating, heat management and public lighting sectors.

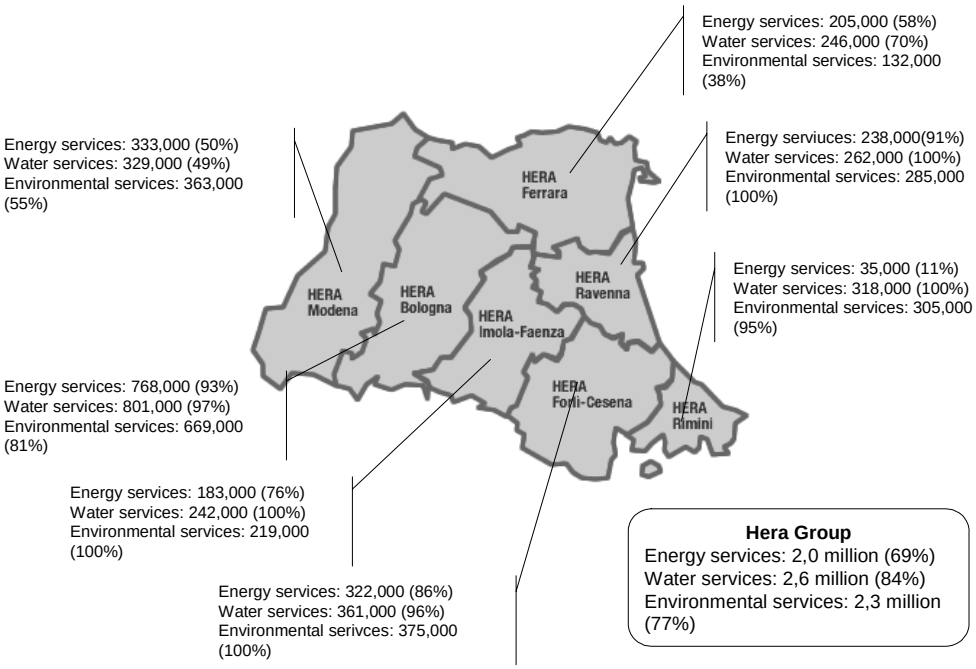
Water services

Hera manages integrated water cycle services in more than 169 municipalities of the six provinces of the Emilia-Romagna region. Its sale volumes total approx. 240 million cubic metres of water for domestic and industrial use. It manages water systems covering approx. 24,000, approx. 6,600 km of sewer lines, and more than 712 treatment plants.

Waste management services

Environmental sector activities consist in collection and disposal of solid waste and processing and disposal of municipal waste. The group manages municipal waste in approx. 147 municipalities representing a customer base of approx. 2.4 million users (collecting approx. 1.6 million tonnes of refuse per year).
Hera owns 72 disposal plants. Hera, with its 7 plants, is one of the major operators in Italy in the waste-to-energy sector.
In 2006, about 2.2 million tonnes of waste were disposed.

Customers served in the local areas *



* Number of residents in the municipalities in which Hera manages at least one energy service (distribution of gas or electrical energy, or district heating), waster service (water systems, sewerage, or purification) and waste management service (separate or non-separate waste collection, or sweeping) and the percentage of total residents.

Mission, Charter of Values and Code of Ethics

The Mission

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

For Hera, being the best means inspiring the pride and trust of:

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

Charter of Values

Integrity: *Proud to be a honest, loyal group of people*
In its external and internal relations, Hera is a company whose actions are guided by considerations of correctness , honesty, fairness and impartiality in all its dealings. By sharing these principles, Hera establishes enduring relationships with its customers and suppliers, overall transparency in its dealings with third parties, and appropriate and fair-minded compensation for the work of its collaborators.

Transparency: *Clear and honest messages to all stakeholders*
Hera is committed to keeping all stakeholders fully informed as to all actions at every corporate level. It shall provide this information fully, with all due clarity, in a timely manner. Hera sees transparency as a means of adopting management instruments conducive to dialogue with stakeholders with a view to meeting information and knowledge needs relative to the economic, social and environmental impacts of corporate activities.

Personal responsibility: *Committed to the good of the company*
Working for Hera means commitment to building relationships of trust with colleagues, and, more generally, with all stakeholders. Actions for the achievement of company objectives must be undertaken in a spirit of loyalty and efficacy, with each individual fully aware of the nature of his/her duties and responsibilities.

Coherence: *Living up to our Mission and Values*
Everyone who works for Hera, at every level, is called upon to implement the Mission, Values and operating principles of the company on a daily basis, in every action taken.

These are the foundations of strategic planning, company goals and operational management.

Company operational principles

The conduct guidelines that Hera intends to follow in reaching its strategic objectives are as follows:

Creation of value and social responsibility: *Being a company that is built to last, to help improve society and the environment for future generations*
Hera is committed to combining the creation of economic and social value with satisfying the legitimate expectations of all those with whom it has dealings: customers, employees, shareholders, suppliers, institutions and local communities. Hera considers compliance with the principles of social responsibility a key element in its efforts toward sustainable development.

Service quality and excellence: *Putting customers first, working to deserve their trust*
Customer satisfaction is a fundamental element for the growth of a group that wishes to be considered as a solutions provider, capable of understanding client needs and guaranteeing top-quality services. It is Hera's daily Mission to supply consistent and reliable responses to the expectations of its customers. Hera's organisational resources, professional approach and business culture are the outcome of its focus on listening to customers and serving their needs.

Efficiency: *Making the most of available resources*
Hera is committed to pursuing its objectives quickly and efficiently through the application of the principle of optimisation across the board, from the management of human resources to the financial and technological resources used.

Innovation and ongoing improvement: *Feeling like part of a team that generates ideas and improves things*
Hera aims to introduce at various organisational levels all those aspects of innovation that are both "useful and possible" in the areas of technology, organisation, management and process. Hera is determined to work every day toward the concrete improvement of its operations and services, encouraging an attitude of changing for the better.

Engagement and optimisation of personnel: *Sharing knowledge to improve both oneself and the company*
Hera is committed to making the most of everyone's experience and developing their skills, to promoting cooperation and the exchange of knowledge, so that work becomes a source of satisfaction and pride for people, as well as an important factor for the success of the business. Conduct in keeping with the company Mission and core Values will be rewarded, and dialogue will be encouraged so as ensure the circulation of information and the feeling of belonging to a united and integrated group.

Empowerment to choose: *Choosing the most useful solution for growth*
In pursuing its Mission, Hera will select business areas and development strategies to increase corporate value and market competitiveness. Differentiation on the basis of merit will be the guiding principle behind the recognition of the workforce.

Revision of the Mission and Charter of Values

In the autumn of 2005 the process of reviewing and revising the Mission and Charter of Values established in 2002 was initiated.
A working group was set up for the purpose of reviewing the company mission, composed of the Corporate Social Responsibility Unit, the Personnel and Organisation management team, the General Manager of Hera Bologna and the External Relations Department. The working group was entrusted with the task of formulating a proposed Mission and a Charter of Values and submitting this to the Executive Committee. It was decided to involve the employees in the process by way of a number of focus groups and the circulation of a questionnaire composed of a quantitative section, where the Values and Principles laid out in the proposal were rated from 1 to 10, and a qualitative section where participants could express their personal views. 29% of the total employees involved replied and returned the questionnaire, expressing their approval of the draft, with an average rating of around 7.5.
The main evaluations and qualitative proposals put forth by the workforce in the questionnaire involved, in terms of the Mission, the insertion of more specific references to environmental protection and company's deep roots in the local operating areas. For the Charter of Values, these proposals involved the addition of the value of coherence; for the Principles, these included a reference to environmental protection and the focus on professional development of employees.
These proposals were implemented and inserted in the text of the Mission, Charter of Values and Operating Principles, and discussed within the Hera SpA Executive Committee. The Committee then submitted the definitive text to the Board of Directors, which approved it in June 2006. This led to the definitive development of *Our Moral Compass*, a leaflet distributed to all employees, attached to the September 2006 issue of the internal House Organ, also available on the company intranet and the Group's internet site.
Within this process, the mayors of Hera's 15 shareholder municipalities shared their opinions through interviews.

Revision of the Code of Ethics

In line with the revision of the company Mission and Charter of Values, in September 2006, the Group began the process of revising its Code of Ethics, which had been drafted in 2004. The revision process will conclude in the first half of 2007, and is primarily guided by the same working group which was in charge of revising the Mission and Charter of Values.
An initial phase of this revision involved the analysis of areas with "ethical" risk, starting from internal management systems and external codes of conduct, thus involving discussion and verification with the Group managers in charge of relations with various groups of stakeholders. Then a draft was prepared, which was submitted to two focus groups composed of around 40 employees from the various organizational units. The employees examined the Principles and general guidelines of the Code,

offering their suggestions which, in part, were implemented in the proposal to be submitted to the Board of Directors for approval.
A key aspect of this revision process was the method of participation in creating regulations and guidelines for ethical conduct, shared by those who play various roles in making up the organization: directors, executives, workers, collaborators and key external references including customers, social organisations, and suppliers.
The next step in the process will be implementing the Code of Ethics. The Code will not only be applied fully throughout the company, but also circulated to the key external players who will be required to comply with its principles. Periodic training sessions for employees are planned, and a system for verifying the implementation of these sessions will also be organised.

Managing sustainability

Corporate strategy

The strategic lines of Hera, in compliance with the new mission and values of the company, are focused on meeting the challenges of the operating context and taking advantage of the opportunities of the project launched in 2002.
The priorities set forth in the strategic plan are as follows:

- **Strengthening the core businesses** – Developing profitability by reinforcing the coverage of sources in the core businesses of energy and waste management, in order to reach an industrial balance in terms of sales activities; consolidation of the sales coverage of the customer base and control of revenues in regulated businesses;
- **Sustainable development** – Further developing a corporate model focused on respecting the principles of social responsibility, and continuously reaching for a sustainable balance of the interests of various stakeholders in order to improve competitiveness over the long term;
- **Innovation and rationalisation** – Optimising the efficiency and effectiveness of the operational structure, by applying innovative solutions and continuous improvement.

The “balanced” scorecard of the Hera Group

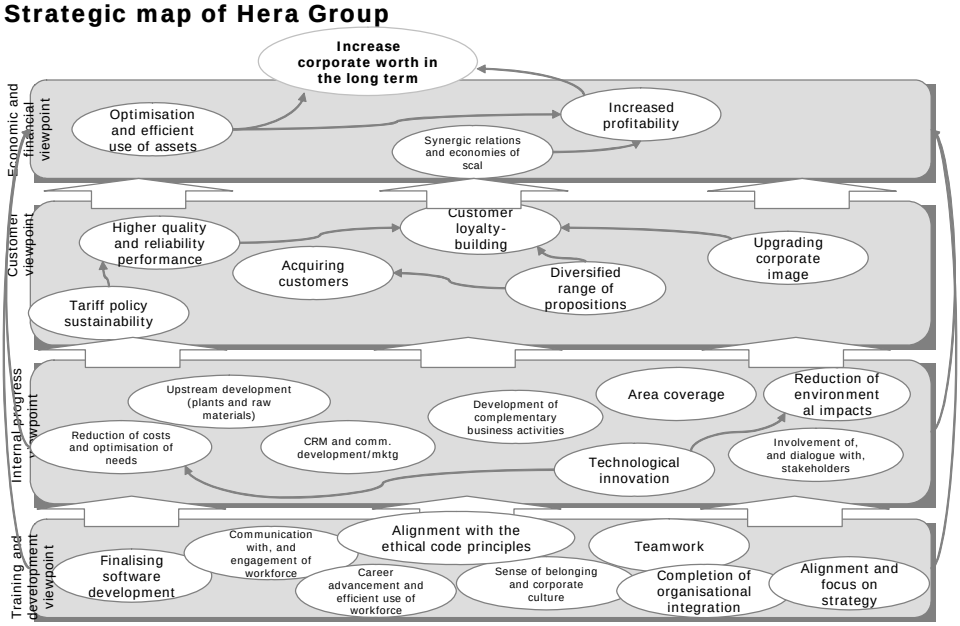
The Balanced Scorecard approach enabled us to assign “balanced” objectives to our management team. “Balanced” objectives means objectives distributed over four areas: development, quality and corporate social responsibility, organisational integration, efficiency upgrading.

In 2006, the Hera Group continued the process of introducing the balance scorecard system.

What is the balanced scorecard?
Balanced scorecard denotes a strategic control system. It can be aligned to the bonus system, based on the practice of forging links between strategy and day-to-day corporate management processes.
It was devised in the early 1990's by the American academics, R. Kaplan and D. Norton. It has generated an immense following among leading corporations in the USA and is now being taken up by major European players.

The Balanced Scorecard approach provides a methodology pinpointing strategy and translating it into day-to-day actions and objectives on an organisation-wide basis. The innovation content of this approach lies in its considering the achievement of strategic objectives of a "qualitative" nature (e.g. stakeholder involvement, increased quality of services to the customer, and staff career advancement) as a condition for the achievement of traditional economic and financial objectives.

Strategic map of Hera Group



The strategic map of the Hera Group is a summary of the objectives of the industrial plan. The commitments to stakeholders set forth in the 2005 Sustainability Report were also taken into consideration.
The strategy map of the Group highlights 25 strategic objectives for increasing the value of the company over the long term. To achieve these strategic objectives, 46 priority projects were selected. These were assigned to members of the Executive Committee, and will be monitored over the year.

The strategic objectives which have the greatest impact on sustainability are:

- **Reducing environmental impact**. Minimizing the direct and indirect environmental impact of corporate activities to safeguard the natural environment on behalf of future generations. Cutting back on use of environmental resources by curbing growth of consumption, cutting back on leakage and losses and providing coverage for needs via lower environmental impact technologies.
- **Engagement of and dialogue with stakeholders**. Further developing the model of a business capable of reaching a sustainable balance of the interest of various stakeholders, in order to improve competitiveness over the long term. Engaging in further development of instruments and procedures for dialogue and

for heeding stakeholders' expectations (satisfaction surveys, Residential Advisory Boards, improvement groups, focus groups).

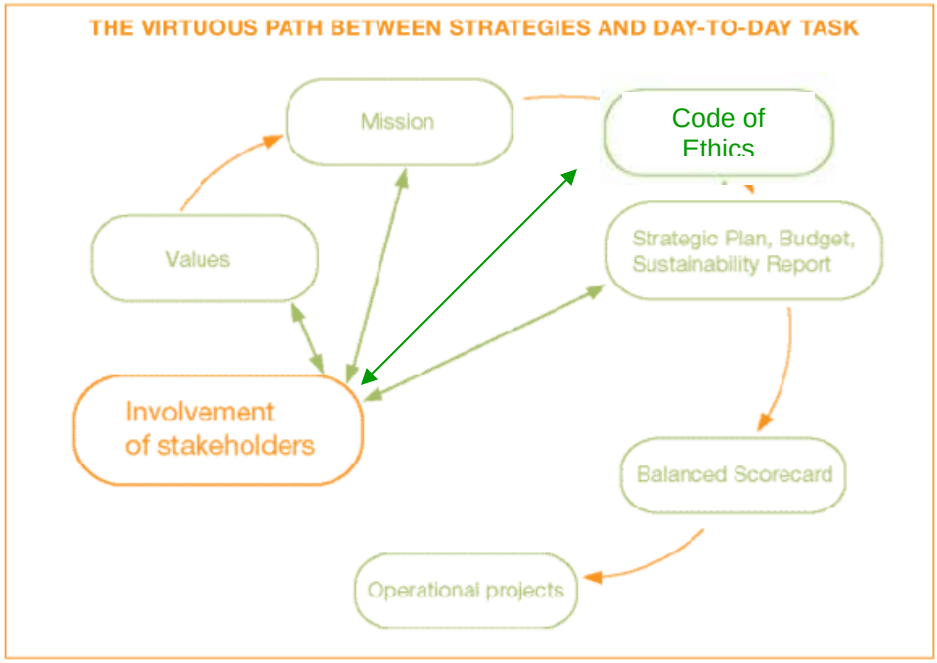
- **Communication and workforce involvement**. Organising instruments and procedures for dialogue with the workforce in a systemic manner and adopting the consequent corrective actions (specifically: internal climate surveys, improvement groups).
- **Career advancement and efficient use of skills and know-how**. Efficient use of the skills and know-how of the workforce and fostering career advancement to provide safeguards for knowledge and skill resources and to enable timely adjustment in the face of technological changes and/or changed strategy and objectives.
- **Alignment with Code of Ethics principles**. Aligning, using participation methods, the Code of Ethics currently in force to the Group's Charter of Values. Aligning corporate and workforce conduct with the values and the rules of the Code of Ethics.
- **Sense of belonging and corporate culture**. Disseminating corporate values and culture and a sense of belonging. Circulating the contents of the Charter of Values and the Code of Ethics, carrying out periodic specific training sessions.
- **Technological innovation**. Taking full advantage of openings for innovation provided by "developed" technologies for improved services efficiency/effectiveness and for enhanced environmental performance.

Many of the commitments to stakeholders listed in the pages below of this report are contained in the Hera Balanced Scorecard. This is to provide guarantees of consistency and coherence among the various instruments used for management and achievement of the corporate strategy (Industrial Plan, Sustainability Report, management reporting, bonus system).

Corporate Social Responsibility within Hera

Hera's aim is to develop and promote corporate policies with a view to adopting a corporate model that is capable of meeting the needs of all stakeholders in a balanced manner. Corporate Social Responsibility has become a fundamental (and distinguishing) management system for Hera. Already in 2003, with the decision to publish the Sustainability Report on a yearly basis, and then in 2005 when the Corporate Social Responsibility Unit was set up, Hera had made Corporate Social Responsibility a part of its strategy. For Hera, Social Responsibility represents a valid tool for increasing competitiveness, and a key element for achieving sustainable development.

We are dealing here with efforts toward achieving a more satisfactory balance, in terms of management objectives, of economic considerations, environmental impact reduction, increased service quality and, on a more general level, the issues of the greatest importance to our various stakeholders. The economic returns generated by Hera are directed toward progressive growth within the area in which the company operates. The practices of listening to, and dialogue with, the various stakeholders must lead to (balanced) consideration of all stakeholder needs considered legitimate during decision-making procedures. Day-to-day corporate management procedures must be directed toward reducing the direct and indirect environmental impacts of production activities in order to safeguard the natural environment on behalf of future generations.



Key Performance Indicators	2004	2005	2006
Economic Responsibility			
Value added (million Euro)	541.6	750.4*	838.8**
Total investments (million Euro)	262.0	346.9*	504.8**
Leverage (Net Financial Position/Shareholders' Equity)	52.8%	65.4%*	77.4%**
ROI (Operating Income/Net Capital Employed)	10.9%	8.8%*	8.6%**
EBITDA per open-ended contract employee (thousand Euro)	58.2	65.4*	68.5**
Social Responsibility			
Open-ended contract employees (average annual % of total workforce)	95.8%	95.5%	93.2%
Hours of training per capita	17.2	18.5	20.1
Workforce attending at least one training course (%)	79.2%	82.2%	92.5%
Accident frequency index (number of accidents/hours worked x 1,000,000)	56.8	50.1	47.5
Internal climate index (score 0-100)	-	50	-
Index of customer satisfaction for residential customers (score 0-100)	67	67	-
Gas emergency services: percentage of calls with intervention within 60 minutes	93.8%	94.7%	96.3%
Average call center response time (seconds)	102.9	70.2	34.5
Average branch operator waiting time (minutes)	33.8	39.5	35.8
Total return for shareholders since listing (%)	79.8%	89.6%	137.7%
% value of supplies from local suppliers	-	70%	70%
% value of supplies from ISO 9001 certified suppliers	-	61%	60%
No. environmental education programme students	-	33,505	37,622
Environmental Responsibility			
Portion of energy produced from renewable sources (incl. waste-to-energy)	38.0%	42.4%	47.7%
Portion of energy produced from renewable sources (incl. waste-to-energy)	72.4%	68.0%	71.4%
Waste-to-energy plant emission levels vs. legal limits (real concentrations/legal limits: optimal value <100%)	27.5%	28.5%	25.0%
Compliance of treated water with legal limits (real concentrations/legal limits: optimal value <100%)	32.7%	30.0%	31.7%
Compliance with Kyoto Protocol (real emissions/authorised emissions)	-	107%	95%
Water grid loss (real and procedural)	-	24.9%	23.4%
Separate waste collection	30.4%	30.9%	33.5%
% low envir. impact road vehicles (methane, electric, biodiesel) (% total fleet)	13.9%	13.0%	25.4%
Portion of municipal waste collected for disposal via landfill with no pre-treatment (% total collected solid waste)	29.8%	29.1%	24.0%

* Pro-forma data including the Meta Group.

** Data including the Aspes Group.

The instruments of governance

Corporate governance

Hera is the only Italian multiutility company with public sector majority shareholders and a markedly diversified shareholder base.
Regarding Corporate Governance, the Group adopted statutory procedures, with specific attention to the implementation of the principles contained in the Code of Conduct prepared by Borsa Italiana and published in March 2006.
The main governance bodies of Hera are the Board of Directors, the Executive Committee, Board of Auditors, the internal committees and the Shareholders' Meeting.
The Board of Directors is supported in its duties by 2 committees: the Remuneration Committee and the Internal Control Committee. The Board of Directors also set up a Supervisory Board as envisaged by Legislative Decree 231/2001.

The Board of Directors
The appointments mechanism for the Board of Directors, comprising 18 members, is specified in article 17 of the Articles of Association. These appointment rights are as follows:

- Municipality of Bologna: 4 members;
- Province of Bologna, and on behalf of 47 other municipalities: 1 member;
- Municipality of Cesena, and on behalf of 25 other municipalities: 1 member;
- Municipality of Ferrara, and on behalf of 9 other municipalities: 1 member;
- Municipality of Forlì: 1 member;
- CON. Ami (company grouping the municipalities of the Imola area) 1 member;
- Municipality of Modena, and on behalf of 30 other municipalities and bodies: 3 members;
- Municipality of Ravenna, and on behalf of 11 other municipalities: 1 member;
- Municipality of Rimini, and on behalf of 26 other municipalities: 1 member;
- Shareholders' assembly from lists presented by the minority shareholders: 4 members.

The current members of the Board of Directors will hold office until the Shareholders' Meeting for approval of the Financial Statements as at 31 December 2007.

According to the Articles of Association, the Board of Directors is to meet at least on a quarterly basis, and every time the Chairman deems it necessary. The Board of Directors is endowed with broad and unrestricted powers for ordinary and extraordinary administration of the company. It is empowered to carry out all such actions as it deems necessary for and conducive to achieving the company purpose except those placed explicitly under the responsibility of the Shareholders' Meeting. The Board of Directors met 14 times in 2006.

Name and Surname	Office	Position	Appointed by
Tomaso Tommasi di Vignano	Chairman	Executive Director	Municipality of Forlì according to the terms of art. 2449 of the Italian Civil Code.
Maurizio Chiarini	Managing Director	Executive Director	Municipality of Bologna according to the terms of art. 2449 of the Italian Civil Code.
Giorgio Razzoli	Vice Chairman	Non-executive independent director	Municipality of Modena according to the terms of art. 2449 of the Italian Civil Code.
Mara Bernardini	Director	Non-executive independent director	Municipality of Modena according to the terms of art. 2449 of the Italian Civil Code.
Filippo Brandolini	Director	Non-executive independent director	Municipality of Ravenna according to the terms of art. 2449 of the Italian Civil Code.
Luigi Castagna	Director	Non-executive independent director	Province of Bologna according to the terms of art. 2449 of the Italian Civil Code.
Pier Luigi Celli	Director	Non-executive independent director	Municipality of Bologna according to the terms of art. 2449 of the Italian Civil Code.
Piero Collina	Director	Non-executive independent director	Shareholders' Meeting from lists presented by the minority shareholders
Pier Giuseppe Dolcini	Director	Non-executive independent director	Shareholders' Meeting from lists presented by the minority shareholders
Giuseppe Fiorani	Director	Non-executive independent director	Municipality of Modena according to the terms of art. 2449 of the Italian Civil Code.
Lanfranco Maggioli	Director	Non-executive independent director	Municipality of Rimini according to the terms of art. 2449 of the Italian Civil Code, in substitution of the resigning Ermanno Vichi
Vander Maranini	Director	Non-executive independent director	Municipality of Ferrara according to the terms of art. 2449 of the Italian Civil Code.
Fabio Alberto Roversi Monaco	Director	Non-executive independent director	Shareholders' Meeting from lists presented by the minority shareholders
Nicodemo Montanari	Director	Non-executive independent director	Con.AMI according to the terms of art. 2449 of the Italian Civil Code.
Roberto Sacchetti	Director	Non-executive independent director	Municipality of Cesena according to the terms of art. 2449 of the Italian Civil Code.
Luciano Sita	Director	Non-executive independent director	Municipality of Bologna according to the terms of art. 2449 of the Italian Civil Code.
Bruno Tani	Director	Non-executive independent director	Shareholders' Meeting for approval of annual report, from lists presented by the minority shareholders
Stefano Zolea	Director	Non-executive independent director	Municipality of Bologna according to the terms of art. 2449 of the Italian Civil Code.

Executive Committee
The Executive Committee was appointed by the Board of Directors on 16 January 2006. With regard to the yearly definition of the Group's Industrial Plan and the proposed appointments of top level managers, the Executive Committee has a duty to express an opinion prior to their submittal to the Board of Directors; it is also expected to adopt resolutions, in relation to defined brackets of amounts, concerning contracts and agreements tied to the corporate purpose, consultancy relationships with outside professional experts, the company's membership in organisations, associations and other bodies, settlement of disputes and releases of creditor claims, acts amending or terminating contracts for credit lines and loans, and stipulation, amendment and termination of investment contracts.
The Executive Committee is composed of the Chairman, Vice Chairman and Managing Director. It met three times in 2006.

Remuneration Committee
The task of this committee is to make proposals to the Board of Directors with regard to remuneration of the Chairman, the Managing Director, and managers who cover specific roles, as well as to propose the general criteria to be adopted with regard to remuneration of senior management.
The Committee met 3 times in 2006, also with a view to delineating the new model for the bonus system for managers, linked to the Balanced Scorecard.
The Committee is made up of four non-executive independent directors: upon invitation by the Committee chairman, the Managing Director and the Chairman of the Board of Directors may participate in the meetings.

Internal Control Committee
The Internal Control Committee has an advisory role and may also make proposals. It is composed of four non-executive independent directors. Its task is to assess the reliability of the internal control system to ensure the efficiency of corporate operations, reliability with regard to information of a financial nature, compliance with the law and with regulations, and protection of corporate assets.
Taking part in its meetings are the Chairman of the Board of Auditors or another Auditor designated by the said Chairman, as well as, when expressly requested by the committee Chairman, the Managing Director and the Chairman of the Board of Directors.
The Committee for Internal Control met 6 times in 2006.

Board of Auditors
This company body is appointed by the Shareholders' Meeting. Its task is to ensure correct administrative practices, specifically, the suitability of the organisational, administrative and accounting arrangements adopted by management, and the effective operation of such arrangements.

Supervisory Board 231
The task of the Supervisory Board 231 is to supervise and control compliance with, and the functioning and effectiveness of, the Organisational Model for the prevention of

crimes which might be linked to administrative liabilities of the Group companies, according to the terms of legislative decree 231/2001.
This board is an independent body appointed by the Boards of Directors of the companies of the group taking part in "Progetto 231" (Project 231)[1]. The Board reports to each Board of Directors on matters of concern as per legislative decree 231/2001. It avails itself of the Internal Auditing Department for purposes of control, analysis and other duties undertaken.
The Board is composed of three independent members, and is chaired by the Internal Auditing Manager. It met 7 times in 2006.

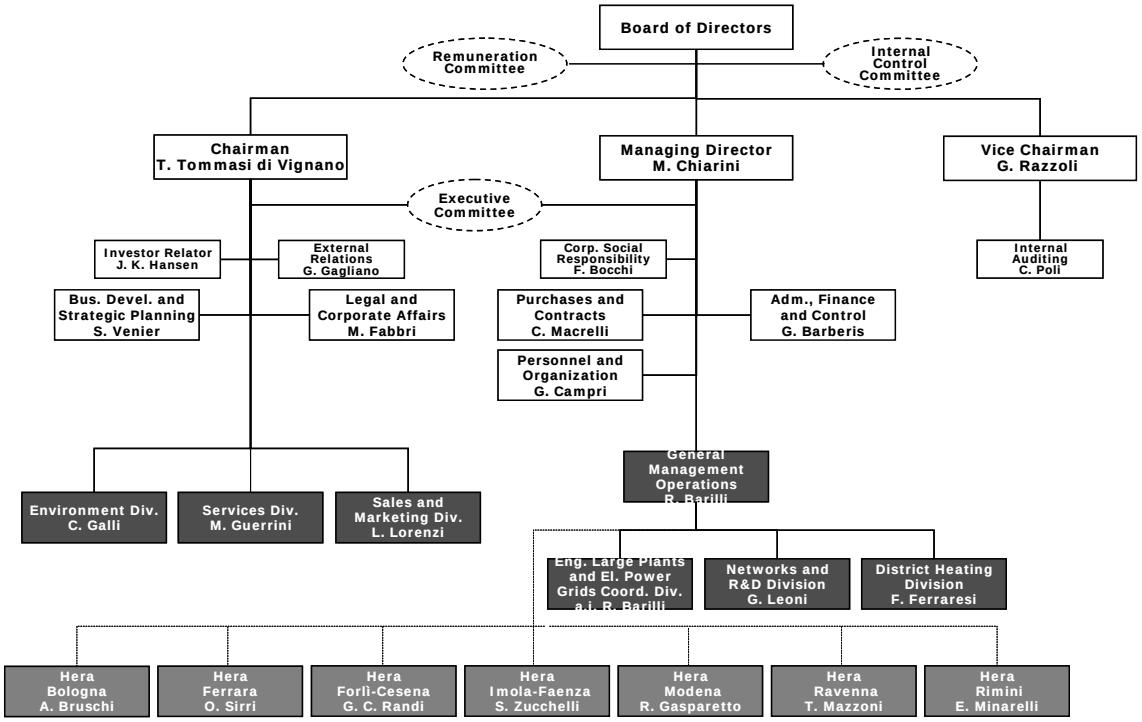
Organisation

During 2006, the integration of Meta within Hera was completed. The project involved both the start-up of the Hera Modena Territorial Operative Company, the centralisation of the policy and co-ordination activities within the Holding Company and the transfer of the direct management of operations and plants to the Environmental, Services and Sales & Marketing Divisions. At the same time, partly in consideration of the expertise acquired from Modena, Hera decided to focus the business by means of the formation of a new dedicated division, as well as the design and construction of the plants, also on the co-ordination of the Group's electricity grids.
Furthermore, 2006 saw the completion of the process for the integration of the electricity grids of the Modena province acquired from Enel, which began operations as from 1 July 2006.
The implementation of the SAP-ISU IT system was also extended during the year, with the consequent integration of the customer processes, management of the works and the billing in the last two remaining areas, Modena and Ferrara. This process will be fully completed during the first few months of 2007.

With the aim of guaranteeing the supervision and integrated formulation of the Quality, Safety and Environment System, at the end of 2006, the integration of the Quality, Safety and Environment Division within the Personnel and Organisation Division was approved.

The following organisational chart presents the situation as at March 2007.

[1] These companies are as follows: Hera SpA, Hera Bologna, Hera Ferrara, Hera Forlì-Cesena, Hera Imola-Faenza, Hera Modena, Hera Ravenna, Hera Rimini, Famula on-line, Hera Comm, Hera Trading, Akron, Ecologia Ambiente, FEA, Sinergia, Hera Luce, Acantho, Eris, Nuova Geovis, and Uniflotte (these companies comprise 94% of the Group's workforce).



The structure of Hera is therefore based on **six Divisions** and **seven Territorial Operative Companies.**

The **Divisions** of the Hera SpA holding company have guidance and coordination functions. The Environment, Services and Sales and Marketing Divisions directly manage their operations or production plants.

The **Territorial Operative Companies** are operational within their respective areas and manage those services which more directly impact the end customer: urban hygiene, gas distribution, integrated water cycle management, and customer relations management via a network of branch operators.

Three committees have been set up for purposes of corporate management.

The **Executive Committee** meets every three months to monitor management trends and the progress of Balanced Scorecard projects.

The tasks of the **Managing Committee** are to obtain group-wide consensus on policies, strategies and operational planning decisions, while fostering integration between the various functions.

The **Coordination Committee** focuses on the **Territorial Operative Companies** and monitors progress with respect to locally managed services, while ensuring alignment of the activities of the various companies.

The role of the Territorial Operative Companies within the organisation

The Territorial Operative Companies play a strategic role for Hera, above all in terms of maintaining relations with local communities, public administration and institutions, and for local management of regulated services. In terms of these aspects, the Territorial Operative Companies continue to constitute a strength, on a corporate level, for the Group.

In 2006, a series of initiatives were started for the purpose of improving process efficiency, with specific attention to relationships with the local shareholders, the Territorial Operative Companies, and the Divisions. Specifically, systematic meetings were set up between the Chairmen of the Territorial Operative Companies and the Executive Committee, an internal report was defined for each Municipality (Agenda Comuni), and meetings were organised with mayors of shareholder municipalities. Several processes for interaction between the Territorial Operative Companies, the Divisions and the Central Management of Hera SpA were redefined, such as: maintenance of corporate fleets, approval of investments and management of claims. Lastly, during the year, further initiatives were launched to improve processes, which will conclude in 2007. Specifically, the main processes involved are as follows: maintenance of premises, supplier qualification, monitoring and reporting of customer management and credit management activities.

Governing Corporate Social Responsibility

Corporate Social Responsibility Unit

In May 2005, the Board of Directors set up the organisational Corporate Social Responsibility Unit under the responsibility of the Managing Director.

The CSR Unit has the task of making sure the principles of Social Responsibility are fully a part of corporate planning and management procedures. The CSR Unit is responsible for drawing up the Sustainability Report and delineating the Balanced Scorecard system integrated with sustainability strategies.

Internal Auditing Department

In 2003, the Board of Directors of Hera SpA instituted the Internal Auditing function, implementing the definition of Internal Auditing set forth by the Committee of Sponsoring Organization of the Treadway Commission: “The independent, objective actions of the Internal Auditing function are directed toward control and an advisory role as part of the effort to enhance corporate effectiveness and efficiency. It supports the organisation in the pursuit of its objectives through a professional, systematic approach, which generates value added as it is aimed at evaluating and improving control, risk management and corporate governance processes.

As from 2006, it is under the responsibility of the Vice Chairman. Under the supervision of the Internal Control Committee, the Internal Auditing Department evaluates corporate risks, delineates the long-term audit plan and planning of specific actions within the scope of the entire Group, including the subsidiaries.

Group management assigns the Internal Auditing Manager the responsibility for Internal Auditing, in compliance with the provisions of the Code of Conduct for Listed Companies prepared by Borsa Italiana SpA

The Internal Auditing Department is also the department to which the Supervisory Board (set up in compliance with legislative decree 231/2001) reports.

Organisational Model for corporate crime prevention

In 2004, Board of Directors of Hera SpA, in compliance with the indications contained in legislative decree 231/2001 approved the Organisational, Management and Control Model. This legislative decree introduced a regime of administrative liability into the Italian legal structure. These measures are applied to entities which commit crimes in their own interest or to their own advantage. These crimes may be committed by natural persons acting as representatives, administrators or managers on behalf of the entities, or by natural persons acting under the supervision of such persons or subjected to supervision on their part.

The current Model involves all the main Group companies whose operating activities were deemed by the Supervisory Board to be under the risk of the commission of significant crimes as per Decree 231. As of now, no cases of corruption have arisen granting advantages to the Group, and thus, defined as significant as per Decree 231.

The protocols, shared with the interested Group organisations from the draft phase, were approved by the Boards of Directors of the companies considered, and are circulated to all employees via the company IT portal. Application of these protocols is monitored during the audit phase.

The following are just some of the currently applied protocols: management of donations and sponsorships, management and transmission of confidential and price-sensitive information, management of relations with authorities, and management of public financial backing.

Code of Ethics

The Code of Ethics lays down the commitments and ethical responsibilities to be met as part of all activities undertaken by the managers, the workforce and collaborators of all group companies for the achievement of corporate objectives.

Hera's Code of Ethics aims to provide guidance for group management according to the principles of compliance with the law, a fair and correct approach to professional activities and economic efficiency with respect to relations inside and outside the group, so that conduct may be of unequivocally conducive to meeting the needs of stakeholders and to consolidation of a positive corporate reputation.

As from September 2004 the supply contracts drawn up by group companies include termination clauses linked to the failure of suppliers to comply with the principles of the Code of Ethics. Starting from 2006, supplier qualification is subject to acceptance of the Code of Ethics.

Hera is a member of Global Compact

On 8 June 2004, the Hera Group ratified its commitment to the aims of the Global Compact, an international declaration of the intention to obtain consensus and support for certain fundamental principles and relating to standards applying to work, human rights and environmental safeguards.

Risk analysis

Risk factors and critical points are identified and weighed up through a process of risk assessment of the Group's business segments, and the infrastructure processes, in order to update and define the three-year Internal Audit Plan which provides a breakdown

based on level of risk for each segment to be controlled. Internal Auditing activities focus on the highest risk segments, following approval by the Board of Directors.
These activities include the monitoring of both financial risks and operating risks (within the management of normal Group operations) and is constantly upgraded on the basis of repeated audits, while also taking into consideration the indications provided by senior and other management teams.

Risk management
In January 2004, Hera created the Risk Management & Control department within its organisation, in order to optimist the company risk profile, adopt pro-active behaviours in relation to company risk, minimising threats, taking advantages of opportunities, and ensuring increasingly efficient management and protection of business assets.
Risk Management processes are applied at specific moments, such as awareness of the risk, identification of danger, risk analysis, risk management and treatment, and the control/auditing of the Risk Management policies.
The Hera Group's requirements for insurance services are covered by a pool of leading Italian and foreign insurance companies.

The Quality, Safety and Environmental Management System
With a view to curbing negative environmental and public health impacts, group commitment to ongoing improvement of the quality of the services provided continued in 2006 with the achievement of ISO 14001 environmental certification by Hera SpA and the seven Territorial Operative Companies, with the positive overtaking of the EMAS external verification of a further four waste treatment plants (the waste-to-energy plant in Rimini, the landfill in Galliera (BO), the chemical-physical plant and stabilisation plant in Bologna), with the start of the examination of the plants by the Environment Ministry and the extension of the ISO 9001 quality certification to Hera Modena.
The two EMAS certifications regarding the operations of the site in Ferrara in via Diana (the site of the head offices of Hera Ferrara, of the waste-to-energy plant, the district heating plants and the other treatment plants) obtained in 2004 and for the landfill in Baricella (BO) obtained in 2001 are still valid.
The EMAS project which aims for the registration, in the 2006-2010 period, of the entire Environment Division, for a total of 32 sites (corresponding to 53 waste treatment and disposal plants) is continuing. In 2007, two sites which include eight treatment plants are to be registered. Hera Ferrara will obtain EMAS certification for all of its managed operations, extending to the integrated water service. In 2007, works will begin for obtaining the OHSAS 18001 occupational health and safety certification within 2008.

Hera's commitment to environmental certification and quality
86% of the turnover of the Hera Group in 2006 was generated by ISO 9001 quality-certified companies. In terms of volume, 76% of the waste treated in Group plants was processed in ISO 14001 certified disposal plants. All group waste-to-energy plants have received this environmental certification. The Environment Division received ISO 14001 certification in 2003 with 8 plants which were particularly worthy of note. EMAS certified plants processed 4% of the waste treated in Hera SpA plants.

Major regulatory developments impacting sustainability

The main regulatory developments in 2006 involved the following:

- acceleration of the liberalisation process of the energy markets, focusing on the legal separation of integrated entities, and the development of the role of the regulator;
- reorganisation of the market regulatory institutions, and the rationalisation and extension of the regulatory principles of the energy sector to the water service;
- reform of the system of incentives for renewable sources, including the adoption of a "direct benefit" model;
- a complete overhaul of the local public services sector to introduce more competition, with the adoption of the general principal of tender bids for the assignment of services (however, the bill currently under debate in Parliament excludes the integrated water service from this law);
- an intense review of the environmental law governed by legislative decree 152/2006, which has primarily neutralised some of the more controversial regulations (specifically regarding the definition and management of waste) approved by previous legislatures.

Dialogue with stakeholders

Mapping Hera stakeholders

An industrial group with the characteristics of Hera must take into account the (frequently conflicting) needs and demands of its many stakeholders.
In keeping with our Corporate Social Responsibility policy, corporate decision-making procedures must take into account all the legitimate demands of the various classes of stakeholders and must seek equilibrium and integration among these demands as a part of its corporate strategies.
Hera has mapped its company stakeholders. The starting point was a survey of corporate stakeholders and of current listening and dialogue activities. Various stakeholder classes were then identified and, for each, a breakdown was provided. The presence of targets of particular interest and the issues of particular significance to these targets were also identified.
Following this process of identifying corporate stakeholders, an assessment was made of the influence each group exerts on corporate decision-making processes and the significance of each group with respect to corporate activities. These two aspects were assessed in the light of the decision-making power, pertaining legal or contractual obligations, employment relations with the company and links with corporate strategies.
Mapping of the stakeholders and key issues to be targeted by involvement actions enabled us to pinpoint the stakeholders of major importance for the company (workforce, customers, shareholders), a group of stakeholders with interests of a broader nature (financial institutions, suppliers, public administration, local communities) and a group of stakeholders whose interests are only indirectly represented (the environment and future generations).

Stake holder	Main classes	Key issues	Key listening, dialogue and involvement initiatives
Workforce	- Employees - Non-employee workforce - Union organisations	Stability, internal climate, training, career advancement, bonuses, pay, balance between work and non-work activities, safety, internal communication	- Internal climate survey conducted in 2005 2,489 questionnaires completed, equal to 48% of the total), to be repeated in 2007 (bi-annually) - Focus group for revising the Code of Ethics (involving 29 employees) - Chairman and Managing Director Road show to illustrate the industrial plan to the entire workforce - Improvement groups (involving approx. 180 employees) - Hera Group Supplementary Collective Labour Agreement: section on corporate social responsibility - Mission and Charter of Values questionnaire distributed to the entire workforce (29% response rate) - Meetings to present the Sustainability Report 2005 (involving approx. 20% of the workforce)

Stake holder	Main classes	Key issues	Key listening, dialogue and involvement initiatives
Customers	- Residential customers - Customer bases in areas served - Business customers - Consumer groups and trade associations	Service quality, tariffs, transparency, safety, service reliability, communication and information	- Annual residential and business customer satisfaction survey - Consumer group verification of the draft District Heating Services Charter - 4 focus groups to define the new bill
Shareholders	- Public shareholders - Institutional investors - Private investors - Financial community - Ethical funds	Dividends, share performance, investor relations , corporate governance aligned with best practices	- Investor Relations activities: meetings with over 350 operators (+10% compared to 2005) during 3 international and 2 local road shows) - Investor surveys - International conferences - Periodic meetings with the mayors of the municipalities of each Territorial Operative Company (Shareholders' Committee)
Financial institutions	- Banks - Bond market	Leverage (long-term)	
Suppliers	- Suppliers of goods and services and temping agencies - Qualified suppliers - Local suppliers	Continuity of relations, qualification, bargaining conditions, payment deadlines	- Meetings in Bologna, Ferrara, Imola, Ravenna and Rimini - Meetings with the associations which signed the "Memorandum of Understanding for the Hiring of People Facing Hardship" for updates on the application of the Memorandum
Public administration	- Local government authorities - Regulatory bodies - Universities - State agencies	Transparent communication, concern over local issues, compliance with the law, correct management practices, innovation	
Local community	- Local groups and associations - Trade associations - Media - Residents in the vicinity of production plants - Citizens' committees	Support for initiatives, local investment, transparent communication, socially responsible corporate management	- Residential Advisory Board in Ferrara - Participation in the "Co-generation Plant" technical round table in Imola - Application of the Segantini protocol to the new thermal plant in Bologna - Convention with local stakeholders in Rimini - Focus groups of students and teachers to develop environmental education programmes - Focus groups and studies for development of the web site
Environment and future generations	- Environmental groups	Production of energy from renewable sources, energy and water saving, district heating, water withdrawal, greenhouse gas emissions, atmospheric emissions, separate waste collection, waste disposal	- Participation in Local Agenda 21 Programmes (Bologna, Ferrara, Modena, Ravenna) - Local initiatives to promote energy and water savings

Engagement initiatives

Hera's commitment to developing listening and dialogue initiatives to engage stakeholders was evident in company's actions throughout 2006.
Thus, we decided not to carry out specific initiatives in the process of preparing this report, but to list the various forms of dialogue carried out by the Group during its normal operations. Attention was specifically focused on the more organised forms of dialogue, relations within Memorandums of Understanding or agreements subscribed by Hera with its stakeholders, and to forms of dialogue which, while not set forth in formal

deeds, had highly organised operations and were repeated over time or, if not repeated, of great importance for relations with these stakeholders.
The following sections point out the methods of dialogue that Hera has used, broken down by category of stakeholder.

Workforce

In March 2006, Hera and the Group Trade Union Management subscribed the **Group Supplementary Collective Labour Agreement,** which takes on industrial relations from an innovative viewpoint. Within the agreement, Corporate Social Responsibility takes on an important role: following the sharing of the principles of CSR, employees are recognised as fundamental stakeholders in the company, and the trade unions are recognised as a central player in the diffusion of the principles of CSR in all ordinary company actions. The Supplementary Labour Contract also contains the main CSR action lines: implementation of the verification and sharing of the corporate Mission; mapping of stakeholders and the consequent introduction of systematic listening and engagement methods, while implementing (or internally developing) several instruments such as periodic climate surveys and the Sustainability Report. The possibility of introducing SA 8000 certification will also be evaluated.
As regards the **internal climate survey,** in 2006 the improvement actions defined on the basis of the results of the August and September 2005 surveys were implemented. Of the 5,161 questionnaires handed out, 2,489 (48%) were filled out and returned. This proportion is very high, considering the fact that this was the group's first internal climate survey. From the results of the survey, we calculate an ESI rating 50, i.e. 5.5 score (the Employee Satisfaction Index is made up of various elements relating to two areas of concern: staff satisfaction and motivation). Although employees are clearly critical at times, they are fairly pleased to be working for Hera.

Please find below the survey results for the four areas studied and the improvement actions defined at the beginning of 2006. The results achieved in one year of activity are also summarised. More in-depth information on the results is provided in the section on employees.

Improvement actions defined after the internal climate survey	
Role in Hera	
Actions planned…	**… results achieved**
• Further investment in training and practice via a 20% budget increase in 2006 compared to 2005.	• Investments in training decreased by 4% compared to 2005, but if training on the new IT system, postponed to 2007, is excluded, investments increased by 27%
• Targeted training actions for branch operators and call center staff.	• In the area of training for branch operators and call center staff, specific customer relations management training was carried out, involving 125 employees, for a total of 2,000 hours of training
• Starting up "Scuola dei Mestieri" (technical and operational training school) for efficient use of professional skills and know-how.	• The first 5 pilot projects were launched, involving over 170 employees, for a total of 3,886 hours

• Assessment and bonus measures targeting staff must be enhanced and adjusted on all levels also through new approaches, including periodic monitoring of indicators and adequate communication and involvement actions.	• The Balanced Scorecard assessment and bonus system involved 52% of managers in 2006. The performance bonus was standardised for all Group companies, and a meeting was held with the trade unions in order to monitor key indicators during 2006
Workplace	
Actions planned…	**… results achieved**
• Better functioning of organisation, ensuring efficiency of processes, with particular attention paid to relations between Territorial Operative Companies and divisions/holding company • Specific training courses on orientation toward the "internal customer", i.e. immediate colleagues • Content matter and graphic design improvements are planned for the house organ. More rapid communication systems will be introduced.	• Several internal procedures were revised, placing specific attention to relationships between the Territorial Operative Companies and the holding company • Specific training courses were carried out to facilitate understanding of processes and to favour collaboration between co-workers, aiming for orientation toward the "internal customer" • The house organ was updated, revising its graphics, contents and format starting from March 2006. The new house organ is now monthly
Immediate superiors	
Actions planned…	**… results achieved**
• Staged training actions will target operators responsible for operational coordination; these actions will focus on resource management skills and the ability to delegate tasks to collaborators • Training will be planned regarding processes, management instruments, and motivation and assessment of collaborators	• These actions were launched in autumn in the Territorial Operative Companies of Bologna, Ravenna and Ferrara. In 2007, they will be extended to other areas. In 2006, 1,806 hours of training was carried out, involving 132 people
Corporate culture	
Actions planned…	**… results achieved**
• The Charter of Values and Mission will be overhauled, in order to involved everyone in this process • The company's task will be to generate shared values, safeguard these primarily through its own efforts and ask (but not demand) that these values be considered important by the entire workforce	• The workforce was involved through focus groups and the distribution of a questionnaire on the proposed Mission and Charter of Values, drafted by a working group. 29% of the workforce responded to the questionnaire. In the light of the results, the proposals were amended, then the definitive version was approved by the Board of Directors of Hera SpA in June 2006. In September, a booklet was distributed to all employees, containing the definitive version of the work performed
• A number of meetings will be arranged between the Managing Director and Chairman and the entire workforce	• For the second year running, the Chairman and Managing Director presented the industrial plan to the entire workforce in 19 meetings at the beginning of the year 2007
• Working groups will be set up to pinpoint organisational improvement actions	• 18 improvement groups were launched in the Territorial Operative Companies, involving 180 employees. The proposed solutions to the problems identified were presented to the Company Management
• On a local level, targeted actions will take place to generate greater awareness of and familiarity with Hera	• Several aggregation operations were carried out in the various areas (see the paragraph "Internal Communication" in this chapter "Workforce")

In 2006, the number of meetings held every year by the top management of the company with groups of workers increased. The purpose of these meetings is to illustrate corporate strategies, promote discussion, engage employees and collect opinions and contributions on these issues from the greatest number of employees.
In February 2007, for the second consecutive year, the Chairman and Managing Director presented the Group's Industrial Plan to approximately 6,000 employees.
This year, for the first time, meetings were also help to present the Sustainability Report to the Territorial Operative Companies. Approximately 20% of employees attended these meetings, where the results of the survey on the Charter of Values and Mission were presented.
Significant engagement activities were launched as a result of the **Improvement Groups** and the *School of Trades*. Both of these projects aim at efficient use of employees' skills and know-how, using innovative methods for continuous improvement.
The use of **focus groups** also continued. The main focus groups involved 29 employees within the process of developing the new Code of Ethics. The discussions within the focus groups were centred around a draft of the new Code of Ethics, in order to ensure understanding and acquire employees' opinions.
The commitment to employee engagement also resulted in the promotion of the photography contest for employees entitled *Your Hera*. About 500 photographs were presented. Prizes were awarded for the best photographs, and special prizes were awarded to the laboratory for differently abled youth by Hera Modena Coordinamento Metering. In the paragraph "Cultural Associations" of the section "Employees", the various types of collaboration with employees' cultural associations are described.

Improvement Groups
The improvement groups provide an opportunity to brainstorm on suggestions that will allow for significant improvement for our daily operations, making efficient use of professional skills acquired in the company and promoting active participation by employees. The improvement groups carried out by Hera in 2006 involved both white-collar and blue-collar workers (8/12 per group), for a total of approximately 180 employees.
An external facilitator led the activities aimed at identifying concrete solutions for the issue evaluated as a priority by the group. The sessions assisted by the facilitator were joined by a series of autonomous sessions, where the group of employees worked according to shared methods and guidelines.
The initial groups began in May 2006, and between July and September, their suggestions were proposed to their respective Management, which evaluated them in terns of content and feasibility, providing feedback to the group participants.
These activities achieved positive results which exceeded expectations. The best evaluations refer to the sense of belonging and delegating responsibility to employees, which specifically regard satisfaction with the possibility to participate in identifying possible solutions to problems impacting employees on a daily basis, and a sense that the work carried out is useful.
By way of example, some of the suggestions from the Improvement Group and the activities to be implemented are set forth below:

	Area of improvement	Issue identified	Suggested solutions	Management evaluation of the suggestion
Hera Bologna (Grid)	Improvement in productivity	Possible delays in execution of works	Workers' Regulations Leaflet	Suggestion approved
Hera Ferrara (waste management)	Internal and external communications	Internal communications between managers and workers	Install a notice board near the returns office	Suggestion will be implemented
Hera Ravenna (waste management)	Standardisation of activities in various offices	Much time dedicated to routine activities, to the detriment of organisation and planning, and the use of new instruments	Divide time into planning and routine management	Additional solutions to those presented by the Group have been prepared
Hera Forlì – Cesena (waste management)	Improvement in customer evaluation of the company	Lack of customer involvement	Implement communications/information/ education regarding correct behaviour, engagement and participation of customers.	Involvement of local public administration offices and volunteer groups for managing critical issues such as illegal dumps. Drivers of operating vehicles provided with summary sheets to notify citizens of their rights and duties regarding waste management services. Placement of magnetised information sheets on operating vehicles to communication corporate actions for separate waste collection
Hera Imola – Faenza (Grid)	Organisation of resources, productivity and quality of work	External resources do not complete works on schedule	Codify and plan location of materials; update database; carry out inspection and obtain permits in preliminary phase.	Suggestions approved
Hera Rimini (waste management)	Separate waste and bulky waste	Lack of awareness of customers regarding separate waste collection issues	Hotline for businesses during the summer period; Standardise the service of collection, storage and stockpiling.	Positive evaluation. Document sent which includes the planning of activities to be carried out by the departments involved.

Customers

Between March and Arpil 2007, Hera repeated the **residential customer satisfaction survey:** also in 2007, a sample representing the population of all the areas and services provided by the Hera Group (gas, electrical energy, water and environmental hygiene) was identified.

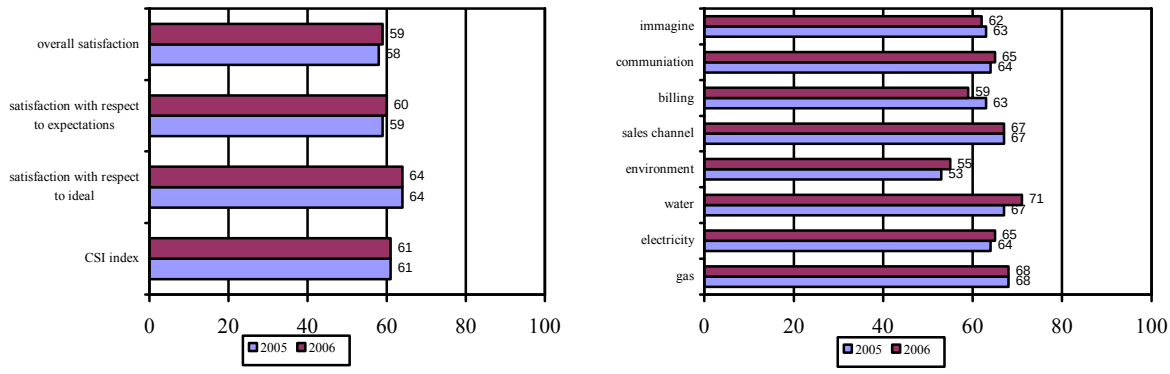
From the results of the 2006 survey, the urban hygiene service could be improved, specifically regarding the separate waste collection service. In this area, many of the

Territorial Operative Companies' improvement projects are concentrated, with the objective of reaching a level of 35% separate waste collection by 2007. Other improvement projects regard:

- management of work sites (extension/maintenance of gas and water grids etc.) to minimise, when possible, inconvenience for the public in general and increase the total quality of Hera's work on the roads;
- communication with customers/the general public, with the focus on separate waste collection (drop-off points, the *Dire, fare, differenziare* project, Mario Tozzi's show *TRASH: storie di recuperi, filosofia del naufrago, elogio del vuoto a rendere*);
- communication regarding the main plants (thermal and co-generation plants, waste-to-energy plants): tours were organised for the local press, at several of the Group's main plants, which involved the heads of the main media of the local area. Plant technology was the main player in the stand at Ecomondo 2006, which dedicated space and attention to the largest projects underway, and illustrated with plastic models and photographs the most important plants under construction in the entire region.

The **business customer satisfaction survey** was repeated in May 2006, by means of 565 telephone interviews. Once again, the interviews were carried out with the procurement decision-maker and/or main contact with Hera from the customer company. The overall customer satisfaction index (CSI) remained stable compared to 2005, with a score of 61 out of 100.

Business customer satisfaction survey



Among the elements contributing to the overall level of customer satisfaction, the level of satisfaction with energy and environmental services remained steady, and satisfaction with the water service increased by 4 points. The 4-point decrease in the "billing" component is linked to the change of the billing system which, involved all business customers between 2005 and 2006. This element also had slight repercussions on the corporate image, which decreased by one point compared to 2005. The complete coming on stream of the business customer management system in 2006 returned the service levels to the expected targets.
The overall index substantially remained steady. Of the three aspects comprising the index, both satisfaction with respect to expectations and with respect to ideal increased by one point, thus reducing the "theoretical" gap between Hera and the ideal company.

In 2007, numerous **initiatives to increase customer satisfaction** for all customer segments of the Group will be developed. The main initiatives are as follows:

- redesign of the website and the customer section, customising it based on the needs of the various customer segments;
- between 2007 and 2008, the online services will be redesigned, making them more interactive and customising them based on the needs of the various customer segments accessing the site. In addition to improving accessibility and use of the services already available, new services will be added, such as: bills in PDF format, SMS alert and e-mail alter services to remind customers of deadlines for supply, and other features that will facilitate management of relations between customers and the company, between which the possibility to pay the bills via web;
- redesign of the layout of the Hera Group bill, a project which was started after hearing the opinion of customers through various local focus groups The new layout of the bill, which will ensure quick understanding of the important information, as well as reduce the number of sheets comprising the current multiservice bill;
- initiatives aimed at improving the quality of telephone customer service, reducing response times even further and improving tools used by operators to accelerate and facilitate responses to customers.

The ideal bill for Hera's customers

Customers are requesting clarity (simplicity, comprehensibility, transparency), economic use of paper and contained use of colour printing, practicality (seeing all the important information with a glance). All of these requests were considered in the project launched in 2006 to simplify and improve multiservice billing.

Following an internal design phase, an analysis was carried out regarding customers' experience with the bill to collect useful suggestions on how to improve it and bring it closer to customers' expectations.

This analysis involved four focus groups in December 2006, in Ferrara, Bologna, Forlì and Modena, with sample of customers comprising 50% women and 50% men, aged 30 to 65 , 50% retired or housewives, and 50% employed.

Given that bills in general give rise to criticism and underlying ambivalence ("they are always to high, unclear, and annoying because they have to be paid"), a sample of the proposed new Hera multiservice bill was submitted to the group participants: important suggestions were made, which were implemented and deemed useful to improving the project and defining the optimum layout for a clear, practical and effective bill.

Following the analysis and based on company experience and know-how, the new bill for the Hera Group was defined. The issue of the first new bill is set for September 2007.

Hera met with consumer association representatives, specifically, the members of the Users' Committee within the Ravenna and Forlì water and waste regulatory authorities. The draft District Heating Services Charter was submitted to several consumer associations for proposed amendment and integration; more specifically, it was proposed to include a dispute resolution procedure in the Services Charter.

Focus groups were used as a tool for improving the quarterly report for “Hera più” customers.
In order to support the decision-making process regarding the development of separate waste collection, in the Bologna area, a study was carried out regarding opinions on separate waste collection; almost 900 completed questionnaires were collected.

Shareholders

The activities regarding financial communication and relations with financial market operators have increased steadily since 2003. In 2006, meetings were held with over 350 people (+10% compared to 2005) during 3 international and 2 local road shows, 4 analyst meetings for the presentation of the financial statement results and the industrial plan 2006-2009, 6 conferences organised by international brokers and meetings with investors organised at international level. Hera’s participation in international conferences on sustainability, where Hera's responsible approach to company management was illustrated, enabled the company to build relations with 15 investors.
A study was carried out with several members of the financial community (analysts and professional investors) in order to identify areas for improvement of the Group's financial communications.

In 2006, relations with local municipalities were consolidated, and organised through periodic meetings between the Territorial Operative Companies and the Mayors, or a committee representing the entire local area of reference.

Suppliers

Hera met associations representing supplier companies (i.e. Confindustria, cooperatives) and single companies that supply works and services in Bologna, Ferrara and Ravenna in order to increase their engagement in the qualification process, and in focusing on the Group’s sustainability and social responsibility targets. The main objective of these meetings was to ensure that suppliers are reliable partners who work with Hera in the joint interest of quality of the work carried out and, thus, the service provided.
Several meetings with suppliers held in Bologna, Imola and Rimini were focused on specific issues, such as correct management of environmental impacts and improving relations with customers and the general public.
At the beginning of 2007, meetings were held with the associations which signed the *Memorandum of Understanding for the Hiring of People Facing Hardship* for updates on the application of the Memorandum: the meetings highlighted a highly positive situation in Forlì, Modena and Rimini, while in other areas, the results were less positive.

Local Communities

One of Hera's priorities is dialogue and engagement of **persons residing in the vicinity of plants**.

In 2006 the work of the RAB in Ferrara continued, based on the specific Memorandum of Understanding between Hera and the local entities, regarding the expansion of the waste-to-energy plant.
Works were begun for the creation of a RAB intending to involve the general public concerned with the new cogeneration plant in Imola. A technical round table (coordinated by the municipality with representatives of the Forums, the Local Health Authorities, ARPA, the local environment protection agency, and the Citizens' Committees) met regularly every two-three weeks for analysis of the plan for the new plant, and for constant updates on the authorisation process. A specific public meeting focused on this project, to which the local residents living in the vicinity of the area involved were invited. At this meeting, Hera illustrated the main project figures, specifically regarding energy efficiency and impact on air pollution in the town. The RAB is expected to be created within the first half of 2007.
In August, Hera Rimini organised a convention, inviting employees, suppliers, trade associations, Mayors, grid and network operators and controlling authorities, to share opinions on the role that Hera plays in the development of the local area.
In Bologna, work was begun on the application of a protocol subscribed in September 2005 with citizens interested in the creation of a new thermal plan in via Segantini. Within this process, Hera held public meetings to illustrate the cogeneration and district heating system which the new plant fits into, created for the purpose of integration and aid. Upon the start up of the plant, Hera launched a communications process through which the data regarding plant operations and emissions is published on the website of the municipality every fifteen days.
The environmental education programmes continued over the entire area. In order to verify whether the activities promoted meet the real needs of students and teachers, at the beginning of 2007, 10 focus groups were launched (8 with students of schools of all levels, and 2 with teachers). The results will be the basis for the development of future activities.
The Group collaborates with and participates in, often in the role of promoter, local area initiatives for water and energy saving.

The RAB at Ferrara

The first RAB (Residential Advisory Board) organised by the Hera Group started up in the north-west Ferrara (Circoscrizione Nord Ovest) where Hera manages a waste-to-energy plant, at present undergoing upgrading work.
The RAB is made up of nine members democratically elected by citizens during a public assembly, three representatives of the Municipality of Ferrara (these are the

Presidente della circoscrizione, or chairman of the borough council, a town councillor from the majority grouping and a town councillor from the minority grouping) and three representatives from Hera (the manager of the Territorial Operative Company, the Customer Care Manager and the Quality, Safety and Environment manager).

Results

After a period of nearly two years, the RAB now plays a well-defined role, as a result of the intense work and considerable effort towards engagement undertaken, in order to generate trust on a public opinion level.

The distinctive features that the RAB has created in its role are as follows:

- RAB members from the citizenry can freely access the Hera plants in Ferrara, in order to personally check on operations and view the main documents (analysis of atmospheric emissions, waste products records etc.): in May 2006, the RAB also promoted the opening of the Canal Bianco waste-to-energy plant to the public (as part of the *Open Plants project*);
- significant activities of data collection and documentation: from is creation (May 2005) until the end of December 2006, the RAB met 28 times, on average every fifteen days;
- the organisation of public meetings, attended by technicians and specialists who will illustrate and discuss the issues identified.

Among other initiatives, in March 2006, the RAB invited ARPA technicians to explain and discuss one of their reports on atmospheric emissions and air quality in the north-west borough.

At the beginning of 2006, the RAB commissioned an external laboratory to carry out an analysis of PM10 particulate matter in waste-to-energy chimney plant flue emissions. In September 2006, the RAB was involved by ARPA and the Borough Council in inspections regarding the transfer within the area of an air monitoring unit. Lastly, on 13 October 2006, the site www.rab-fe.org was launched. This site provides documentation, the RAB newsletter, and updated information on the programme.

This project falls within Hera's overall sustainable development strategy, and the Group's intention to extend the experience of the RAB in Ferrara to the other areas where new waste treatment or electrical energy plants are under construction/development.

Hera wins the Sodalitas Social Award

The Hera Group was awarded the ***Sodalitas Social Award,*** in its fourth year, in the category "Internal Social Responsibility Processes", for its project for involving the local community through the RAB (Residential Advisory Board) of Ferrara. The award was created by Sodalitas, an association which promoted Corporate Social Responsibility. The award was accepted by the Managing Director of Hera and the President of the RAB of Ferrara.

What is a RAB?
RABs (Residential Advisory Boards) are a way companies and the public at large can get together and exchange information and monitor environmental indicators.
RABs facilitate communication, information exchanges and interaction between companies and local communities in the urbanized areas in the vicinity of corporate plants. This mechanism was tested for the first time in 1998 in Holland on the outskirts of Rotterdam, hosting a petrochemical complex managed by Shell.
The aim is to create communication and interaction modes between parties in operations involving large companies or aggregations of companies within contexts in which potential or likely adverse effects or risks are associated with corporate activities, directly impacting the urban environment.

The Environment and Future Generations

Hera considers it important to be pro-active within the Local Agenda 21 programmes promoted by Municipalities and Provinces, participate in promotions for energy and water saving, and, more in general, promote sensitivity and conduct consistent with the overall objective of sustainable development. Some of the areas in which Hera representatives have worked for some time are the Local Agenda 21 of the Province of Bologna and the Municipalities of Ravenna, Modena and Ferrara.
Hera has made strong commitments, with the voluntary adoption of environmental management systems, and their certification: EMAS regulations, which Hera adopted as a reference for the environmental certification of waste treatment plants, require the annual publication of an Environmental Declaration, which discloses data on the operations and impact of plants, improvements realised and new environmental improvement plans.
Cooperation with the local areas (Municipalities, Provinces, environmental and professional associations, shopping centres, etc.) involved Hera in the following activities: distribution of low consumption bulbs (5,000 bulbs distributed), water flow reducer kits (2,000 kits distributed), and informational materials; temporary stands promoting separate waste collection, temporary ecological stations, info points in main squares, distribution of coupons in exchange for separated waste, and environmentally-safe bicycles.

Hera Info-point
Within the Group campaign *Dire, Fare, Differenziare*, Hera Bologna organised twenty meetings throughout the area of the nine associations, to sensitise the general public on the issue of waste and separate waste collection.
Information points were set up at local street markets and hypermarkets in the area, for the purpose of providing information and answering questions of the general public regarding separate waste collection. On this occasion, over 900 questionnaires were collected with customer suggestions and opinions, in order to provide services which better meet customers' needs.

Results and Value Added

This section includes the key data on economic aspects of the company.
To provide a detailed account of the events of 2005, and suitable comparison with the 2006 figures, it was decided also to include, in the tables presented this section, the report for 2005 with the results for the Meta Group, integration of which took legal effect (according to Italian civil law) on 1 January 2005 (see 2005 pro-forma column). The application of international accounting principles (IFRS), and in particular IFRS 3, required exclusion of the economic contribution of the Meta Group in 2005.
The 2006 data includes the economic results of the Aspes Group, which entered the scope of consolidation of the Financial Statements starting from December 2006.

Operating results

Consolidated income statement

(million Euro)	2005*	2006
Revenues	2,100.5	2.311.5
Change in inventories of finished products and work in progress	2.2	2.7
Other operating income	44.9	50.3
Raw materials and consumable materials	- 1,014.8	-1,146.7
Costs for services	-496.2	-642.5
Other operating costs	-124.4	-46.5
Staff costs	-270.1	-296.6
Capitalised costs	144.3	194.5
EBITDA	**386.4**	**426.7**
Amortisation, depreciation and allocations	-170.7	-195.4
EBIT	**215.7**	**231.3**
Value writebacks on technical assets	15.5	-
Quota of profits (losses) of associated companies	-0.6	4.3
Financial income (charges)	-41.3	-56.4
Pre-tax profit	**189.3**	**179.2**
Income taxes	-80.5	-79.0
Net profit for the year	**108.8**	**100.2**
Attributable to:		
Shareholders of the parent company	101.4	90.1
Minority shareholders	7.4	10.1

* Prof-forma data including the Meta Group.

The increases in revenues, from Euro 2,100.5 million to Euro 2,311.5 million, should be viewed in relation to the rise in raw material costs for gas transferred onto sales prices for about half the increase, while about 30% is attributable to the consolidation of the

Aspes Group companies and the envisaged tariff increases in the Waste Management and Water areas;
The EBITDA increased by Euro 40.3 million euro (+10.4%), reaching a value of Euro 426.7 million (the weight of the Pescara companies' contributions amounted to Euro 12.9 million). This increase was achieved despite the climate trend in the last quarter being particularly mild and thus significantly reducing gas sales. As a percentage of revenues, EBITDA was up slightly, from 18.4% to 18.5%.

At the close of 2006, the EBIT totalled Euro 231.3 million, an increase of 7.2% over the previous year, mainly ascribed to the Group's focus on rationalisation and improvement in the field of efficiency upgrading.
The period closed with a pre-tax profit of Euro 179.2 million, falling by 5.3% compared to the previous year, mainly due to the extraordinary effect, for 15.5 million euro, linked to the value writeback of technical fixed assets in 2005 (net of this effect, growth amounted to 3.1%).
The net profit for 2006 amounted to Euro 100.2 million, compared with Euro 108.8 million in the previous year, disclosing a decrease of 7.9%.
Net profit for the shareholders of Hera SpA (parent company) amounted to Euro 90.1 million.

Capital employed and sources of financing

(million Euro)	31/12/2005	31/12/2006
Net fixed assets	2.534,5	2.921,9
Net working capital	238,4	167,9
Gross capital employed	2.772,9	3.089,8
Provisions	-315,4	-400,2
Net capital employed	*2.457,5*	*2.689,6*
Total gross equity	1.483,5	1.516,3
Net non-current financial indebtedness	523,7	948,7
Net current financial indebtedness	450,3	224,5
Net financial indebtedness	974,0	1.173,3
Sources of financing	*2.457,5*	*2.689,6*

The assets and liabilities of the Group display a significant increase in net fixed assets, due to the high level of investments during 2006. The decrease in working capital is attributable to the coming on stream of the new SAP billing systems, which had led to delays in the issuing of bills, leading to the accumulation of trade receivables as well as the inability to issue reminders during the credit recovery phase.
Turning to sources of financial backing, we should note the increase in non-current financial indebtedness, for Euro 425 million (+ 81.2%) and the decrease in current indebtedness. This redistribution of the sources of financing is linked to the issue of the bonded loan issue of Euro 500 million, which allowed for improved balancing of short-term and medium/long-term indebtedness.

Operating investments (non financial)

(million Euro)	2004	2005*	2006
Gas service	23.4	44.3	25.4
Electricity service	3.8	8.4	14.8
Integrated water service	67.1	76.2	100.2
Waste management services	42.2	100.2	88.8
Other services	29.4	24.4	35.4
Central Structure	59.5	77.8	56.4
Total	**225.4**	**331.3**	**321.1**

* Pro-forma data including the Meta Group.

Gas service investments in the pertaining areas are mainly accounted for by grid and plant extension, reclamation and upgrading activities, and are substantially in line with the previous year (investment in local areas decreased from Euro 24.2 million to Euro 23.5 million). The decrease in investments compared to 2005 is due to the inclusion of Euro 16.3 million for the purchase of plant and equipment in the 2005 report.
Electricity service investments, are accounted for in part by service extension and special maintenance of the plants and distribution grids in the Modena and Imola areas, coordination of electrical energy grids (for a total of Euro 10.8 million), and the Imola co-generation plant, currently under construction (for Euro 4 million). In 2006, the increased investments also continued in the integrated water service, for works in the aqueduct sector (Euro 57.6 million), sewerage (Euro 24.2 million) and treatments (Euro 18.4 million) and mainly concerning extension, decontamination and upgrading of plants. These investments derive from agreements subscribed with the pertaining Environmental Agencies (ATO).
The investments in waste management services remain high, with a reduction due to the completion of certain works on the plants of the Ecologia Ambiente plants in Ravenna (special waste treatment plant) in 2005. Investments in treatment plants continue, specifically the waste-to-energy plants in Ferrara, Forlì and Modena.
As regards the central structure, investments decreased by over 25%. These investments are linked to the commitment to implementing the corporate IT system, with a specific focus on completion of the customers information system. Significant investments also regard those for the construction and renovation of company premises (Euro 10.9 million) and for the renewal of the operating fleet (Euro 11 million).

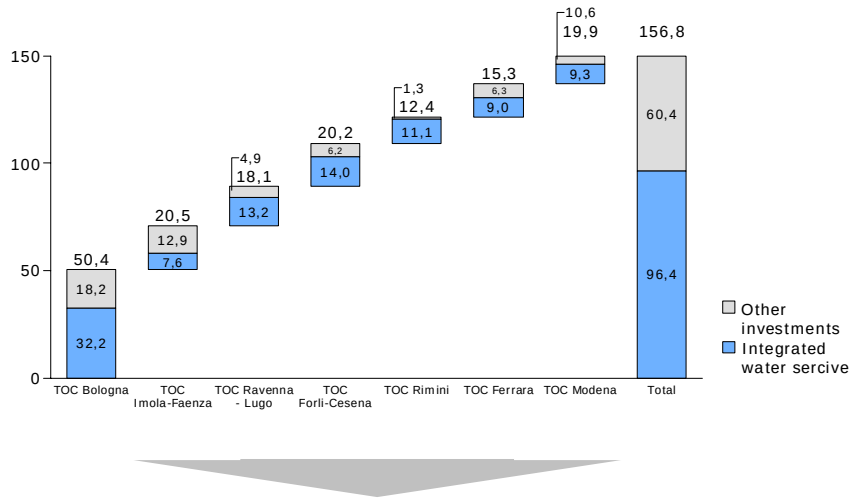
Financial equity investments and acquisitions

(million Euro)	2004	2005*	2006
Investments	36.6	15.6	183.7

* Pro-forma data including the Meta Group.

In 2006, financial equity investments and acquisitions were also made for a total of Euro 183.7 million relating to the purchase of Enel networks in the province of Modena, Euro 34.5 million for the SAT Sassuolo purchase, Euro 16.6 million for the increase in the shareholding in Aspes Multiservizi, Euro 14.5 million for the acquisition of Geat Distribuzione Gas and the remaining balance for other minor transactions.
Financial equity investments and acquisitions were aimed at increasing potential in the core business sectors and enhancing the territorial presence in neighbouring areas.

Total investments in Territorial Operative Companies



Almost 60% of investments developed through the Territorial Operative Companies regard the integrated water system.

Financial statement ratios

(million Euro)	2005*	2006
ROI (EBIT/Net Capital Employed)	8.8%	8.6%
ROE (Net Profit/Shareholders' Equity)	7.3%	6.6%
Leverage (Net Financial Position/Shareholders' Equity)	65.4%	77.4%
Turnover per open-ended contract employee as at 31/12 (thousand Euro)	355.8	371.2
EBITDA per open-ended contract employee as at 31/12 (thousand Euro)	65.4	68.5
Net profit per open-ended contract employee as at 31/12 (thousand Euro)	18.4	16.1
Open-ended contract employees	5,904	6,227

* Pro-forma data including the Meta Group.

ROI (Return on Investment) is used to gauge corporate profitability, i.e. the ability to provide incomes, and via these incomes, to provide returns on the capital invested by shareholders and third parties. ROE (Return On Equity) is a further profitability ratio gauging the company's capacity to provide returns on the capital invested by shareholders.
Leverage is an index indicating the extent of borrowing with respect to shareholders' equity.
These ratios demonstrate an improvement in corporate efficiency, with an increase of approximately 4,9% in turnover and profitability per employee. These changes are the result of the increase in turnover and profitability and the substantial stability of open-ended contract employees. The degree of indebtedness increased, following the trend of the last few years: this ratio increased from 65.4% in 2005 to 77% in 2006 as a result of the significant investments carried out.

The decrease in ROE and net profit per employee is due to the reduction in net profit for the year compared to 2005, for the reasons previously set forth.

Allocation of value added

Value added, in this Sustainability Report, is understood as the difference between revenues and production costs not constituting corporate stakeholder remuneration. Value added is, from this angle, distinct from the value added strictly applying to accounting practices. In this, the methodology applied is that proposed in 2001 by the Gruppo di studio per il Bilancio Sociale (GBS). With respect to the GBS methodology, rentals for use of assets owned by shareholder municipalities and sponsorship costs are considered, as they are deemed significant for stakeholders.
There are two important reasons for using the indicator of value added. Firstly it enables quantification of the wealth generated by the company, and accounts for how this wealth was generated and how it is allocated to stakeholders. The indicator is therefore a useful instrument for understand the economic impacts of the company. Secondly, in this manner, we can bridge the gap between the Sustainability Report and the Financial Statements. In this sense, production and allocation of value added provides an instrument by means of which we can reconsider the corporate Financial Statements from the vantage point of stakeholders.
The GRI G3 guidelines also include among the indicators the economic value generated and distributed to stakeholders. This indicator varies from the amount of value added indicated in this paragraph mainly because it also considers the distribution of economic value to suppliers, which in 2006 amounted to Euro 1,726.4 million. Of this value, the share destined for suppliers of raw materials (methane and electrical energy destined for sale) amounted to Euro 978.9 million.

Production of value added

(million Euro)	2004	2005*	2006
Revenues	1,492.6	2,100.5	2,311.5
Change in inventories of finished products and work in progress	9.2	2.2	2.7
Other operating income	27.1	44.9	50.3
Grants received from public institutions	-5.6	-14.1	-12.3
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	-622.0	-1,014.8	-1,146.7
Costs for services	-415.6	-515.7	-569.8
Bad debt provisions	-5.7	-6.1	-7.5
Accruals to provisions for contingencies and other provisions	-22.3	-19.9	-22.2
Other operating costs	-29.7	-20.8	-9.9
Capitalised costs	110.6	144.3	194.5
Gross value added	**538.5**	**700.5**	**790.6**
Write-back of technical fixed assets	-	15.5	-
Portion of profit (loss) pertaining to associated companies	-3.0	-0.6	4.3
Financial income	6.1	35.0	43.9
Gross overall value added	**541.6**	**750.4**	**838.8**

* Pro-forma data including the Meta Group.

Gross overall value added generated for stakeholders in 2006 came to Euro 838.8 million, an increase of Euro 88 million on the previous year (+12%).

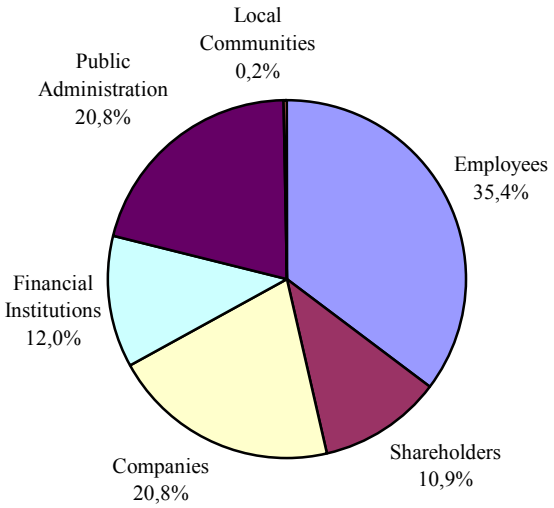
Distribution of value added to stakeholders

(million Euro)	2004	2005*	2006
Workforce	215.9	270.1	296.7
Shareholders	55.9	78.5	91.5
Company	117.8	174.9	174.4
Financial institutions	32.8	76.4	100.2
Public administration	117.2	148.4	174.2
Local community	2.0	2.0	1.8
Gross overall value added	**541.6**	**750.4**	**838.8**

The portion allocated to the workforce for 2004 and 2005 is different from the figure published in the Sustainability Report 2005 as directors' fees and ancillary personnel expenses have not been included.
* Pro-forma data including the Meta Group.

The portion of value added allocated to the **workforce** increased by Euro 27 million (+10%) compared to 2005, confirming the growth which begun the previous year. This portion comes to 35.4% of total value added produced. This portion consists in wages and salaries (including employer social security contributions and provision for employee leaving indemnities).

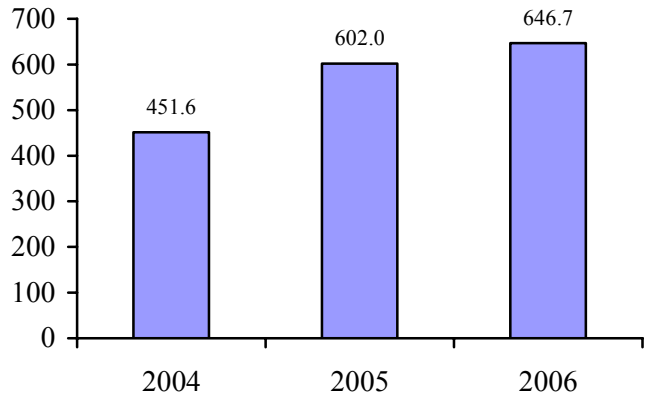
Distribution of value added to stakeholders (2006)



The portion allocated to the **shareholders** of Hera or of subsidiaries rose by Euro 12.9 million (10.9% of the total). Of this portion, Euro 81.3 million was allocated as dividends distributed to Hera SpA shareholders Euro 10.1 million was allocated as dividend for minority shareholders of the parent company Hera SpA. The profit for the year of Hera SpA was allocated to reserves for Euro 64.9 million, and to dividends to shareholders for Euro 3.2 million. This dividend was integrated by Euro 78.1 million withdrawn from reserves available for exchange gains.
A portion totalling 20.8% of the value added generated in 2006 was re-invested in the **Company**. This portion includes the net profit for the year not allocated to shareholders (Euro 8.8 million) and amortization of area investments effected by the company (Euro 165.7 million).
The portion of value allocated to **financial institutions** in 2006 came to Euro 100.2 million (12% of the total). This portion rose considerably, compared to the previous years (in 2004 it was 6% of the total) as a result of increased indebtedness required to finance area investments and Group development.

The portion distributed to **Public Administration** amounted to Euro 174.2 million, 20.8% of the total. Taxes paid came to Euro 110.5 million (11.5% of the total). Of the taxes, Euro 70.6 million euro was allocated to the State, Euro 37.9 million to the Regional authorities and Euro 2.1 million to the Municipal authorities.
Contributions for operating expenses amounted to Euro 12.3 million. The largest portion relates to contribution for separate waste collection; this portion was subtracted from the portion allocated to the public administration.
The plants and installations used by the company are in part owned by shareholding municipalities (e.g. gas and water grids). Rental payments are made out for their use. In 2006, total payments for utility contracts and for use of the assets of shareholder municipalities came to Euro 76 million.
Lastly, Euro 1.8 million was allocated to **local community** donations (Euro 0.4 million) and **sponsorship** (Euro 1.4 million); details on these items can be found in the section "Local communities".

Value added distributed to local areas (million Euro)



Value added distributed to stakeholders in local areas increased by 43% compared to 2004.
For 2006, this is composed of:

- employee salaries (46% of the total)
- dividends to local shareholders (9%)
- duties, taxes and fees to local authorities (18%)
- charitable donations and sponsorships (0.3%)
- resources re-invested in the company (27%)

If value added for local suppliers is also considered (which represents 70%, amounting to Euro 523 million), the total wealth distributed to local areas in 2006 amounted to Euro 1,170 million.

Workforce

The average for Hera workforce numbers in 2006 was 6,361 (93.2% hired with open-ended contracts). The workforce is Hera's major strength. It is the essential resource for the success and quality of a large company such as ours.
Hera, with its commitment to efficient use of staff and promoting the professional qualities of its workforce, focuses on training as a means of ensuring constant growth of individual skills and know-how, and a sense of belongingness. In this view, in 2006 Hera launched the "Scuola dei mestieri" (School of Trades) project.
In 2006, the corporate Mission and Charter of Values were redefined, involving the entire workforce through the distribution of a questionnaire; 29% of the workforce responded to the questionnaire.

Objectives and performance

We said we would...	We have...
• Implement upgrading initiatives selected on the basis of the results of the internal climate survey.	• The initiatives carried out are described in the section regarding dialogue with stakeholders. (see p. 34)
• Continue with the Progetto laureati (Graduates' Project), hiring 25 new graduates in 2006. Define the plan for 2007-09.	• The *Graduate Project* continue also in 2006, with the hiring of 26 new graduates in the various company departments. The plan for 2007-09 was defined. (see p. 62)
• Initiate the process for obtaining OHSAS Occupational Health and Safety certification in 2007.	• Following the delay in the works for obtaining environmental certification, the OHSAS 18001 process has been postponed to 2007, with certification expected in 2008. (see p. 67)
• Implement the professional system of the Hera Group for the planning of training and individual career advancement actions.	• The evaluation of all managers and executives was concluded, followed by the mapping of high potential resources. 18 career development plans were launched. (see p. 63)
• Carry out over 130,000 hours of training. Focus training sessions on operators in contact with customers (branch operators and call center staff).	• 122,500 hours of training were provided. The deviation from the target is due to the postponement of the training on the SAP project to 2007. (see p. 59)
• Foster involvement of the workforce in the project for review and revision of values and mission.	• For the redefinition of the Hera Mission and Charter of Values, the entire workforce was involved through the distribution of a questionnaire (response rate of 29%). In addition, 6 focus groups were organised, in which 92 employees participated. (see p. 16)
• Start up Hera's first kindergarten at the Cesena branch and finish the feasibility study in the other areas.	• The first Hera company kindergarten, named "Tirithera", built using bioarchitecture, began operations in January 2007. The feasibility study

• Achieve involvement of 50% of managers in the Balanced Scorecard for 2006 and 100% of managers in 2007.	carried out for the areas of Bologna, Ferrara and Ravenna had negative results. (see p. 59) • The Balanced Scorecard system involved 52% of managers in 2006. (see page 66)
We shall...	
• Continue developing initiatives aimed at improvement, involving the entire workforce ("Improvement Groups"). • Disseminate the new Code of Ethics through internal training meetings following the approval of the Code by the Board of Directors. • Provide 130,000 hours of training, equal to 21.5 hours per capita. • Continue the *School of Trades* project, applying the experience acquired and doubling the number of workers involved compared with 2006. • Improve the accident frequency index compared to the total 2006 figure. The target is to reach a frequency index of 43 in 2009. • Begin the process for obtaining OHSAS 18001 occupational safety certification in 2008. • Improve the internal communication tools through the involvement of the workforce. • Carry out the second internal climate survey in 2007.	

Breakdown

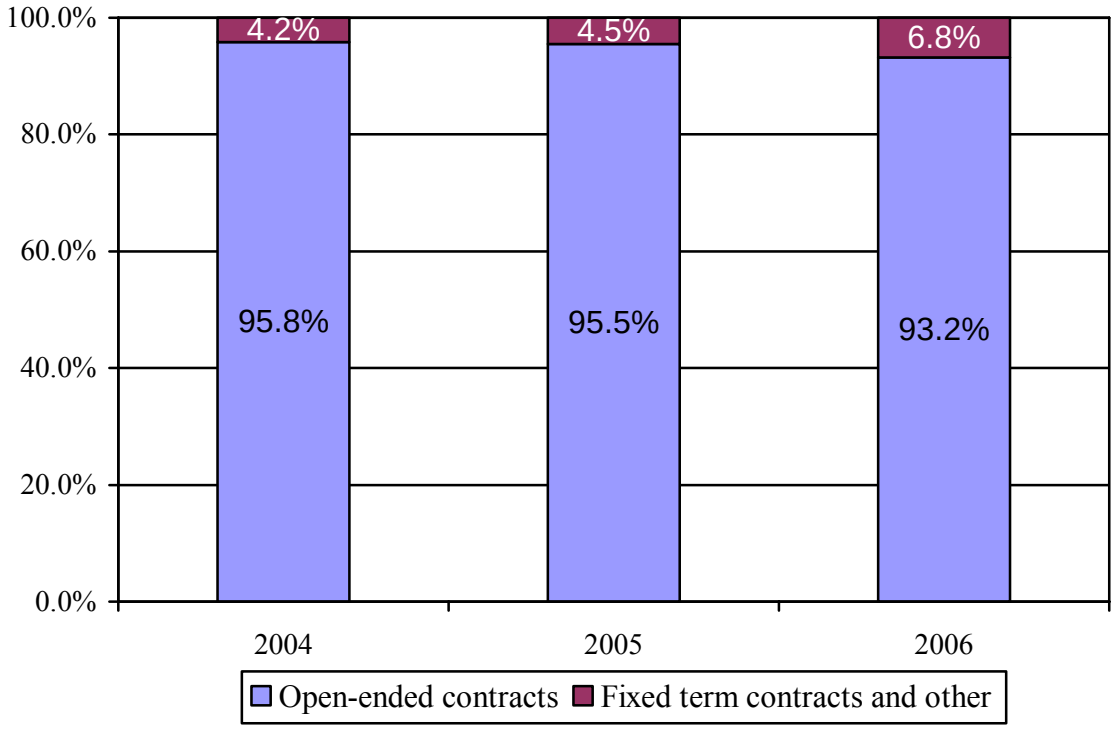
Staff figures at the close of the year

(no.)	2004	2005	2006
Executives	84	93	99
Managers	192	245	252
Administration	1,987	2,458	2,535
Manual	2,760	3,108	2,998
Open-ended contract employees	*5,023*	*5,904*	*5,884*
Fixed-term contract workers	51	48	73
Job training and entrance contracts, apprenticeships and seasonal workers	35	55	87
Fixed-term contract workers	*86*	*103*	*160*
Staff leasing contracts	8	0	135
Freelance contracts	12	2	0
Project based contract workers	5	4	15
Total	**5,134**	**6,013**	**6,194**

At the end of 2006, excluding Aspes Multiservizi and its subsidiaries, Group company employees with open-ended contracts totalled 5,884.
The average quotient of employees with open-ended contracts was 93.2%. The Group intends to limit use of flexible contracts exclusively to situations of urgency (seasonal needs, non-routine peak workloads such as implementation of the new information system for customers, replacement of workers who are temporarily absent etc.). However, the employees hired through flexible contracts provide a priority recruitment pool for hiring with open-ended contracts.
We note an overall decrease of 0.3% in the numbers of workers with open-ended contracts, with respect to 2005. This increase affects blue-collar workers above all, compared with an increase in other positions.

The increasing in the average number of employees without open-ended contracts is mainly due to the increase in the number of workers with staff leasing contracts hired to support the start up of the SAP information system for Hera Comm business customers in Modena (in 2006) and Imola-Faenza (in autumn 2005) areas, in addition to the coming on stream in the areas where this system was previously launched. Therefore, the greatest changes involve the customer management areas of the Territorial Operative Companies and in Hera Comm.

Workforce numbers (average)

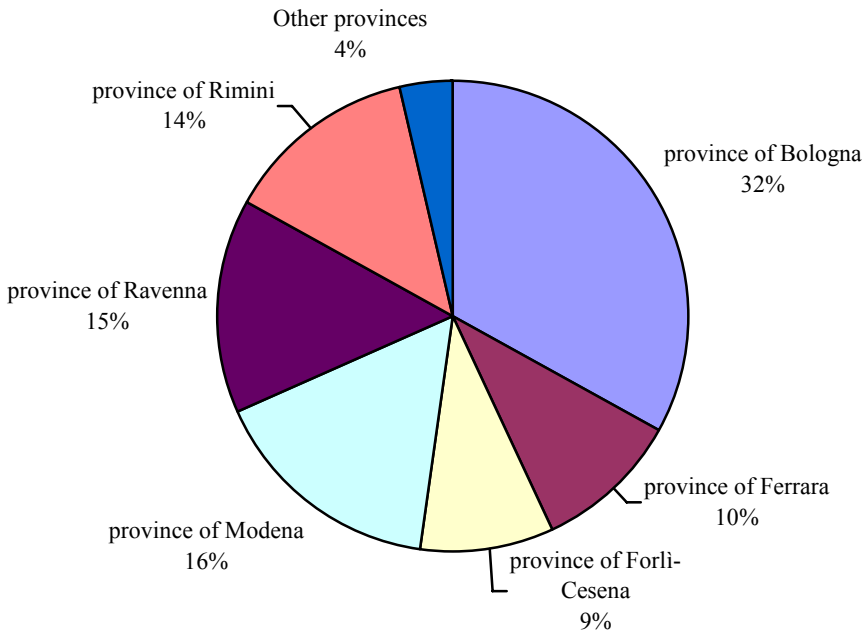


Open-ended contract employees (breakdown by function)

(no.)	2004	2005	2006
Grid services	1,680	2,011	2,001
Waste management services	1,857	2,128	2,014
Other services	337	416	409
Commercial	299	413	401
Coordination	850	936	1,059
Total	**5,023**	**5,904**	**5,884**

Of the workforce, 34% are operational in the waste management sector; 34% of the workforce is operational in the field of grid services (gas, electricity, district heating, and water service). Of the workforce, 7% are employed in the commercial structure and 7% in other services (information technology management, fleet management). Coordination activities absorb 18% of the Group workforce.

Open-ended contract employees (breakdown by place of residence)



Open-ended contract employees (breakdown by location of workplace)

(no.)	2004	2005	2006
Hera Bologna area	1,735	1,749	1,763
Hera Ferrara area	615	593	579
Hera Forlì-Cesena area	505	495	500
Hera Imola-Faenza area	449	440	439
Hera Modena area		989	965
Hera Ravenna area	808	762	749
Hera Rimini area	896	859	866
Other	15	17	23
Total	**5,023**	**5,904**	**5,884**

The reduction in the number of workers over the local areas is, in part, greater in the areas of Modena and Ferrara, as these areas most recently entered the scope of consolidation and are affected by the ongoing integration processes.
The clear reduction in the area of Ravenna is the consequence of the transfer of several services, which were previously managed by Hera, such as public parkland management and cemetery services.

Open-ended contract employees by educational qualification and position (2006)

(no.)	Executives	Quadri	Administration	Manual	Total
Primary education	0	0	14	80	**94**
Junior secondary education	2	6	470	1,976	**2,454**
High school diploma	14	90	1,703	940	**2,747**
University degree	83	156	348	2	**589**
Total	**99**	**252**	**2,535**	**2,998**	**5,884**

The level of education has increased, and reached a total percentage of graduates equal to 10%, compared to 9.2% in 2005.

Average age and average years of service by position (2006)

years	Age	Years of service
Executives	49.3	11.4
Managers	46.1	14.7
Administration	43.3	14.6
Manual	45.1	14.2
Total	**44.4**	**14.3**

Average age and average years of service of employees are 44.4 and 14.3 years, respectively.

Hours of absence and hours worked per capita (by type)

(hours)	2004	2005	2006
Sickness	74.9	67.9	67.8
Maternity	9.0	21.1	27.1
Accidents	12.4	11.3	13.7
Strikes	4.0	4.3	4.8
Meetings	2.2	1.8	1.7
Union leave	7.4	7.5	7.5
Total absences (h)	**109.9**	**114.0**	**122.6**
Regular hours worked	1,483.6	1,513.4	1,555
Overtime hours worked	59.7	57.7	64
Total hours worked	**1,543.3**	**1,571.1**	**1,619**

As regards absences, the trend remained steady as compared to the previous year, as well as the use of overtime, which continues to remain low as a percentage of total hours worked (approximately 4% of the total, meaning approximately 8 days of overtime pay received per year).

Turnover

The current personnel policy is to back up the process of integration of companies within Hera with a plan for efficient use of the workforce made available as a result of processes of internal rationalization, efficient turnover management and outsourcing of activities that generate low value added.

Since the founding of the group and following acquisitions, Hera has been engaged in a process of far-reaching corporate reorganisation with no recourse to social shock absorber measures.

Hired during the year (breakdown by position)

(no.)	2004	2005	2006
Executives	6	7	7
Managers	8	7	11
Administration	66	58	77
Manual	13	43	31
Open-ended contract employees	*93*	*115*	*126*
Fixed-term contract workers	104	106	130
Staff leasing contracts	91	271	341
Job training and entrance contracts	21	33	51
Project based contract workers	17	35	61
Freelance contracts	9	5	2
Seasonal workers	93	1	6
Trainees	3	0	0

In 2006, 126 employees were hired with open-ended contracts, compared to 115 in 2005 (of which 25 by Meta).
New employees are generally hired for top-ranking professional positions (both specialised and operative), which are difficult to cover with internal personnel. Selection took place by internal research for white-collar and blue-collar jobs. External employment selection agencies were called in for top ranking professional positions.
In 2006, 11,000 CVs were sent to Hera, and 567 job interviews were held.

Job-leaving over the year (breakdown by reason)

(no.)	2004	2005	2006
Resignation	95	97	76
Retirement	79	79	65
Death	5	5	6
Dismissal	4	1	3
Incapability	15	34	13
Transfer to other investee	4	44	40
Total	**202**	**260**	**203**

Data regards open-ended contract employees.

In 2006, 40 cases of job leaving derived from the transfer of employees to other companies, due to the transfer of several services which were previously managed by Hera (specifically, in Ravenna), the exit from the scope of consolidation of several companies.

Turnover rate

%	2006
Men	3.6%
Women	2.8%
Average	**3.5%**

Turnover rate by age

%	*2006*
Under 30	2.8%
From 30-50	2.0%
Over 50	8.3%
Average	**3.5%**

The turnover rate is calculated by dividing the number of leaving employees by the number of employees at the end of the year, thus resulting in the percentage change in staff.

Career advancement during the year (breakdown by position)

(no.)	2004	2005	2006
Executives	2	3	5
Managers	19	27	18
Administration	220	269	406
Manual	216	236	215
Total	**457**	**535**	**644**

Specific attention was focused on reducing the number of *ad interim* positions in the organisation, by promoting internal resources.
In the company organisational chart, several organisational positions are open; until these positions are permanently filled, the duties of the position are performed by another employee *ad interim*.

Ad interim positions covered in 2006

(no.)	2006
Ad interim positions as at 1/1/2006	41
Ad interim positions covered	25
Of which by internal personnel	21

Data regards Hera SpA, Hera Comm Srl, Hera Trading Srl, and the Territorial Operative Companies.

With regard to the 41 ad interim or open positions for executives and managers at the beginning of 2006, during the year, 25 positions were covered, in most cases (21 out of 25) using internal personnel.

Diversity and equal opportunities

Equal opportunities
The group is fully aware of the issues relating to equal opportunities, and is committed to avoiding all forms of discrimination. In its relations with the workforce, as a part of

its personnel management and work organization practices, and in its dealings with all stakeholders, the group is committed to making sure no discrimination takes place in the workplace.

In selecting personnel, it aims to protect equal opportunities by assessing professional and psychological profiles and aptitudes, while respecting the candidate's private sphere and opinions.

Female staff (breakdown by position)

%	2004	2005	2006
Executives	7.5%	8.3%	8.6%
Managers	24.7%	25.0%	26.9%
Total managers and executives	*19.4%*	*19.9%*	*21.9%*
Administration	40.3%	41.0%	39.5%
Manual	7.8%	7.2%	6.2%
Total	**20.6%**	**21.2%**	**20.9%**

Female staff levels reached 21% in 2006, which was substantially in line with the last few years. Female personnel levels among managerial and executive positions have risen by 2% over the last year.

Part-time contracts

(no.)	2004	2005	2006
Men	56	65	50
Women	131	158	175
Total	**187**	**223**	**225**

Part-time arrangements, as regulated by current labour agreements, are considered a valid instrument in providing a response to labour flexibility needs both in terms of organisational and employee needs. Part-time arrangements are made voluntarily and can be revoked.
They are made compatibly both with the technical, organisational and productive needs of the company and with the needs of worker.
Family and health needs, the need to help others with handicaps, and cases of serious illness (duly certified as such) are our priority considerations in assessing applications.
The persons to whom staff members report must consider how practicable the contracts the applicants seek are in terms of corporate needs. If it is concluded that the contract is practicable, the changes will be made.

Absence for maternity (hours)

(hours)	2004	2005	2006
Total hours of absence due to maternity	46,077	128,472	154,707
Hours of absence due to maternity per capita	9.0	21.1	27.1

Within the group, absence due to maternity was generally greater than the minimum absence laid down by law, both for white- and blue-collar women. At the Hera Forlì-

Cesena premises, in January 2007 a company kindergarten was opened, also available to companies in the surrounding area.

The Cesena kindergarten
The first Hera company kindergarten was opened in via Spinelli in Cesena, with the name of Tirithera. It can host up to 23 children, both children of Hera employees and those of area residents. The crèche is managed by the "Acquerello" cooperative of Forlì and is located in high-tech, modern premises: high-quality furnishings and technological solutions customised to children's needs, such as the "flooring"-based heating system. The internal works were completed using bio-architecture, with ecologically-compatible plants and materials.

Protected recruitment categories
In all areas in which the group is operational, Hera has worked toward developing a system of special agreements for negotiated solutions between Hera, the *Centri Territoriali per l'Impiego* (local job placement and career advice agencies), and the workforce. By such means, it is possible to establish preliminary contacts, prior to recruitment, for optimal use of specific personal skills.
In all areas in which the group is operational, Hera complies with the currently enforced provisions of law 68/1999, in favour of recruitment and integration within the sphere of work of certain classes of persons (the disabled, orphans etc.), via targeted support and job placement activities. The law also envisages auxiliary technical instruments for assessment, in order to provide disabled persons with the most suitable work roles.

Persons belonging to protected recruitment quotas

(no.)	2004	2005	2006
Persons belonging to protected recruitment quotas	246	273	272

The data refer to the following companies: Hera, Hera Bologna, Hera Ferrara, Hera Forlì-Cesena, Hera Imola-Faenza, Hera Modena, Hera Ravenna, Hera Rimini, Hera Comm, Famula on-line, Uniflotte, Ecologia Ambiente and FEA.

Training

The training activities provided were in line with the forecasts of the Group's general Training Plan 2007. As regards training within the SAP project, the total number of hours fell below the forecast, due to the postponement to the beginning of 2007 of the implementation of the customer management IT in the areas of Modena and Ferrara.

Training hours (total)

(hours)	**2004**	**2005**	**2006**
Executives	2,742	1,087	2,146
Managers	7,195	6,226	6,869
Administration	38,577	62,901	73,068
Manual	37,712	42,471	40,447
Total	**86,226**	**112,685**	**122,530**

During 2006, a total of 122,530 man/hours of training were provided, involving an overall increase of 8.7% when compared with 2005; this bears witness to the growing commitment both of an economic nature and with regards to resources which the Company dedicates to the achievement of training activities.
As opposed to the previous years, in 2006, the hours of training provided also included those provided to employees with staff leaving contracts or project based contracts. In these cases, employees receive initial training as well as training regarding safety in the workplace. In 2006, these categories of employees received 1,362 hours of training (compared with 291 hours in 2005).

Training (in man hours) (average, per capita)

(hours)	2004	2005	2006
Executives	32.6	11.4	21.2
Managers	37.5	25.0	26.1
Administration	19.4	23.9	27.0
Manual	13.7	13.6	13.3
Average	**17.2**	**18.5**	**20.1**

Training, in man hours per capita (average) (breakdown by organisational unit)

(hours)	2004	2005	2006
Hera SpA			
- Central bodies	24.8	21.7	23.3
- Environment Division	14.5	16.8	12.0
- Networks and R&D Division	13.5	28.6	27.7
- Services Division	15.1	9.1	6.1
- Sales Division	42.1	32.7	28.1
- District Heating Division		26.1	51.1
- Large Plants Division		13.2	15.6
Hera Bologna	16.7	18.2	28.1
Hera Ferrara	24.0	28.7	25.0
Hera Forlì-Cesena	14.5	27.9	18.5
Hera Imola-Faenza	12.0	35.3	22.9
Hera Modena		10.0	15.4
Hera Ravenna	13.8	18.3	23.4
Hera Rimini	16.2	14.0	15.7
Average	**17.2**	**18.5**	**20.1**

Training, including hand-on training, was planned and managed according to a procedure which is carried out in the following phases:

- needs analysis;
- planning of activities and cost forecasts;
- provision of training activities;
- monitoring and assessment of completed training activities.

The average number of hours of training per capita in the various organisational units may be higher or lower depending on the needs identified or specific projects involving the personnel within the unit.

Workforce involvement in at least one training course

(no.)	2004	2005	2006
Executives	70	66	105
Managers	162	190	254
Administration	1,674	2,243	2,738
Manual	2,073	2,353	2,558
Total	**3,979**	**4,852**	**5,655**

The percentage of the workforce involved in at least one training course increased from 80% to 93% of the total; for executives, managers and administration employees, this percentage was near to 100%.

Assessment of training

%	2004	2005	2006
Degree of satisfaction of trainees (perceived quality)	67%	78%	83%
Outcomes (correspondence with needs)	68%	76%	74%

The data regarding 2005 do not include Meta.

Hera uses a system for assessment of training that takes the degree of satisfaction expressed by the workforce into account, alongside the assessments of the department managers with respect to the impact of training actions on the skill profile development of collaborators and on reduction of organisational problem areas linked to trainee roles. Degree of satisfaction is generated by assessments conducted by trainees once the course is over. In the above table, the results are presented according to a 0-100 scale. Outcomes (correspondence with needs) are, instead, based on assessments provided by department managers consulted during the training assessment stage. The reported percentage values indicate scores of 4 or 5 (1-5 scale).

Training costs

(thousands of Euro)	2004	2005	2006
School of Trades (technical and operational training school) and critical skills	35	107	198
Quality, safety, environment	69	88	127
Specialised training (incl. hands-on training)	137	177	187
Managerial training	312	222	273
Basic information technology	22	28	44
Training as support for new IT system	363	358	113
Other	114	146	144
Total	**1,054**	**1,124**	**1,084**

Training costs remained substantially in line with the last three years, even though the number of hours of training provided increased by 42%. This result is due to the fact that the Group increasingly used training courses capable of leveraging the internal skills and expertise, through initiatives such as the *School of Trades*.

Key training programmes

One of the primary focuses of the Training Plan 2006 was training for the professional families "marketing and sales, and customer management". Numerous training activities were provided, involving the branch and call center personnel, junior sales assistants,

the entire commercial chain with a view to increasing internal process integration. In addition, a training plan was developed and implemented for the position of co-ordinator. This is aimed at developing skills for the management, motivation and development of employees, to facilitate the understanding of processes, through the development of relations with internal customers. This initiative was launched in Bologna, Ravenna and Ferrara, and involved 132 people for a total of 1,806 hours of training. In 2007, the initiative will be extended to other geographical areas.
For the purpose of improving orientation towards "internal customers", three sessions of a course were provided, focused on the integrated management of commercial processes for the business customer area, involving 62 employees, for a total of 992 hours. This course will be extended to mass market customer area in the first few months of 2007.

Among main training initiatives carried out in 2006, the following are noted:

- updates and development of technical-specialist skills;
- development of operational and managerial skills;
- institutional training to support insertion of resources engaged under the Graduates Project.
- widespread measures on matters regarding quality, environmental management systems and workplace safety;
- up-dating and development of skills for using the IT systems.

Graduates Project

In 2007, the first three years of the Hera Group's Graduate Project will come to an end. This project was started up in 2004, with the objective of recruiting 70 young graduates showing considerable potential by 2006-2007.
Of the 22 graduates hired in 2004, 18 completed the training activities, obtaining positive results, and are now regularly employed by the Group. The 29 graduates hired in 2005 continued with their training programmes.
In 2006, 29 further young graduates were hired by the various corporate structures. The degree subjects required were technical and engineering (65%) and humanities and economics (35%). Hiring started up between July and September, with an 18-month entrance contract.
An introductory course was organised in October 2006. The course was organised along the same lines as the previous year's course. The second stage of institutional training was set for the early months of 2007.

School of Trades

The *School of Trades* is a project for efficient use of the technical and operational skills to be found within the Hera Group. The aim is to raise the level of awareness of professional conduct and of skill transfer potentials.
The main projects completed in 2006 involved

- the driving of single operator vehicles for the collection of solid municipal waste;
- the running and remote control of plants (water system, gas distribution treatment, heat production and distribution);
- the running and remote control of waste-to-energy plants with grid form;
- network maintenance (water/gas).

Following an initial design phase, in 2006 the first five pilot projects were concluded, involving 174 workers (of which 60 in the role of trainer) and the publishing of the *Trade Notebooks*: issue 0, setting forth the methodology of the project, providing other details on the roles analysed. The *School of Trades* project is not only executed through the pilot project, but through increasing attention to the transfer of knowledge derived from the direct work experiences of the workforce from worker to worker, with a view to maintaining and monitoring the technical and operational skills to be found within the Hera Group.
During 2007, specific trade seminars will be held in order to illustrate the methodology and content of the Pilot Projects carried out during 2006, and further projects will be launched, involving typical geographical areas and roles which have not yet been dealt with.
The transfer of knowledge derived from the direct work experience from worker to worker will be specifically monitored in order to ensure that the skills which characterise the main roles in the company increase and are constantly updated, with a view to maintaining corporate know-how.

Career development systems
The year 2005 saw the start-up of the project for development of the professions system to monitor key corporate skills in order to accelerate the development and innovation of such skills within the context of changing corporate strategies and objectives. The architecture of the system was drawn up, with division into families of professions, fields of action and roles. Eighteen workshops were run (involving more than 90 managers from all families of professions). Skill profiles were delineated for each professional role alongside the procedure for skill assessment. This will enable pinpointing gaps (when these occur) and, therefore, also the planning of training courses and of actions contributing to the development of individual careers.
In 2006 the professional development system was partly implemented as compared to the previous year, and updated in line with company provisions. This system is currently under evaluation, in order to enable the launch of the planned activities.

Agreements with universities
The Hera Group has reached an agreement with the University of Bologna providing incentives for the training of undergraduates and recent graduates, with a particular emphasis on water, energy and environmental issues, through the assignment of six-monthly scholarships for final year students, and twelve-month scholarships for recent graduates.
Hera has also reached a Framework Agreement (open to tacit renewal every year) with the Department of Industrial Chemistry of the University of Bologna, which will provide young graduates or final year students the possibility to benefit from curricular training, vocational training or orientation.
In 2006, as in 2005, Hera agreed to take part in an employment scheme targeting final year students and graduates organised by the University of Ferrara. This led to the recruitment of a total of five graduates/final year students, initially for a three-month internship, followed by hiring through a project contract for twelve months.
With the University of Ferrara, the Hera Group stipulated an agreement which provides for the hiring of 4 graduates with apprenticeship contracts for high level training,

following the attendance of a Specialised Master's Degree in subject matter of interest to the company.

Internships

n	2004	2005	2006
Interns hired over the year	53	188	151
Interns recruited following internship	5	10	13

A total of 151 people participated in internships in the company, of which 13 were hired.

Training Plan 2007

The Training Plan 2007 envisages 130,000 total man hours of training. This objective is in line with the forecasts contained in the Industrial Plan 2007-2009, leading to an increase of 6% with respect to the balance for 2006. The foreseen costs for 2007 are Euro 1.18 million (an increase of approx. 9.2% compared to the total for 2006). Among the activities envisaged for achieving these objectives, particular attention will be paid to the consolidation and further development of the *School of Trades*.

Pay, salaries and bonuses

All employees are hired through national collective labour agreements (with the exception of project based contract workers, which do not have a collective labour agreement); employees with staff leasing contracts have the same economic conditions as those provided in the contracts applied to employees with open-ended contracts.

Relation between minimum pay and salary conditions according to labour agreements and Hera pay and salary levels (Federgasacqua contract – 2006)

Euro	Min. pay/salary (according to lab. agr.) (A)	Min. pay/salary (Hera) (B)	Gap % (B:A)	Average Hera compensation (C)	Gap % (C:A)
Managers	2,181	2,448	12%	3,458	59%
Administration	1,256	1,331	6%	1,970	57%
Manual	1,256	1,331	6%	1,755	40%

The above table illustrates the gaps between gross monthly pay/salary levels at Hera and those specified by the Federgasacqua labour agreement (the contract of the water, energy and other service providers' federation, Federgasacqua, is the most representative of the various contracts adopted by Hera: 41% of open-ended contract employees).

Comparison between the minimum pay/salary conditions of the Federgasacqua contract and the minimum applied by Hera was conducted by considering the minimum seniority conditions within the Group for the three employment classes. Comparison was also conducted by taking into account average pay/salary levels for the three classes.

The gap between the minimum level applied by Hera and that envisaged by the labour agreement is 12% for managers and 6% for white and blue collar workers. The average salary, on the other hand, is 59% higher than the minimum labour agreement conditions, 57% higher for white-collar workers and 40% higher for blue-collar workers.

Relation between senior management compensation according to labour agreements and Hera levels (Confservizi contract)

Euro	2006
Minimum according to labour agr. (A)	4,231
Hera minimum (B)	4,231
Gap % (B:A)	0%
Average Hera compensation (C)	8,097
Gap % (C:A)	91%

The above table illustrates the gaps between average gross compensation levels and the gross compensation levels envisaged by the national collective labour agreement for the senior management class. For this class, the contract to which reference is made is that of the local public services providers' association, Confservizi.
The average salary for executives is 91% greater than the average minimum according to the labour agreement; the minimum salary is equal to the minimum salary according to labour agreements.

Gross average productivity bonus (per capita)

Euro	2005	2006
Managers	1,986	1,365
Administration	1,412	1,162
Manual	1,187	1,078
Average	**1,320**	**1,128**

The supplementary group collective labour agreement stipulated on 22 March 2006 sets a single performance bonus for all employees of Hera SpA and subsidiaries. Already in 2004 a system of single group-wide indicators had been drawn up which, when met, would enable payment of the performance bonus. This labour agreement also envisaged a single bonus (i.e. a sum to be paid out) upon achievement of objectives, in line with professional seniority, for each employee of the Group. This is an important milestone in the efforts to harmonise and standardise pay and regulatory conditions within the Group.

In order to standardise economic conditions within the Group, the amount of the productivity bonus was reduced in 2006, providing for its progressive consolidation within the remuneration of the differentials generated in relation to the existing situation.

Workers who received an incentive bonus

(no.)	2005	2006
Executives	73	81
Managers	89	153
Administration	252	259
Total	**414**	**493**

The data regarding 2005 do not include Meta.

An incentive bonus was also paid out in 2006 to 259 key management staff members. In this case, it is the director who proposes the candidate, in compliance with group policies.

Other systems for the provision of incentives

Starting from 2006, the incentive system for executives of the Hera Group is linked to the balanced scorecard. The variable component of individual compensation for senior management staff is calculated as a percentage value of gross annual salaries (up to a maximum of 17% or 25%). It is set at the close of the year on the basis of results obtained relative to the objectives set at the start of the year. The individual balanced scorecard assigned to each executive is broken down into three areas. The first is composed of specific projects/targets deriving from a translation into operational terms of the objectives in the Group's strategic map; the second regards the economic objectives set forth in the overall group budget; while the third involves the evaluation of specific organisational conduct (linked to the way the employee interacts within Hera, and performs duties on a day-to-day basis: organisation, commitment, control, efficient use of the contributions of collaborators etc.).

In the first few months of 2006, the balanced scorecard system was extended to 52% of managers (identified on the basis of objective organisational criteria), with the objective of extending it further during 2007. The variable retribution of managers (up to a maximum of gross annual retribution) was linked to the achievement of specific projects/objectives set forth in the strategic map, specific organisational conduct and, when significant, respect of the assigned budget. The balanced scorecard system has provided closer links between strategy and projects assigned to individual managers and greater coverage for the operational objectives included in the industrial plan.

Pension funds

With the taking effect of the law reforming the supplementary pension system, now each employee may choose where to allocate their share of accruing leaving indemnities. The worker may assign the leaving indemnities to supplementary pension schemes provided by law (pension fund created through a national collective labour agreement, open pension fund, individual pension fund created through a life insurance policy), or allow them to remain in the company, or, also, may decide to allocate them to the pension fund as per the company collective labour agreements.

Among the types of supplementary pension plant, pension funds created through national collective labour agreements lead the way in terms of number of members. These funds are qualified as closed -end funds, as they are reserved only to employees to which the national collective labour agreement applies. These are voluntary funds, as employees are free to choose whether to join.

The Hera Group has three main pension funds created through national collective labour agreements: the Pegaso fund for employees under the Federgasacqua and Federenergia national collective labour agreements, the Previamente fund for employees under the Federambiente national collective labour agreement, and the Previndai fund for executives.
The percentage yields obtained by these funds in 2006 were as follows: Pegaso Comparto Bilanciato: + 3.28%; Previamente: + 4.02%; Previndai Comparto Bilanciato: + 3.87%; Previndai Comparto Sviluppo: + 5.99%; Previndai Comparto Assicurativo: + 3.84%.
In 2006, costs were incurred for a total of Euro 70 million for social security, and Euro 9.5 million for allocations to provisions for employee leaving indemnities.

Health and safety

In 2006, the positive trends in the accident frequency and rate indexes, which have been falling since 2003, were confirmed. However, the severity index recorded an increase for the year. This was the result of the sharp impact of road accidents in during commutes or in transfers during working hours, which led to long period of worker absence.
In 2006, Euro 719 thousand was spent on the purchase of accident-prevention materials, such as masks, protective footwear or suits.
Actions for improvement require the monitoring of injuries caused by accidents during commutes or during transfers during working hours, the period analysis of the trend in accidents, and the adoption of consequent corrective actions, and the initiation of a procedure for monitoring "near-misses".
In Hera SpA and the Territorial Operative Companies, there are 36 workers' health and safety representatives.
Starting from 2007, the works will begin for obtaining OHSAS 18001 occupational safety certification in 2008.

Accident indexes

	2004	2005	2006
Frequency Index (no.)	56.8	50.1	47.5
Severity index (days)	1.4	1.1	1.5
Rate Index (no.)	9.0	7.9	7.5

The frequency index is the number of accidents per million hours worked. The severity index is the number of days of absence per accident divided by thousands of hours worked. The rate index is obtained by dividing the number of accidents by the number of workers (multiplied by 100). The data refer to Hera SpA and the Territorial Operative Companies.

The severity index, which had been falling until 2005, increased in 2006 due to accidents of a certain seriousness. It is noted that the average duration of accidents has considerably increased.

Frequency index (breakdown by area of activity)

(no.)	2004	2005	2006
Grid services	48.1	42.6	36.9
Waste management services	85.4	90.3	77.9
Other services	20.3	13.5	16.3
Average	**56.8**	**50.1**	**47.5**

The data refer to Hera SpA and the Territorial Operative Companies.

The tables show an improvement in the rate of accidents related to the operational divisions (network and environmental services) and an increase in accidents for staff and management. The magnitude of the indicators reflects the risk class of the corresponding activities.

Frequency index (breakdown by area)

(no.)	2004	2005	2006
Hera Bologna area	43.7	58.0	42.3
Hera Ferrara area	66.8	35.9	39.4
Hera Forlì-Cesena area	42.0	23.2	32.4
Hera Imola-Faenza area	23.9	35.9	33.8
Hera Modena area		38.3	42.2
Hera Ravenna area	43.5	41.3	31.7
Hera Rimini area	108.2	93.1	100.5
Average	**56.8**	**50.1**	**47.5**

The data refer to Hera SpA and Territorial Operative Companies.

The rates are higher with regard to the Rimini area, as compared to the other areas, because this area manages services with greater risk components; several of these services, such as public parkland management, will be disposed of in 2007.

Accident indexes of a number of subsidiaries (2006)

	Ecologia Ambiente	Uniflotte	FEA	Hera Comm	Nuova Geovis	Hera Luce
Frequency Index (no.)	33.13	165.89	38.99	12.37	77.38	87.75
Severity index (days)	0.50	3.79	0.58	0.41	0.85	0.87
Rate Index (no.)	5.3	20.7	6.4	1.8	13.3	11.9
Workforce (no.)	76	145	47	168	30	67

As regards accidents, the frequency and severity indexes are falling for FEA, Hera Comm and Nuova Geovis. For Ecologia Ambiente, the frequency index dropped, while the severity index increased. Uniflotte and Hera Luce show an increasing trend.
As Hera Comm is a sales company, it cannot be directly compared with the other companies, as it does not fall within the same risk class as the others. FEA and Ecologia Ambiente have indicators comparable with Group average indicators, while the other companies have slightly higher indexes.

Employee health monitoring

(no.)	2005	2006
Hearing tests	1,472	1,354
Respiratory tests	2,011	2,007
Laboratory tests	1,351	1,761
Sight and eye tests	400	491
Total check-ups performed	2,774	3,228
Total suitable workers	2,507	2,820

The data refer to Hera SpA and the Territorial Operative Companies.

The tests indicated in the table refer to the employee health monitoring pursuant to law, performed by a qualified doctor. The sight and eye tests for the most part regard employees who work with video terminals; the rest of the tests involve the operating personnel.
The content of employee health monitoring is defined based on the results of the valuation of specific risks of the work activities, regarding single positions/duties.
The management of occupational medicine is carried out through the application of the Health Protocol, drafted by the qualified doctor based on the risks indicated in the risk evaluation document (art. 4, legislative decree 626/1994), which sets forth the checks to be carried out and their frequency. The check-ups are performed with variable frequency, also once every few years, depending on the legal requirements associated with the risks.

Industrial relations

Trade union activities this year were characterised initially by the organisational processes following the merger of Meta and the acquisition of the electrical energy distribution grid in the province of Modena.
In March 2006, the Hera Group Supplementary Collective Labour Agreement, which sets forth concrete commitments in terms of Corporate Social Responsibility, occupational health and safety, tenders, etc., was signed, and its measures were implemented during the year.
One of the commitments regarded the definition of targets for a performance bonus system for 2006, in homogeneous terms for all Group companies. On this issue, trade union negotiations were begun in order to determine the rules for transferring workers from one Collective Labour Agreement to another. The Supplementary Agreement delineates the field of application of the various national collective labour agreements currently applying within the Group, in order to enable uniformity of conditions for staff operating within the same production cycle.
Furthermore, an agreement was also reached to harmonise a series of economic indemnities not part of contractual regulations, a measure also aimed at equalising compensation practices for staff in the various areas where the Group operates. With a subsequent trade union agreement signed in November 2006, 17 items of remuneration were eliminated. The Agreements also provides for the joint examination, by the company and trade unions of the general lines of development of corporate organisation.

Union membership (breakdown by trade union)

(no.)	2004	2005	2006
CGIL	2,129	2,404	2,395
CISL	521	555	553
UIL	721	676	660
CISAL	119	116	96
UGL	6	6	4
Total	**3,496**	**3,757**	**3,708**
Percentage of entire workforce	**69.5%**	**62.5%**	**62.6%**

Overall membership in unions has slightly decreased in numerical terms. This development relates to job-leaving as well as to changes in the structure of the staff as a whole, with higher quotients of managerial and white-collar staff (classes with weaker ties to trade unions in terms of membership rates: approx. 60%) and a lower quotient of blue-collar workers (with an average union membership rate of approx. 70%).

Strikes (hours)

(hours)	2004	2005	2006
Total time on strike (hours)	20,241	26,576	27,449
Time on strike (per capita)	4.0	4.4	4.8

The strikes organised by the trade unions in 2006 were called to protest against delays in renewals of the Gas-Water national collective labour agreements, which expired at the end of 2005, and, in once case, to protest against the provisions of the legislative decree regarding the environment.
There were also two company-wide strikes: in Hera Imola-Faenza, to protest against the planned reorganisation in the grid area, and in Hera Bologna (only workers who are members of Federgasacqua) to protest against the closing of two operating districts.

Litigation with the workforce

(no.)	2004	2005	2006
Litigation pending at the close of the year	33	21	24

At the close of 2006, 24 cases of litigation were pending, with specific balance sheet provisions made in view of the potential costs. In 2006, 9 cases of litigation with employees were pending, including one case of collective litigation involving, in all, 127 workers, relating to the conditions applying to the laundering of work clothing of staff, which was resolved in the company's favour. On the same issue of the laundering of work clothing of staff, 2 cases of collective litigation are still pending. The other cases regarding problems relating to seniority according to collective labour agreement conditions. Two lawsuits on appeal, and one at the first level were promoted by the company.

Internal communication

During 2006, the instruments of communication with the workforce were innovated, and new initiatives were created for the purpose of enhancing cohesion in the name of transparency and openness.
The most significant sign of the commitment to sharing of company management was the publication in the House Organ, of the results of the internal climate survey and of specific projects (Improvement Groups, School of Trades, etc.), implemented in order to respond to specific issues. The progress of the project was covered throughout the year through the publication of "special issues", in which employees had their say and reported on the progress of the works.
For the second year in a row, 19 meetings with the Chairman and the Managing Director were held with the entire workforce of the Group, in order to illustrate the Industrial Plan. Following the presentation by management, a question and answer session was held.
This double-focus activity for engagement is unique for companies in the national panorama.
These events were followed by further meetings between the General Managers of the Territorial Operative Companies and the workforce. In 2006, 12 meetings were held, specifically in the companies of Bologna, Imola-Faenza, Modena and Rimini. These meetings contributed to the management of specific operations, such as the acquisition of the Enel grid in Modena, and internal organisational changes.

The bi-monthly House Organ, first issued in 2004 and targeting the entire workforce, moved to monthly publication in 2006, in order to reduce the possibility that the news it contains could be obsolete, thus limiting its readership. Its layout and contents were also improved.
Effort was made to report in-depth on the issues most important to employees (mainly related to integration) and to give greater space to interviews.
It was also decided to periodically issue special inserts. The number of pages varies from 8 to 12, with a section on the company common to all 7 issues, and 2-3 pages for each Territorial Operative Company, which varies from issue to issue.
Video Hera, plasma video screens placed in areas where employees pass by on a daily basis, increased the number of screens due to the creation of Hera Modena. PIA, the Group intranet, was expanded with new sections (About us, House Organ, From the Charter of Values to the Code of Ethics), with the idea of creating a Hera on-line community which crosses geographical areas and various job roles.

In order to promote opportunities for employees of the various Territorial Operative Companies to meet, it was decided to provide employees with free tickets to exhibitions and shows in the area. The photography competition *Your Hera* was also promoted, which had a large number of participants. over 500 photographs were entered in the competition. To evaluate the photographs, a jury was created composed of 4 employees who are experts in photography, selected from the various areas.

Closer collaboration was developed with company cultural associations, in order to promote travel and leisure time initiatives, also following the creation of the Coordination of Hera Intercompany Associations.

Cultural associations

The workforce may take part in the activities organised by the cultural associations of the various areas, set up in order to foster relations among employees.
The associations are dedicated to cultural and recreational activities, sporting and tourism. Special commercial agreements are also stipulated with these groups. The associations organise dinner parties, outings, Christmas and carnival events, competitive sports events, fishing competitions and ski excursions. Theatre season ticket booking and book-lending services are also available.
For their members, the associations contribute a portion to book spending on the part of student workers and the children of employees. Other contributions are available for courses or sporting activities and special agreements with businesses and travel agencies.
The associations are managed independently by a Management Board whose members are elected directly by association members. Organisationally, the board's actions are based on yearly budgets and programmes.

The Single Group Association
On 19 September 2006, this association was official created, under the name *Coordination of Hera Intercompany Associations*; it represents all associations in the local areas and acts as a "strong, single guide" in promoting and coordinating common initiatives and activities in the fields of culture, recreation, healthcare, training, sports and tourism.

The Hera Group contributes to the activities of the associations and guarantees the resources envisaged as a part of national collective labour agreements and of locally stipulated agreements. The group provides space at its main locations for the association, for recreational activities or for management of these activities.
The activities of the associations receive visibility via the internal communication instruments. The House Organ reports on activities targeting the entire workforce of the group in the section dedicated to the entire company, and on specific group area initiatives in the section dedicated to local concerns.

Participants in the activities organised by cultural associations

(no.)	2005	2006
Sports	1,811	2,214
Tourism	1,977	2,162
Cultural activities	775	1,814
Recreational activities	7,501	6,398
Activities for young people	1,571	1,827

Renovation and reconstruction of premises…

... in Bologna

In 2006, in the company premises in Viale Berti Pichat, the first environmental decontamination works were carried out on the building called "vecchia officina". Once the environmental decontamination is completed, the works can be started for the renovation of the building for office use.

In the area of Via del Frullo (the site of the waste-to-energy plant), the first site was opened for the renovation for office use of the "Alpi" room, within the operations to decentralised the company Hera Bologna to Frullo. In 2007, it is also planned to start up the worksites for adjusting road conditions for access to the new location.

... in Rimini

In 2006, construction was completed on the new headquarters of Hera Rimini. The Rimini Operative Company transferred to the new complex in Via del Terrapieno, which, among other amenities, is equipped with a company canteen. In 2007, the works are expected to be started for the renovation and expansion of the industrial offices in strada Consolare.

.... in Forlì and Cesena

In Forlì, the project of renovation and expansion of the headquarters in Via Balzella was completed; the project included the acquisition of a new building which will be renovated and expanded during 2007. In Cesena, the plans for the new headquarters in Via Pievesestina were completed. In 2007, it is planned to obtain the permits and acquire the area required to realise the project.

... in Imola

In 2006, the project for the renovation and expansion of the headquarters in Via Molino Rosso was completed. During 2007, works will be completed to resolve the logistical issues of the Sales Division and the Group companies: Acantho, Akron and Hera Comm.

Customers

The customer base served by Hera totals more than 2,7 million, spread over the six provinces of the Emilia Romagna region and several municipalities of the provinces of Firenze and Pesaro-Urbino. Hera also provides services to local businesses, which fall under the category of business customers. Hera is constructing fast track channels for relations with this customer base.
As from 2005, Hera began the process of assessing customer satisfaction, including listening activities targeting the needs of residential and non-residential customers. These activities continued in 2006. On a yearly basis, by means of telephone interviews, Hera conducts customer satisfaction surveys the results of which are used to pinpoint improvement objectives.

Objectives and performance

We said we would...	We have...
• Improve billing: regular multiservice billing with indication of date and sum to be paid with the next bill, so customers can plan expenditure	• Customers using more than one service have begun to receive a single bill, which includes the data regarding the next bill. The possibility of viewing the amount of the subsequent bill has not been implemented (see p. 76)
• Expand the number of operations which can be carried out on-line: possibility to pay the bills via web.	• This activity will be executed in 2007. (see page 38)
• Reach an agreement with the Water and Waste Management Authorities with regard to a single services charter for all areas served by our waste management and water services	• Two drafts were prepared of the Single Services Charter for environmental and water services for the entire area. The two drafts were submitted to the approval of the Waste and Water Regulatory Authorities. (see p. 84)
• Draw up a single services charter for our district heating service	• A Services Charter was drawn up, which is currently in the process of being approved by corporate management. (see p. 84)
• Improve management of complaints (with particular reference to response times to customers)	• Employees were trained on the new procedures for managing complaints. The percentage of complaints which were responded to within 20 days rose from 32% in 2005 to 92% in 2006. (see p. 86)
• Achieve 100% compliance with specific gas and electricity service quality standards by 2009	• This percentage amounted to 94.2% for the gas service in 2006.
• Draw up a “Welcome Kit” presenting Hera and Hera services, for distribution to new customers	• A “Welcome Kit” was prepared, to be distributed to new customers of Hera Bologna in 2007.

We shall...
• Issue the new bill for residential customers within 2007, and for business customers within 2008, simplifying its contents and reducing the number of pages. • Activate, in 2007, bill pay via web, and the possibility of subscribing to commercial offers on-line. • Reduce waiting times at branches (20 minutes in 2009) and improve the company image by engaging employees and customers. • Reduce call center waiting times to 30 seconds in 2007. • Reach 100% of compliance with specific commercial quality standards for gas and electrical energy services within 2009. • In agreement with the Waste and Water Regulatory Authorities, define a single services charter for all areas served by environmental and water services. • Ulteriorly elevate gas distribution security extending the action plan for gas distribution service safety defined for Hera Bologna to the other Territorial Operative Companies, taking into account specific local requirements. • Publish data regarding the quality of drinking water on the website. • Circulate and monitor the Services Charter for the district heating service.

Breakdown

Energy services customers

(thous.)	2004	2005	2006
Gas customers	798.6	939.6	958.4
Electricity customers	53.8	177.5	263.7
of which non-eligible / only distribution	*49.7*	*165.8*	*246.2*
of which eligible	*4.1*	*11.6*	*17.5*

The figures for 2006 include Aspes Multiservizi and its subsidiaries.

Integrated water service customers

(thous.)	2004	2005	2006
Total customers	800.1	914.0	982.4

The figures for 2006 include Aspes Multiservizi and its subsidiaries.

Urban hygiene services

	2004	2005	2006
Municipalities served (no.)	109	135	143
Citizens served (thous.)	1,943	2,294	2,439

The figures for 2006 include Aspes Multiservizi and its subsidiaries.

Hera's business customers

The commercial relations with business customers are covered by Hera Comm. During the year, fast track channels for relations were developed, including dedicated call centers and agents. These provide customers with a single channel and a single contact person for all services supplied.

At the end of 2006, there were approx. 25,000 Hera business customers. Approx. 34,000 gas contracts, approx. 22,000 electricity contracts, and approx. 33,000 water service contracts have been stipulated.

The industrial water system of Hera Imola-Faenza
This water system was built in the 1980ìs in Bubano, a village within the municipality of Mordano, in the province of Bologna, and is now managed by Hera Imola – Faenza, in order to supply surface water (not necessarily drinking water) to area businesses. The creation of this water system led to significant benefits for the environment and customer base; savings of precious groundwater, reserved for domestic use, and containment of subsidence. The plant, which covers 114 kilometres, is fed mainly with water coming from the Canale dei Molini canal and the Emiliano Romagnolo canal. This system serves 309 companies, with total distribution in 2006 of over 8 million cubic metres of water. Both of these figures are constantly growing due to the fact that, because the water is for industrial use, it requires less treatment as opposed to drinking water, and, thus, costs less, with the resulting cost containment for companies that use it.

Customer loyalty building
In 2006, customers and volumes lost were considerably compensated by a high rate of return of previously lost customers, and by acquisitions which Hera carried out in areas bordering its networks. Enel Gas continues its business on the small enterprise and residential gas market, though its competitive pressure was reduced compared to 2005.
Among the initiatives aimed at increasing transparency with regard to all customers, the bill now indicates the exact period for the submission of self-reading of the gas, water, electricity and district heating meters. This way, in the following bill, customers will be charged for the exact amount of their effective consumption. The bill also includes the expected issue date of the next bill, in order to facilitate all customers in planning their expenses.
In 2006, a study was initiated for the purpose of designing the new bill; the first issue of which is set for September 2007.

Hera has continued its customer loyalty building on the mass market sector for families, with Club Hera Insieme. Through a series of conventions with businesses primarily located in Emilia Romagna, it provides a series of discounts and advantages for club members. At the end of 2006, 47,800 customers were members of Club Hera Insieme.

Tariffs and billing

Hera manages regulated services (e.g. the integrated water cycle, collection and disposal of solid waste, gas distribution) and free market services (e.g. disposal of industrial waste, gas sales). Forregulated services, the tariffs applied by Hera are regulated by controlling authorities (AEEG and ATO), while for free market services, tariffs are influenced by competition between companies. For free market services, the tariffs are conditioned by corporate competitive practices. However, the controlling authorities also have a part to play in this forum and provide protection for consumers. AEEG

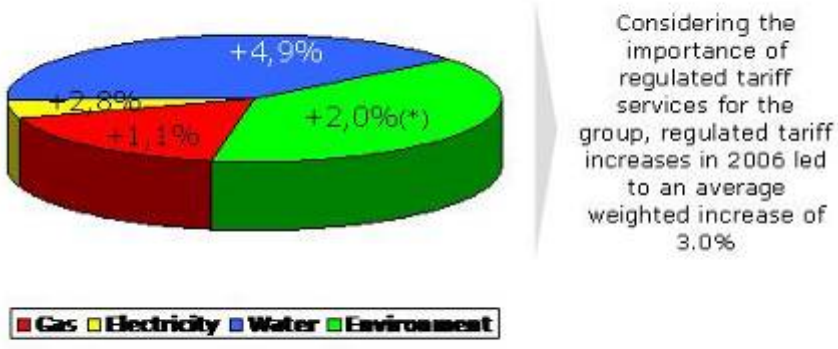
establishes (every three months) the maximum tariffs that gas sales companies (e.g. Hera Comm) can apply.

Average tariffs for regulated services

	2005	2006
Gas distribution (Euroc/m^3)	5.28	5.34
Electricity distribution (Euroc/kWh)	2.25	2.31
Integrated water cycle (Euroc/m^3)	129	135.3
Urban hygiene (av. income in Euro per inhabitant)	122.4	127.8

During 2006, there was a slight increase (+1.1%) in average unit tariffs for gas distribution, as per AEEG resolution no.57 of March 2007. This resolution formally approved the distribution tariffs for the thermal years 2005-2006 and 2006-2007.
The average unit tariff for electricity increased by 2.8%, partly as a result of the integration of the former Enel grids into Hera's scope of operations. Excluding this effect, homogeneous comparison between the two years results in a tariff increase of 1.6%.
With regard to the integrated water service, the average tariff increased by 4.9%. In this case, the tariffs applied by Hera are resolved by the Waste and Water Regulatory Authorities, in accordance with agreements subscribed in 2004, which set the tariffs for the 2005-2007 period. These agreements set out a tariff convergence process, in order to guarantee full coverage of costs, and full remuneration of the investments forecast for the three-year period.
Average incomes from urban hygiene grew by 4.4% in 2006. This increase is partially due to the realisation of the recovery of revenues lost for tax avoidance, an increase in services provided and, only for 2%, by an effective increase in tariffs applied.

Regulated tariff trends



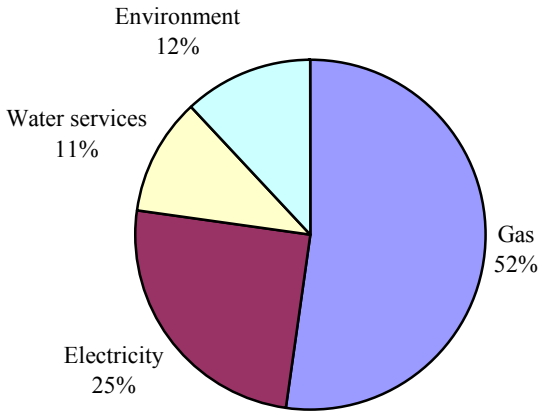
(*) The increase regards tariffs or contracts between Hera and Municipalities: in case the Municipality has not passed to the tariff system, it can decide whether to transfer the increase or to us

On tariffs applying to water and waste services....
The Galli law and Ronchi decree establish the principle that the tariffs for integrated water services and solid waste, respectively, must fully cover service management costs while also providing appropriate returns on the capital invested by the operator for the services in question (via application of the so called "normalized method" for tariff setting). Within the area served by Hera, the tariffs situation is fairly varied from this point of view. The environmental hygiene tariffs (Tariffe di Igiene Ambientale – TIA), paid currently by citizens served by Hera, cover 93% of the sums of the costs shouldered for provision of this service and for correct provision of returns on invested capital. A similar situation held true for the integrated water service, for which 93.4% of costs and return on invested capital was covered by the tariffs in effect in 2006.

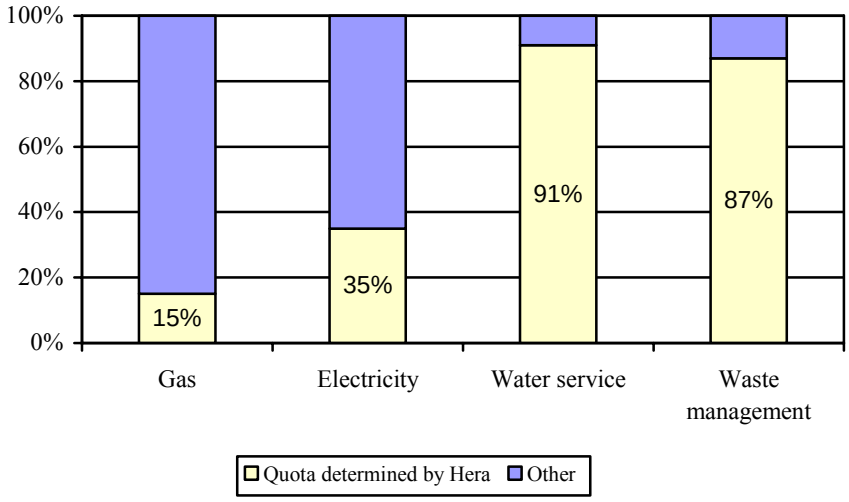
Average expenditure for customers of Hera services

	2006	
Gas	827.30	
Electricity	399.50	
Water services	170.35	
Environment	190.69	
Total	**1.587.84**	**100%**
Of which attributed to Hera	*586.55*	*37%*
Of which attributed to raw materials and generation	*504.21*	*32%*
Of which taxes, duties and system charges	*497.07*	*31%*

Average expenditure for customers of Hera services (2006)



Breakdown of the Hera bill



The gas bill

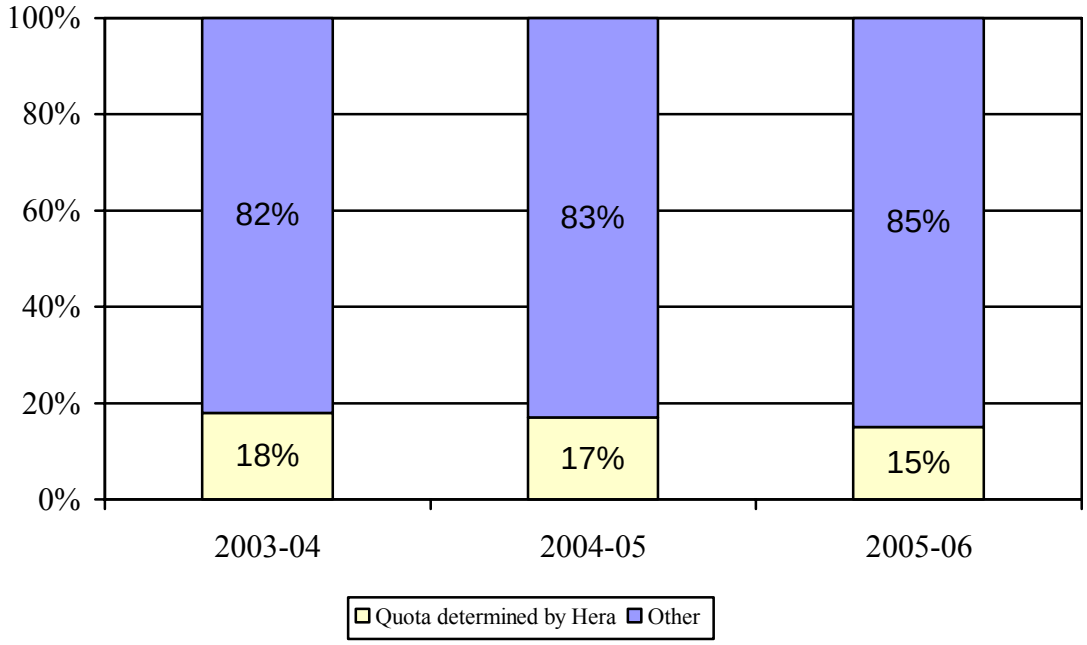
Euro	2003-04	2004-05	2005-06
Raw material component	248.2	269.9	342.7
Variable sale quota	23.6	23.6	23.6
Distribution tariff	103.2	103.7	103.7
Consumption tax	174.5	182.7	182.7
Regional tax	34.4	36.7	36.7
VAT (20%)	116.8	123.3	137.9
Total	**700.7**	**739.9**	**827.3**

Arithmetical average of six bills for a household of residents in the municipalities of Bologna, Ferrara, Forlì, Imola, Modena and Ravenna, whose yearly consumption totals 1,200 m^3 in methane gas. The grey areas refer to tariff components not falling under the responsibility of Hera. The complete data regarding the gas supply tariffs are available on the Group's internet site.

The gas bill for thermal year 2005-2006 was 18% higher than the thermal year 2003-2004, with an average yearly increase of 9%.
This increase is mainly due to the 38% increase in the raw materials component (which was affected by the price of oil) and the consequent increase in VAT. However, this marked increase was offset by the trend relative to the billing components falling under the responsibility of Hera: the variable sale quota, as well as the distribution tariff remained stable. On this issue, it is important to note that the distribution tariff in the "typical" bill above is calculated with reference to AEEG resolutions no.170/2004 and 122/2005, and thus, corresponds to the bills issued by Hera in the year indicated. In March 2007, AEEG resolution no. 57 formally approved the distribution tariffs to be applied starting from thermal year 2005-06. The new tariffs, increased by 1%, will thus be applied through adjustment on the next bills to be issued.
The distribution tariffs are defined in the local areas by the AEEG, taking into account criteria such as investments, customers served and energy distributed.
The variable sales quota is set by the AEEG, in compliance with resolution no. 237/200, and is constant for the entire regulatory period 2004-2008. This quota regards the costs of sales activities (metering, invoicing, sending bills, etc.), incurred by the gas sales company.

The raw material component (the cost of purchasing gas and transport costs), set by the AEEG with resolution no. 248/2005, accounts for 42% of the total bill, and regards the cost of production and transport of gas on the national network. The tariff for distribution accounts for approx. 13% of the total, and covers the costs incurred by the gas sales company for use of local distribution networks.
Lastly, taxes account for approx. 43% of the total. These taxes are due to the State and regional local government authorities (revenue tax, additional regional tax, VAT). Taxes are set every year by the Treasury and by the regional government authorities. These taxes vary according to the use of the gas, whether for heating or only for cooking.

The gas bill



The electrical energy bill

Euro	2004	2005	2006
Generation quota	121.62	129.19	161.46
Dispatching and retail quota	54.70	59.67	59.67
Distribution quota	85.55	78.92	78.92
System charges	29.55	27.00	40.77
Taxes	22.36	22.36	22.36
VAT (10%)	31.38	31.71	36.32
Total	**345.16**	**348.85**	**399.50**

Bill for a household with an installed capacity of 3kW, whose yearly consumption totals 2700 kWh. The grey areas refer to tariff components not falling under the responsibility of Hera.

For electricity bills of residential customers, the increase of the last two years (+16%) is a result of the increase in the cost of production of electricity, system charges and taxes (which are not income for Hera) slightly offset by the fall in the quota due to the local distributor (-1%).

Integrated water services bill

Euro	2004	2005	2006
Waterworks	81.61	82.72	85.20
Sewerage	14.56	15.66	16.24
Purification	41.12	43.15	44.74
Fixed quota	7.68	8.41	8.68
VAT (10%)	13.99	14.84	15.49
Total	**158.96**	**164.78**	**170.35**

Arithmetical average of six bills for a household of residents in the municipalities of Bologna, Ferrara, Forlì, Imola, Modena and Ravenna, whose yearly consumption totals 130 m^3 of water. The grey areas refer to tariff components not falling under the responsibility of Hera.

The integrated water service tariffs were regulated up to 2004 by the government via CIPE (Interdepartment Committee for Economic Planning). In 2005, the tariffs for the entire integrated water cycle were set by the Water and Waste Regulatory Authorities with regard to all components relative to the variable water quota, the fixed quota, and sewerage and treatment quotas.
The average bill for a residential customer for 130 m^3 per year increased from Euro 152 in 2004 to Euro 167 in 2006, an increase of 3.4% over the last year, and 3.7% in the previous year.
The trend in tariffs enabled the implementation of considerable investments aimed at improving the quality of the integrated water service, with specific focus on reducing water loss. It is worth noting that in the study by Civicum-Mediobanca, published in 2007, Hera is the company with the highest levels of investment, with almost Euro 334 invested for each 1000 m^3 of water invoiced. This study compared Hera with the companies controlled by the largest Italian municipalities, such as Turin, Brescia, Rome, Milan, Naples, Bari and Venice. This study ranked Hera in 4th place among the nine companies compared, for the percentage of water loss. In 2005, Hera recorded 24.9% of water losses, while MM Milano recorded 11.2% and Acquedotto Pugliese 49.1%.

The cost of water in Italy and Europe

The report to Italian Parliament on the state of water services in 2004 included comparison of the water tariffs of the various EU members countries. "Limiting analysis to the cities of the European Union, the average tariff of the Italian water service is among the lowest. Within the EU, similar tariffs are only to be found in Greece and England. In the other countries, expenditure is at least 50% higher."
A recent study by Federutility discovered significant differences among the tariffs applied in Europe: tariffs range from those similar to Italy's, applied in the main cities of Spain and Sweden, to tariffs almost 100% higher in Marseilles in France, or even 300% higher in German cities (Hamburg: Euro/ m^3 4.22).
According to the study, carried out by the Osservatorio Prezzi&Tariffe of the Cittadinanzattiva association, and published in 2007, the highest tariffs in Italy (above the national average) are found, in order, in Puglia, Tuscany, Emilia-Romagna, Marche, Umbria, Sicily and Basilicata.

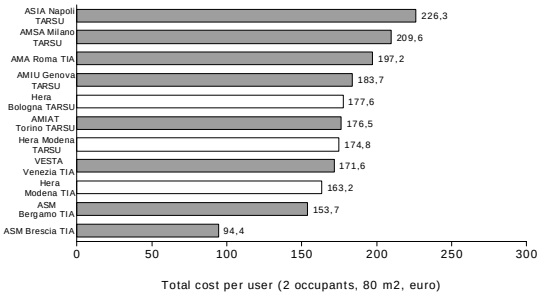
Billing for waste management

Euro	2006
Fixed quota	72.21
Variable quota	93.61
Additional province charges	8.29
VAT (10%)	16.58
Total	**190.69**

Arithmetical average of six bills for a household of 3 people, resident in the municipalities of Ferrara, Forlì, Imola, Modena, Ravenna, and Rimini, in an apartment measuring 80 m^2. The grey areas refer to tariff components not falling under the responsibility of Hera.

In 2006, Hera issued bills for environmental services (above all, sweeping, collection and disposal of waste) in 62 municipalities (47% of the total of municipalities served and 62% of the population served). In the other municipalities, it is the municipal authority itself which issues bills to its residents and receives the TARSU (tax on solid municipal waste) solid waste tax.
The "typical" bill is shown for waste issued in 2006, the first year that Hera issued the bill regarding the TIA in all of the main municipalities, with the exception of Bologna (still under the TARSU regime).
On average, a household of 3 people, residing in an apartment measuring 80 m^2 paid approximately Euro 191 for urban hygiene services in 2006.
The legal regulations include a specific criterion for setting the tariff to be applied to residents (the method termed the normalised method): the tariff must fully cover the costs (including disposal costs) which the service provider incurs. Furthermore, the tariff must ensure an appropriate return on the capital invested for management of the service. The tariff is divided into a fixed quota and a variable quota, with a distinction regarding user class on the basis of criteria agreed on with the Water and Waste Regulatory Authorities. The TIA sum is regulated, and the Water and Waste Regulatory Authorities check on correct application of the normalised method and therefore also on the tariffs to be applied to the users.
TIA differs from TARSU also because an attempt has been made to apply the principle that "people who create more waste should pay more": among the parameters used for calculation of TIA for domestic users, we have home floorspace (m^2) and the number of members of households. For non-domestic users, the type of activity is considered. The TIA also provides an incentive for separate waste collection since discounts are available for residents who conscientiously separate their waste. These discounts may be granted, depending on the area involved and the type of user, for drop off of separate waste at drop-off points, for individual collection, where foreseen, for the collective separate waste collection in "igloo" bins, and for the organisation of treatment of assimilated waste.

The cost of urban hygiene services in several Italian cities



The study published in 2007 by the Mediobanca research department, regarding the companies controlled by the largest Italian municipalities compares the cost of urban hygiene services in the municipality of Modena (TIA) and in the municipality of Bologna (TARSU) for a typical household (2 occupants, 80 m^2) with those of 8 other Italian municipalities.

The district heating bill

Euro	2005-06
Meter rental	30.67
Variable quota	789.17
VAT (10%)	81.99
Total	**901.83**

Arithmetical average of the bills for a household resident in the municipalities of Bologna, Cesena, Ferrara, Imola and Modena, with average consumption of 8,630 kWht (equivalent to 1.200 m^3 of methane gas), with a monomial domestic tariff. The bill for Ferrara was calculated excluding the tax incentives recognised due to the prevalent use of geothermal sources. The grey areas refer to tariff components not falling under the responsibility of Hera.

The bill for district heating regarding the thermal year 2005-06 is set forth, compared to the gas bill. In this year, the new methodology of a single tariff for the entire Group was implemented.
Comparing the average expenses paid by a household for the district heating service with those which would be required for a methane gas system, it is clear that district heating brings about significant savings. This savings amounted to an average of 11%, and is substantially the same in the various areas in which the Group tariff was fully applied during the thermal year 2005-06. The exception was Ferrara, where savings reached about 30%, as customers in this area can take advantage of a "tax incentive" due to the prevalent use of geothermic renewable sources.
This savings is mainly due to the reduction in accessory charges related to the management of the domestic boiler, which can be quantified as Euro 300 per year (the annual quota for the purchase of the boiler and the related ordinary and extraordinary maintenance costs).

Social tariffs

Within the sectors in which Hera is operational, tariff setting is the responsibility of the controlling authorities, which, in certain cases, may plan for special reductions for certain classes of customer.
For **gas**, municipalities may decide to include in the tariff an added charge of 1% as "contribution for social ends". These incomes are used by the municipality itself to support customers facing difficulties with regard to gas bill payments. In the area

managed by Hera, 50 municipalities (accounting for approx. 44% of served residents) have implemented this added charge.
For the **water service**, instead, the tariffs set by the Water and Waste Regulatory Authorities of Bologna, Ravenna, Rimini and Pesaro-Urbino and Modena envisage a tariff for "domestic use by large families" with reductions for families with more than six members (and with more than 3 members for the Modena Water and Waste Regulatory Authorities).. The Water and Waste Regulatory Authorities of Modena and Bologna also provided incentives for disadvantaged families with ISEE income lower than Euro 7,000 and 10,000 respectively.
For **environmental services**, the normalised method does not provided for the definition of social tariffs. In the municipalities under the TIA regime, the municipal authorities annual define the list of users (households, non-profit organisations, etc.) who are entitled to a discount, and the percentage discount on the total amount. The discounted amount is then reimbursed to Hera by the municipality.

Service quality

Electrical energy and gas
In the electrical energy and gas sector, the technical and commercial quality of the service is strictly governed by sector regulations and, in particular, by the integrated provisions of the Electrical Energy and Gas Authority in the matter of service quality (resolution no. 4, of 30 January 2004, for electricity, and no. 168 of 29 September 2004, for gas).
The integrated provisions setout, for each service, minimum obligatory standards and, in some cases, a system of incentives and penalties in order to motivate operators to pursue quality levels higher than the obligatory standards. In order to control the quality and any penalties or sanctions for unfulfilment, the sector Authority requires the monitoring, registration and periodic reporting of specific indicators, such as the interruptions of customers connected to the electrical energy grid and the times required to execute the connection to the local grid. Regulation of quality divides the standards to be met into "general" and "specific". Failure to meet the latter due to causes attributable to Hera requires the payment of indemnities to customers, which may vary depending on the seriousness of the outage, the category of meter and the duration of the damage.

Single services charter
Based on the framework resolved by the competent Authorities, as well as indications from Regional Supervisory Authorities, Hera presented a proposal to the Authorities, for a Single Services Charter for the entire area served (both for the integrated water service and for waste management services), for the purpose of standardising quality over the areas managed, while recognising the need to acknowledge local requirements where possible.
The document was submitted to the Water and Waste Regulatory Authorities, and discussions in this regard are currently underway.
By the end of 2007, Hera also intends to draw up its services charter for district heating.

Among the specific quality standards for the gas distribution service, we note the time limits for preparing an estimate, for executing a connection, for activating supply, etc. The table below sets for the percentage of compliance with specific standards, calculated as a percentage of services compliant with the standards (or non-compliant due to causes not attributable to the company) over total services provided. The worsening in 2006 can be attributed to the critical issues in data management which arose following the implementation of the new IT system for customer management in the TOCs.

Compliance with specific quality standards (gas)

%	2004	2005	2006
Total average	97.7%	95.1%	94.2%

The data regarding 2006 were currently being processed at the publication date of this Report.

Integrated water services and waste management services

In the management of the integrated water services and the municipal waste management services, for which there are no national laws setting forth quality standards (with the exception of a minimum standard of availability of branches for the general public and technical water quality standards), the protection of quality is attributed to the operator's Service Charter. The Emilia-Romagna Region Law no. 25/1999 assigns to the Water and Waste Regulatory Authorities the responsibility for providing "Service Charter frameworks" based on a framework developed by the specific local regulatory authority.

Key quality indicators – integrated water service (2006)

	No. cases	Days
Time required for estimation of connection to water service	10,645	11.8
Time required for connection to water service	8,170	15.6
Time required to activate supply	32,955	4.9

Key quality indicators – urban hygiene service

%	2005	2006
Bins – percentage filled	70.4%	70.0%
Percentage compared to bin washing plan	86.1%	94.8%

The percentage of bin saturation is a summary indicator which measures the adequacy of the number of bins in the area in relation to users requirements. The ratio is given by the weight of waste collected divided by the capacity of the bins.
The percentage of bins subject to washing tends to grow and reach high levels.

Complaints received

	2005	2006
Average complaint response time (days)	37.7	16.1
Percentage of complaints replied to within 20 days	48%	92.7%

In 2006, a new complaint management procedure was defined. Personnel were trained with regard to this procedure, and the IT instruments used were updated. As a result, complaint management demonstrated an improvement on the previous year, both in terms of average complaint response time and the percentage of complaints replied to within 120 days. In 2006, the Group managed 2,631 complaints.

Quality of drinking water

Controls of the quality of water to be used for the production of drinking water and for human consumption are regulated by Legislative Decrees 152/2006 and 31/2001. The controls are divided into internal controls carried out by the operator of the water service, and external controls carried out by the Local Health Authorities. These controls are carried out at the withdrawal points of surface and groundwater to be used for human consumption, at the adduction, collection and treatment plants and at the distribution networks.
Hera has developed a consolidated Group control plan which describes the various types of sampling points, the analytical parameters studied and their frequency. Development of the plan takes into account the common guidelines for all Territorial Operative Companies: the chemical/physical and bacteriological characteristics of the water, compliance with legal requirements, the guarantee of providing a high quality product. Controls and verification of suitability start up as the water is drawn from the supply source. This enables timely intervention and, where required, interruption of withdrawal when the chemical and physical characteristics do not comply with the desired quality requisites.
Water quality also means controlling the quality of the treatment process. For example, chlorides are searched for, as a result of the use of chlorine dioxide as a disinfectant, given that the persistence characteristics of this agent, will, in the presence of residual organic substances (humic and fulvic acids), favour the formation of by-products. The concentration of chloride in the distribution network is kept under control through an analysis process in order to comply with the new legal limit of 0.7 mg/l, which took effect from January 2007.

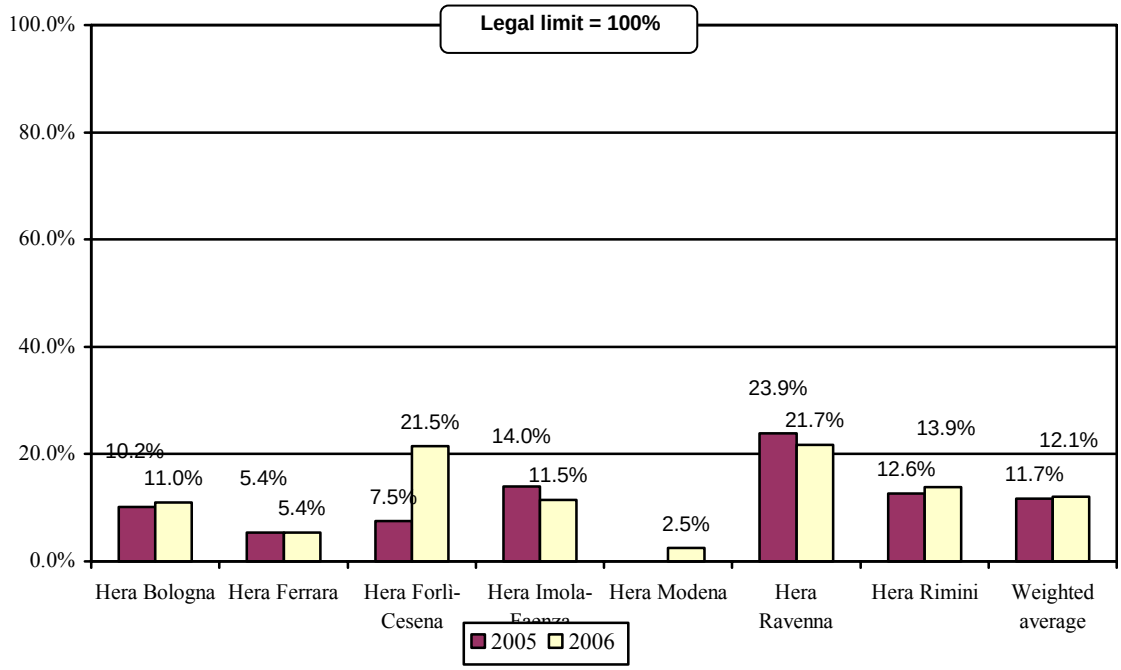
Among the initiatives carried out in order to improve the water quality, we note: optimisation of the clariflocculation processes, activation of new plants for the disinfection of water pipers of municipalities located in hilly areas or at the foot of hills, the fine-tuning of static mixing systems for disinfectant input, the extraordinary maintenance of several chlorine dioxide production plants, installing remote control systems.

Water treatment using ultraviolet light in Porretta Terme (BO)
This is an innovative technology which allows for the purification of water for household use without chlorine˜ UV rays are used, which treat the water without changing its chemical/physical composition or altering its taste and smell.
Presented in November 2006 by Hera Bologna and the Waste and Water Regulatory Authorities ATO 5, this process will be implemented in the first few months of 2007,

initially in the water network of the Municipality of Porretta Terma, in the province of Bologna.

In the chart, the quality of Hera drinking water is compared with the legal limits. This indicator is calculated on the basis of the relation between the measured concentrations of selected analytic parameters and the maximum permitted concentrations of these parameters in the drinking water supplied, resulting from the 2,913 analysis carried out on three parameters (chlorites, trihalomethanes, and Escherichia coli), integrated with one or two parameters considered critical at the local level.
Highly positive results were obtained, which remained considerably stable during the period in question in all local areas. On average, the concentration of these parameters are 90% below the legal limits.

Compliance of treated water with legally established limits (optimal value <100%)



Considering several significant parameters in terms of assessing water quality (aluminium, cadmium, chlorites, Escherichia coli, iron, manganese, nitrates, lead and trihalomethanes), in 2006 a total of 42,679 analyses were performed. As regards these analyses (over 100 per day), 99.4% had results which were compliant with the legal limits. In cases where even one parameter falls within non-compliant levels, Hera immediately carries out interventions to return to compliant levels (washing of pipes, increasing disinfection, etc.) also based on the indications of the Local Health Authorities.

It is common opinion that the quality of tap water is lower than the quality of bottled water. Here below the comparison between Hera water, legal limits and mineral water is set forth. For increased homogeneity and ease of comparison with the labels of commercial mineral waters, the parameters Ph and flourides have been introduced. The values regarding Hera water always fall well within the legal limits.

In terms of almost all parameters considered, the average values for Hera water are comparable with those of commercial mineral waters. The only exception is nitrates, whose average values are, in any case, 60% to 90% below legal limits.

Quality parameter comparison between Hera water and commercially available mineral water products

	Mineral waters (min-max)	Legal limits	Hera Bologna	Hera Ferrara	Hera Forlì-Cesena	Hera Imola-Faenza	Hera Modena	Hera Ravenna	Hera Rimini
pH	5.8-8.1	6.5-9.5	7.5	7.6	7.5	7.7	7.4	7.9	7.3
Hardness (°F)	3-93	15-50*	30.8	22.2	23.1	30.2	37.0	21.4	29.4
Fixed solids at 180° (mg/l)	38-988	1.500	403	315	378	431	576	342	532
Sodium (mg/l)	1-62	200	18.3	21.5	49.7	28.4	39.3	55.6	41.8
Fluorides (mg/l)	0-0.56	1.5	< 0.10	0.10	0.15	0.11	< 0.10	0.13	0.13
Nitrates (mg/l)	0-7.12	50	8.7	11.0	4.2	11.6	20.6	4.9	11.8
Fluorides (mg/l)	0-92	250	30.9	34.7	22.5	36.2	78.5	32.2	47.8

* recommended values

Comparison effected with the data provided for 28 commercially available still mineral waters, published by the magazine, Altroconsumo (issue no. 184 July/August 2005). For pH and flourides, the data indicated on the labels of nine mass market distributed mineral waters was used.

The data regarding Hera water refers to the average weighted values of 5,795 analyses carried out according to the frequency and withdrawal points on the distribution network set forth in the control and monitoring plan for the integrated water system.

The legal limits are those set for water for human consumption by legislative decree 31/2001.

The value **pH** is a measure of the acidity of a solution. It is a figure that establishes whether a substance is acidic, neutral or basic, according to the level of concentration of hydrogen ions. It is measured on a scale from 0 to 14, where 7 indicates a neutral substance. pH values less than 7 indicate that a substance is acidic, and pH values greater than 7 indicate that the substance is basic.

Hardness indicates the quantity of calcium and magnesium salts in water. This parameter is expressed in French degrees (°F). One degree is equivalent to 10 mg of calcium carbonate per litre of water. Hardness only affects the taste of the water. It has no adverse health effects. Some commercially available mineral waters are harder than Hera water.

Fixed solids are obtained by evaporating a litre of water at a temperature of 180° C. This parameter indicates the mineral salts content (sodium, potassium, calcium, magnesium etc.) dissolved in water, expressed in mg/l. The higher the fixed solids value, the higher the concentration of mineral salts. Values below 500 mg/l indicate low-mineralised water. In practically all instances, Hera water is comparable with low-mineralised water.

Sodium indicates the quality of common salt in the water. Here too, the findings tell us Hera water is comparable with commercially available mineral waters. The sodium content in the water is, in general, insignificant. Drinking a litre of tap water is equivalent to eating slightly more than half a cracker.

Fluorides indicate the quantity of fluorine in the water. Hera water is comparable in this regard with commercially available mineral waters.

Nitrates are considered toxic. Nitrates are substances that reach aquifers through the soil either as a result of fertilisation (with chemical or natural fertilizers) carried out systematically and intensively on farmed land, or as a result of industrial activities.
Flourides are salts which are important to the human body. If present in high concentrations, they can change the taste of the water, and if associated with an acidic pH, they favour the corrosion of metals in the water service network.

How much does water cost?
Consumption of mineral water is increasing greatly worldwide, and Italy is the highest consumer per capita (183.6 litres of mineral water consumed per year).[2] Leaving aside the increased environmental impacts generated by long-distance transport of bottled water, and the associated high levels of fossil fuel consumption, mineral water is an expensive product.Considering an average yearly consumption level of 1,000 litres for a family of three, and an average price in Italy of 25 cents per litre for certain commercially distributed natural mineral waters, yearly expenditure for mineral water totals approx. Euro 250. By contrast, yearly expenditure for the same quantity of mains water comes to 1 euro.

The use of asbestos, a common practice in construction in other industrial sectors up to the end of the 1980's, was definitively banned in 1992. It has been officially recognised that the inhalation of asbestos fibres causes serious respiratory illnesses. 25.6% of the water systems managed by Hera is built with asbestos cement, a material composed of asbestos fibres within a cement framework. This material could deteriorate in the presence of "aggressive" water flows, but the characteristics of the water distributed in the water systems managed by Hera lead to the creation of a crust which guarantees the formation and maintenance of a layer of film inside the pipes which isolates the pipe walls from the water itself, and thus minimises the possibility of dispersion of fibres.
The current law in force regarding the quality of water destined for human consumption does not set limits regarding the presence of asbestos fibres: specifically, Ministerial Decree 14 May 1996, attachment 3, cites a WHO (World Health Organisation) document, which states that "…there is no serious proof that the ingestion of asbestos is dangerous to one's health". However, the considerable concern over this issue has led Hera to carry out constant checks on the state of the pipes and to implement a plan of analytical controls to test for asbestos fibres in the water. The results of these assessments generally demonstrate the absence of fibres: these analyses, also assessed by the ARPA and the Local Health Authorities for each area, have shown, since 1998, the absence of asbestos fibres in over 90% of cases, with the maximum presence of 2,550 fibres/litre compared to a maximum limit proposed by the EPA (US Environmental Protection Agency) of 7,000,000 fibres/litre.

[2] Data for 2004. Source: Beverage Marketing Corporation, see John G. Rodwan, Jr., "Bottled Water 2004: U.S. and International Statistics and Developments," Bottled Water Reporter, April/May 2005

Service security

Continuity of the electrical energy service

The integrated provisions of the Electrical Energy and Gas Authority regarding the service quality of distribution, measurement and sales of electrical energy for the regulatory period 2004-2007, approved with resolution no. 4 of 2004 governs, among other things, the continuity of the distribution of electrical energy, identifying indicators for measuring outages, monitoring systems and standards of reference.
In the last two years, the average duration of outages per low voltage customers remained within lower than the AEEG thresholds: 11.12 minutes compared to an AEEG threshold of 25 minutes.

Continuity of the electricity service

	2005	2006
Average number of outages per customer	0.84	1.57
Duration of outages (minutes) per customer	14.73	17.48
Average duration of each outage (target: 25 minutes)	17.54	11.12

The figures in the table refer to outages for low voltage service, in areas with high concentration of customers, without advance notice, of duration longer than 3 minutes, and due to causes under the responsibility of the operator.

In a study carried out by Civicum-Mediobanca, published in 2007, Hera has the best results of the six companies considered for duration of service outages without advance notice, falling under the responsibility of the operator, for 2001-2005 (average outage of 18.19 minutes).

Gas distribution service safety and continuity

The integrated provisions of the Electrical Energy and Gas Authority regarding the service quality of distribution, measurement and sales of gas, approved with resolution no. 4 of 2004, set out specific obligations and indicators for service safety, which distributors must respect. This resolution, among other things, sets a mandatory percentage rate of emergency call response times (intervention within 60 minutes).
In 2006, for 96.3% of the calls received, Hera intervened within 60 minutes. The minimum rate requested by AEEG is 90%. In addition, the gas network expected in 2006 exceeded the minimum required standards: 35.4% for the high and medium pressure network, and 36.1% for the low pressure network, against minimum standards of 30% and 20%, respectively.

Gas emergency services

	2004	2005	2006
Average call response time (min.)	41.9	37.0	36.0
Calls with average response times within 60 minutes (%) (minimum standard 90%).	93.8%	94.7%	96.3%

Inspections of the gas network

	2004	2005	2006
Percentage of total high and medium pressure network inspected (min. standard 30%)	44.5%	32.5%	35.4%
Percentage of total low pressure network inspected (min. standard 20%)	35.6%	32.7%	36.1%
Number of leaks on distribution network located upon notification by third parties, per kilometre of network	0.380	0.124	0.082

Note: The figures regarding 2004 and 2005 were adjusted compared to those published in the Report 2005, to be in line with the calculation guidelines set forth by the AEEG: the calculations excluded municipalities which Hera was entering as a substitute or starting up operations in 2004 and 2005, which were not subject to the notification requirements of the AEEG.

In 2006, 82 leaks were recorded per 1,000 km of network (-34% compared to 2005). In a study by Civicum-Mediobanca, published in 2007, out of the seven companies considered, Hera had the third-lowest rate of leaks notified by third parties (0.124 leads per kilometre of network in 2005, compared to an average of 0.172).

Hera manages the gas distribution service with the goal of constantly keeping the risk of gas accidents at the lowest levels possible, acting in three areas:

- **technologies adopted**: materials, construction methods, remote control systems for networks and plants;
- **accident prevention**: periodic inspections of the network, more frequent inspections in the points with greater risk than that required by current laws in force, planned maintenance/substitution of plant elements subject to wear and tear (in 2006, as in the previous years, the percentage of the network inspected exceeded the service obligations required by the Authority);
- **emergency intervention**: timely, effective management of notifications of anomalies, providing widespread territorial coverage by technicians able to carry out the required assessments, who arrive on the site within times which are generally shorter than the sixty minutes provided for (the average response time to the approximately 15,000 service calls received in 2006 was 36 minutes**).**

The activities involving technology primarily consists in investments in the renovation of plants and networks, enhancement of plants and networks in order to render the distribution system more balanced and efficient, and in remote control systems: in 2006, Hera invested over Euro 6.2 million for this purpose, equal to Euro 513 per kilometre of the network managed.
Actions regarding accident prevention (search for leaks, periodic assessment of the efficiency of plants and networks, cathodic protection), and emergency intervention in case of notifications of gas leaks lead to operating costs: in 2006, these type of costs reached Euro 4.7 million, equal to Euro 389 per kilometre of network.

Security action plan
At the beginning of 2007, following from a series of meetings held with the Mayors of the Bologna area after the accident on 23 December 2006, the Group decided to increase the actions described and to plan several extraordinary interventions:

- **technical interventions**: analysis of hydrogeological or infrastructural changes in the area (i.e. geologically unstable areas, systems crossing or located near

inhabited areas, the possibility of inserting new technologies, new design strategies for new urban works); following these, depending on the critical issues to resolve, other interventions will be studied, such as the further application of remote control (i.e. remote methane gas readers, remote alarms and remote measuring of seismic events and hydrogeological ravelling) or interventions on the structure of the network, revision of guidelines for the design of networks, plants and connections, evaluating the additional elements with respect to the current regulations in force;

- **organisational interventions:** doubling of the frequency of inspections compared to the three years provided by AEEG regulations (annual inspections of the high pressure gas networks, meaning up to the third level; biennial inspections on the rest of the network), organisation improvements in emergency interventions (i.e., the operational vehicle kept at the operator's residence for direct action on the site, plan for the extraordinary training of over 350 employees) with the objective of reaching 100% of emergency response to notifications within 60 minutes, risk evaluation grid for the technical call center.

It is Hera's objective to increase security of gas distribution, by extending the action plant defined by Hera Bologna to the other Territorial Operative Companies, taking into specific local area requirements.

On the morning of 23 December 2006, in San Benedetto del Quercento, a village in Appennines near Bologna, a building collapsed as the result of an explosion caused by a gas leak, from an underground third series pipe laid in the roadway. In this accident, five people were killed and four people suffered serious injury.
Official investigations were launched to ascertain responsibility: in the initial phase, 24 people were involved with information security. Over the years, these persons have worked on the design, construction and maintenance of the piping and were involved in the emergency services on the morning of the accident.

S. BENEDETTO, A SERIOUS WOUND

There are dates that go down in history, both personal history and that of an organisation: our company has many, which have constituted significant steps in the process of growth and achievement. But one – 23 December 2006 – will remain in our memory and our hearts as a serious wound: the explosion which left us shell-shocked, without words, in oppressive silence; in astonishment we assisted with the removal of the rubble, the arrival of news regarding the tragic results of the accident, the desperation of relatives, the pain of entire towns…

We were all there, in that injured village, on 23 December: workers, technicians, executives who understood the seriousness of the event, but were unable to comprehend such a tragedy, which was unprecedented in the history of Hera Bologna and the companies which preceded it.

However, it was precisely in this moment of supreme difficulty that the individuals within Hera, and the organisation itself, demonstrated their ability to be positive, their refusal to be overwhelmed, the desire to move ahead: out of these crises arise a meaning and a new awareness.

At that moment, we made the commitment to investigate our own role in managing emergencies, to submit to critical analysis the structures of our gas infrastructures, our organisation, and the technologies we use.

This resulted in a joint action plan, shared by the technical department and the Mayors' Committee, which is set to be an opportunity for dialogue, sharing and collaboration at all levels of our organisation; an organisation which, while rich in expertise and skills, is once again making itself open to learning.

Learning which is marked by innovation, but is also in line with the good practices that have always distinguished our work. This is how a large company can design its growth process, by recognising the skills acquired by its professional staff, while requiring that they continue their learning process.

We should all continue to be proud of working for this company: we have the tools, the ideas, the plans to respond to a difficult situation together, in the certainty that security, service quality, and the local area will always be the focus of our commitment and our attention.

Luigi Castagna - Chairman Hera Bologna Srl
Angelo Bruschi – General Manager Hera Bologna Srl
(Letter published in the House Organ of February 2007)

Security and gas installations

Resolution 40/2004 of the AEEG (Electrical Energy and Gas Authority) sets out procedures for inspections of the security of gas plants which fuel boilers for heating, water heaters, stove tops and other devices. The gas distributor, before activating the supply, is required to ascertain that the documentation for the customer's plant is complete (see law 46/1990) and correct in terms of technical specifications (piping, flue, air vent, etc.). In all cases, activation of gas supply is subject to the positive result of an inspection for the absence of leaks in the user plant of the final customer, performed by Hera operators.

The figures for thermal year 2005-2006 confirm the significant results achieved by Hera: positive results were obtained from the inspections of over 20,000 user plants, hence, the existence and correctness of all documentation required by law was verified.

Hera also plays a central role for the security of user gas plants in case of failures downstream of the meter.

When the emergency services locate a gas leak in the plant of a final customer, it suspends supply. The supply is reactivated only upon receipt of a declaration which certifies the intervention of a qualified installer and lack of leads (Attachment E and certificate of the installer's compliance with requirement). It is also worth noting that each final civil customer is automatically provided with insurance coverage for accidents, fire and civil liability for damages connected to their gas plant.

The Safety Lab at the Hera Modena premises

This is a lab which has faithfully recreated the home environment, where it is possible to simulate any anomaly in gas plants which may lead to accidents in the home. This lab was set up in the premises of Hera Modena, and is one of the few laboratories of its type in Italy. In this lab, the effects of malfunctions such as gas leaks, malfunctioning of household gas devices and flues, when the rooms are not aired out, can be simulated. This lab is the result of over 15 years' experience in inspections carried out in customers' homes. In these years, more than 100,000 verifications have been carried out, which have resulted in accurate inspections of equipment, flues and gas piping.

Information security

All of Hera's commitments involve the prerequisite of protection of information, which is one of the most critical components of the company system, and must be managed with the greatest caution, in compliance with the requirements of confidentiality, completeness and availability of information.

For this purpose, in 2006, a specific company role was introduced, as well as an information security management system. Roles and responsibilities were defined, risk assessment was carried out, and a plan of interventions was defined.

Invasion of privacy and security

In 2006, the Hera Group completed the implementation of the system for protection of privacy, within almost all Group companies.

The specific duties and responsibilities will be recognised and formalised, and the required training will be provided.

During accounting period 2006, no invasions of privacy via the security system were reported or noted.

Customer relations

Contact center

	2004	2005	2006
Average waiting times (contact center)	102.9	70.2	34.5
Calls with satisfactory outcomes (%)	87.6%	87.1%	94.1%

In 2006, several issues had a significant impact on the Hera Group call centers, such as the growth in the number of calls, the acquisition of the electrical energy distribution grid in Modena, the coming on stream of the new IT systems, and the closing down of the Imola and Ravenna sites. The latter event resulted in considerable operating pressure on the customer contact structures (call centers and on-line services), however, these structures managed to maintain and, in some cases increase customer service levels.
Between September and November 2006, the call center was subject to monitoring by the AEEG of the quality of service provided and perceived by customers.
The overall Customer Satisfaction index (CSI) of the Hera Comm call center was higher than the index referring to the entire gas and electricity sector.

Hera Bologna: Your services speak
From February 2006, Hera Bologna now provides offers with a 4-minute report on 5 local radio stations, with a frequency of every 15 days. This report provides useful information and news, such as information on the free distribution of salt when it snows, how the drop-off points work, the new regulations for gas plants, etc.

In 2006, we note the following improvements for the call center: extension of the single toll-free number and the technological platform to the province of Modena (formerly-Meta), consolidation of calls in the Imola Faenza area to the Bologna and Rimini areas, for environment services in Bologna and water services in Ferrara, as well as the expansion of the organisation in terms of human resources (increase in number of resources and number of training hours) and technology (number of telephone lines, auto-reading and payment systems, call-back service).

Waiting times and operations (branch operators)

(min.)	2004	2005	2006	of which waiting times in 2006
Hera Bologna	38.1	52.0	33.9	21.5
Hera Ferrara		32.5	21.2	17.8
Hera Forlì-Cesena	35.2	37.4	42.6	28.0
Hera Imola-Faenza	30.3	27.2	36.4	29.7
Hera Modena			31.5	22.1
Hera Ravenna	30.7	32.9	37.5	21.0
Hera Rimini	34.3	42.6	35.6	25.8
Average	**33.8**	**39.5**	**35.8**	**23.9**

Branch improvement project
Michele de Lucchi, renowned architect and designer who redesigned the look of the Poste Italiane, Deutsche Bank, and Banca Intesa, is creating and testing a new look for the local Hera branches. An essential layout will be designed, providing simplicity and flexibility to offer a better welcome to customers, which is the first sign of service quality.

In 2006, the implementation of the SAP-ISU customer system in the Territorial Operative Company of Imola-Faenza was completed. At the end of 2006, only the final step of implementation remains for Hera Modena, and start-up for Ferrara, to achieve the implementation of a single SAP-Siebel system for all areas.
The overall figure of 35.8 minutes is a 9% improvement on the previous year. Queue waiting times average approximately 24 minutes. The time required for transactions depend on the complexity of the operations requested and the services managed by the single Territorial Operative Companies. The Group's target is to standardise the waiting times over the various local branches.
Specifically, we note the return of Bologna and Rimini to improved results, following a particularly difficult first year of start-up. Instead, Forlì-Cesena had to deal with these difficulties following the implementation of SAP. The times for Ravenna worsened slightly, not due to the waiting times, but due to service times, which were higher than the average.

The Mystery Shopper
The Mystery Shopper is a method used to evaluate the level of customer service provided and to implement any improvement actions. This investigation involves the mystery shopper playing the role of an average customer at the branch or calling the call center, and requesting information or action to be taken. The mystery shopper makes observations of the atmosphere, waiting times, customer relations conduct, the compliance of the operator's answers with the standard procedures in processing requests.
For Hera, this investigation was carried out in March 2006. 64 mystery shoppers visited the branches and 111 placed calls to the call center.
The results of the Mystery Shopper investigation confirmed several critical issues for the call center and the branches, both in terms of customer relations and in terms of skills; these issue will be resolved through the provision of specific training courses. It is interesting to note that the results were homogeneous over the entire area.

Shareholders

Hera has over 26,600 shareholders, divided among municipalities of its operational areas, institutional investors (mutual funds and Italian and international banks) and private investors (Italian and foreign individuals and companies).
Hera stands out from the other companies in the Italian utilities sector due to its widespread shareholding which, in June 2006, included over 180 public shareholders (mainly represented by municipalities in the Emilia Romagna region) and 155 institutional investors. There are also approx. 26,300 private shareholders, including natural persons and corporate bodies not classifiable as investment funds or banks.

Objectives and performance

We said we would...	We have...
• Intensify relations with international ethical funds and join more ethical indexes	• Hera's participation in international conferences on sustainability, where Hera's responsible approach to company management was illustrated, enabled the company to build relations with 15 investors. (see p. 103)
• Provide for wider distribution of the Group Sustainability Report within the marketplace	• The Sustainability Report was distributed to all institutional investors who were met with during 2006, involving the Social Responsible Investment Departments of international investment funds. In the documentation sent to investment funds, sections were added regarding the sustainability of corporate management, which summarised the results achieved and the future targets for the key indicators. (vedi pag. 103)
• Pave the way to obtaining an internationally recognised ethical rating	• It was verified that Hera possesses the main requirements for inclusion in ethical indexes. (vedi pag. 102)
• Carry out an Investor Survey to improve financial communication	• A study was carried out with several members of the financial community (analysts and professional investors) in order to identify areas for improvement of the Group's financial communications. This Investor Survey will be carried out again in 2007 (see p. 104)
We shall...	
• Develop new technological communications tools to provide company performance data in interactive and useful formats for their users (Excel format) in real time. • Continue increasing the visibility of Hera's social commitment within the financial community, through the dissemination of the Sustainability Report, the development and maintenance of relationships with ethical funds and the promotion of including the Hera share in ethical indexes. • Improve periodic communication to investors by continuing to publish the quarterly Newsletter.	

- Ensure the implementation of the plan to purchase own shares for the benefit of shareholders, in case of extraordinary financing transactions, as well as to control the fluctuation in share price compared to the performance of its sector.

Breakdown

Since 27 June 2003 Hera, which had only been founded in November 2002, has been listed on the Milan stock exchange (Blue Chip segment).The share capital increased, as from 31 December 2005, the date on which the merger with Meta took effect, from 839,903,881 to 1,016,752,029 ordinary shares with a nominal value of 1 euro each.
Following the merger with the Modena area utility, the Municipality of Modena received Hera shares in a share swap, for a quota of approximately 11%, leading to further diversification of the Group's shareholding.
In 2006, Hera merged by incorporation the company Geat, through a share swap of approximately 5.5 million shares acquired by the Group on the market, implementing the programme for the purchase of own shares. In addition, during the year, the Group acquired the electricity distribution grid in the province of Modena and 46.5% of the multi-utility SAT, which operates in the province of Modena. These mergers and acquisitions did not lead to an increase in the number of shares representing the share capital.

Shareholders

(no.)	2004	2005	2006
Municipalities and other Entities	141	156	183
Institutional investors	175	186	155
Private investors	42,888	32,306	26,304
Total	**43,204**	**32,648**	**26,642**

Data refer to dividend registration date. Data source: Servizio titoli SpA

Shares held (breakdown)

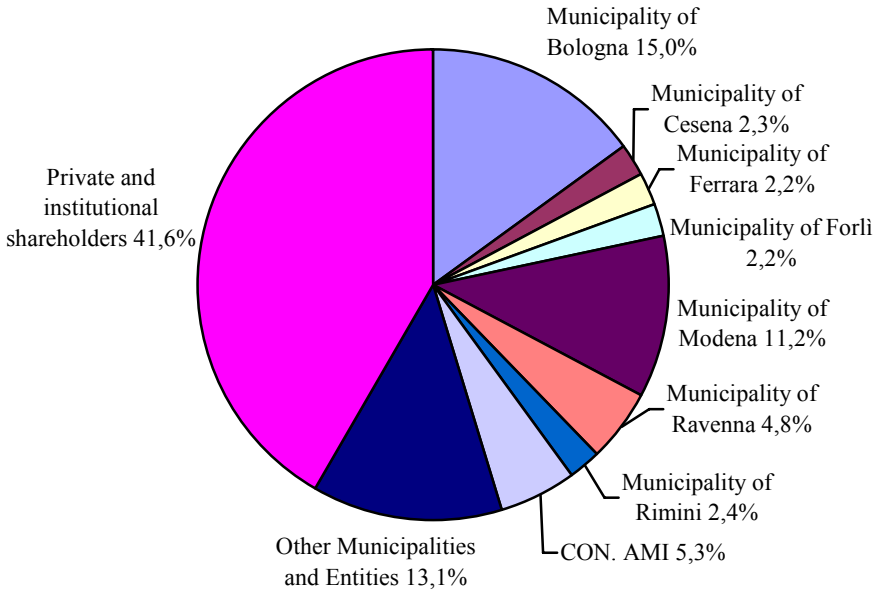
%	2004	2005	2006
Municipalities and other Entities	55.5%	55.1%	58.4%
Institutional investors	10.6%	11.7%	9.9%
Private investors	33.9%	33.2%	31.7%
Total	**100%**	**100%**	**100%**
Total shares (million)	**793.2**	**839.9**	**1.016.8**

Data refer to dividend registration date. Data source: Servizio titoli SpA

With regard to public shareholding interests (which, together, account for more than 58% of share capital), pursuant to an agreement stipulated when Hera was founded and subsequently renewed when new public shareholders joined), almost all of the municipalities have entered into a shareholders' agreement stating that they will maintain a 51% portion of the share capital, as laid down in the articles of association.
On examination of the shareholder breakdown, it is clear that Hera has no absolute controlling shareholder in its structure (the largest shareholder is currently the municipality of Bologna with 15%). This feature which distinguishes Hera from the

other local utility companies and allows for the conclusion that Hera is a company with a broad shareholder base.

Shareholder breakdown as at 31 December 2006



Turning to the breakdown for non-public shareholders, we note many foreign investors from the English-speaking world. This is the result of the company's focus on international relations.

No. of local resident shareholders (as on date of dividend share-out)

(no.)	2004	2005	2006
Hera Bologna area	11,139	6,992	5,606
Hera Ferrara area	635	523	413
Hera Forlì-Cesena area	3,400	2,154	1,711
Hera Imola-Faenza area	3,133	1,993	914
Hera Modena area	937	791	1,138
Hera Ravenna area	2,471	1,618	1,574
Hera Rimini area	1,509	911	696
Total of shareholders resident in areas served	**23,224**	**14,982**	**12,052**
Total private shareholders	42,888	32,306	26,304
Total of shareholders resident in areas served	**54.2%**	**46.4%**	**45.8%**

Data refer to dividend registration date. Data source: Servizio titoli SpA

Corporate Governance and safeguards for shareholders

Since the time of its foundation, the Hera Group has adopted a Corporate Governance system in order that all shareholders and yields may be protected, according to the terms

of the Code of Conduct promoted by the Italian stock exchange agency, Borsa Italiana Spa. Furthermore, the Group ensures full transparency with respect to its decisions, by providing information fully, correctly and in a timely manner so that investor decision-making procedures may be conducted in the light of the strategic decisions of the company, of business performance and of the foreseen levels of profitability with respect to the quantities of capital invested.
The yearly publication of the calendar of corporate events allows the company to provide information in advance regarding the most important dates for company life: approval and publication of financial statements, quarterly and interim reports, industrial plans and significant operations carried out by the Group. Communication of information is carried out in compliance with the criteria laid down in the resolutions issued by Consob (Italian Securities and Exchange Commission) on price sensitive information.
Communications are never made for illicit advantages or to illegally further the interests of group companies. In order to control flows of information to persons outside the company and prevent information flows such as may generate market disequilibrium, the Board of Directors has created the role of Investor Relations Manager, who, with the communication function, is responsible for coordinating and managing price sensitive corporate communication actions, also in compliance with the new regulations applying to internal dealing (enacted as from 1 April 2006).

Distribution of dividends

Distribution of dividends

Euro	2004	2005	2006
Earnings per share (Euro cents)	9.6	10	8.9
Dividend per share (Euro cents)	6.0	7.0	8.0
Price/earnings	22.1	22.6	37.0

The 2004 and 2005 data include the extraordinary integration measures regarding Agea Spa and Meta S.p.A, respectively. The 2005 data are pro-forma. The price/earnings item expresses the relation between the share price as on 31 December divided by net profit attributable to shareholders of the parent company per share.

In view of the net consolidated profit of Euro 100.2 million for 2006 (of which 10.1 million pertaining to minority interests), the Shareholders' Meeting resolved to distribute 8 eurocents per share in the form of a dividend to shareholders, an increase of approximately 15% compared to the dividend accrued during 2005 (and distributed during 2006).
The proposed dividend is in line with the promises made in the company's Industrial Plan 2006-2009, where it set forth a commitment to a yearly average increase of around 15% in the dividend.

Stock exchange share performance

In 2006, the Hera share performed positively, closing at Euro 3.31 per share, an increase of 45.7% from the beginning of the year, against a performance of 18.3% on the MIBTEL index, which measures the average performance of the Italian Stock Exchange. Average liquidity recorded during trading in Hera securities increased throughout 2005, due to prospects of improved mid-term performance, outperformance with respect to the previous year, more ambitious targets for the future (as announced in the Industrial Plan in November), and considerable activities in the field of relations with international (European and American) investors, thus drawing market attention to Hera securities.

Stock exchange share performance

In the 30 months leading up to the end of 2006, Hera had a beta coefficient of 0.54, which ranks it among the highest performing shares of local utilities listed on the Italian market, and reflects the low risk profile of the Hera share, compared to the market average and to shares of local utilities.

What is the beta coefficient?
The beta coefficient measures the volatility (or size of variations) in the market prices of a security compared to the volatility of the market as a whole. A coefficient higher than 1 indicates that the prices of a security vary in greater measure than the changes in the stock market index (which reflects the average variations of all securities listed). The Beta coefficient thus measures the risk linked to an investment in shares.

Share price and average traded quantities in 2006

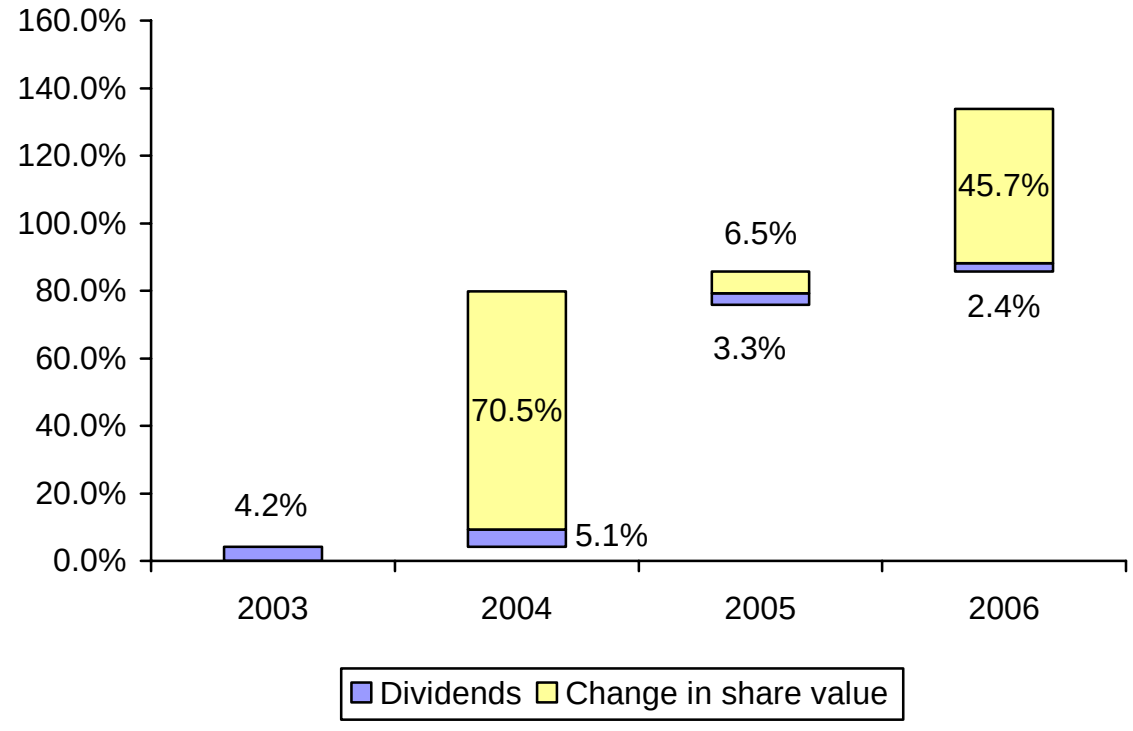
	QI	QII	QIII	QIV
Price at close of period (euro)	2.50	2.60	2.95	3.29
Average volume traded (thous.)	1,391	4,160	1,468	1,889

The daily average equivalent value rose from Euro 3.3 million in 2005 to nearly Euro 5.9 million last year (+ 78.7%).
As at 31 December 2006, return to shareholders was considerable both in terms of capital gain and foreseen dividend for the year (for year 2006), recording an overall return of 48%. The above chart illustrates returns to shareholders in possession of Hera shares from its listing to the end of the year, which amounted to approximately 138%. The returns for 2006 include the dividend expected and accrued during 2006, which will be distributed during 2007.

Annual share yield

	2003	2004	2005	2006
Dividends	4.2%	5.1%	3.3%	2.4%
Changes in share value	0.0%	70.5%	6.5%	45.7%
Total	**4.2%**	**75.6%**	**9.8%**	**48.1%**

Annual share yield



Stock Exchange indexes
The Hera share is listed in the "Dow Jones Stoxx TMI" and the "TMI Utility" indices. Hera also remains in the "Axia Ethical Index" and "Kempen SNS Smaller Europe SRI Index" ethical indexes.

Credit ratings
The ratings for Hera issued by Standard & Poor's (A+) and Moody's (A1) reflect the group's financial solidity and encouraging short-, mid- and long-term profitability. The principal grounds for the award of this rating lie in the fact that the company features a strong business profile, with a very balanced portfolio, provides excellent service levels in one of Europe's richest regions and enjoys share solidity and financial liquidity.

Share coverage
The Hera Group share is one of the most extensively covered in its sector in Italy, reflecting the interest financial market interest the company has generated. From the start of the year, 14 independent offices, half of which are international, regularly study the Hera share. Actinvest, Caboto, Cazenove, Citigroup, Chevreux, Euromobiliare SIM, Intermonte Securities, Kepler, Mediobanca, Rasbank, Studinvestimenti, in addition to the ethical studies of Axia and ODDO Securities. Since the beginning of 2007, Merrill Lynch has also begun to cover the share.

What is a credit rating?
Rating is an assessment of the ability of a company to repay its debt. The assessments in this regard, issued periodically and monitored by external, independent, international agencies, are expressed by a score, termed rating, regarding the solvency and risk associated with the company for creditors.

Relations with investors and financial analysts

The Investor Relations function ensures transparency and an exhaustive, timely provision of "price sensitive" information, in compliance with current regulations regarding relations with the financial community.
Since its stock exchange listing, the Hera Group has considered financial communications a critical success factor to creating value for its shareholders. The activities regarding financial communication and relations with financial market operators have increased steadily since 2003. In 2006, meetings were held with over 350 people (+10% compared to 2005) during 3 international and 2 local road shows, 4 analyst meetings for the presentation of the financial statement results and the industrial plan 2006-2009, 6 conferences organised by international brokers and meetings with investors organised at international level.
A further major market communication and information instrument is our website. The Investor Relations section of the site www.gruppohera.it, was fully revamped in order to improve the usability of the financial information provided
The Investor Relations section includes the following areas dedicated to the various categories of shareholders:

- social responsible investors, which includes all the information regarding the Sustainability Report and the Code of Ethics adopted by Hera;
- a section dedicated to bondholders following the bonded loan issue of Euro 500 million (16 February 2006). This section provides access to studies conducted, the facts sheet, and bond quotations;

- private investor section, where the quarterly newsletter can be downloaded.

For enhanced and more sharply focused financial communication actions within the marketplace, Hera has organised an Investor Survey to reveal the needs of private investors.

Financial Institutions

The policy of the group is to provide financial institutions with fully transparent, correct information as part of its communication actions.

Major loans (breakdown) as at 31 December 2006

%	2005	2006
Banca Intesa	20.3%	19.1%
Banca OPI	16.3%	15.9%
Mediocredito	9.9%	11.1%
Unicredit	10.2%	9.8%
Unipol	10.7%	9.6%
MCC	6.8%	7.6%
Cassa Depositi e Prestiti	5.6%	5.5%
Monte dei Paschi di Siena	4.4%	4.0%
23 other institutions	15.8%	17.4%
Total	**100.0%**	**100.0%**

The major credit institution loan agreements concluded by the Group regard 31 institutions. There is a balanced distribution of debt: no bank assists the Group in relation to more than 20% of total debt. The average interest rate was 4.22%, while in 2005 it equalled 4.24%. This improvement even more significant if considered in light of the fact that during the period, interest rates rose by more than 50 basis points, that the share of long-term debt rose from 50% to 85% and that interest rates were almost entirely fixed.

Net financial indebtedness

(million Euro)	2005	2006
Cash on hand	189.1	213.6
Other current loans	8.4	12.8
Current financial indebtedness	-647.8	-450.9
Net financial indebtedness	-450.3	-224.5
Non-current loans	53.4	19.2
Financial liabilities from derivative instruments	3.4	0.0
Non-current financial indebtedness	-580.5	-968.0
Net non-current financial indebtedness	-523.7	-948.8
Total net financial indebtedness	**-974.0**	**-1,173.3**

The net financial position rose by Euro 199 million, compared to 31 December 2005, from Euro 974 million to Euro 1,173 million. The total of this increase is due to the significant investment plan, which is in the advance stage of implementation. The following contributed to the consolidation of long-term debt: the placement of a bond loan in 2006, for a nominal value of Euro 500 million (at 4.125%), and a loan granted by the European Investment Bank for Euro 180 million (at 4%). These transactions

allowed the Group to improve the balance of its asset structure, offsetting the high level of fixed assets with a net financial position consisting entirely of medium/long-term debt.
The reliability of the Group's economic and asset structure is confirmed by the assignment of an A rating by Standard & Poor's and an A1 rating by Moody's.

Bonded loan issue
In January 2006, Hera entered the international marketplace with its first bonded loan issue, a highly significant operation which has provided the company with the means to fully back up development (including acquisition of Meta) and upgrade its debt position through a shift to long-term borrowings.The bonded loan issue was accompanied by a corporate awareness campaign focusing on the company's activities and Industrial Plan. The campaign targeted institutional investors on the most important European financial markets achieving significant success. Demand for the bond was four times higher than the supply (totalling approx. 2.2 billion euro).

Suppliers

Hera does not consider the role of suppliers exclusively that of value chain actors. They are also strategic partners for corporate growth.There are approx. 16,200 suppliers. These suppliers are mainly located in the region served (67%). The group's positive impact on the local economy is therefore enhanced.

Objectives and performance

We said we would...	We have...
• Control and assess suppliers with regard to compliance with the Code of Ethics	• 18 control inspections were carried out to verify the suppliers' ability to comply with the company Code of Ethics (see p. 112).
• Upgrade the supplier qualification and assessment system also by means of inspection missions to our major suppliers	• 11 inspections were carried out to verify that the supplier's production processes complied with the ISO 14001 or 9001 standards (see p. 112).
• Organise a Code of Ethics communication initiative targeting suppliers	• Specific communications initiatives are planned for 2007, following the approval of the new Code of Ethics by the BoD. Starting from 2006, supplier qualification is subject to acceptance of the Code of Ethics (see p. 28).
• Raise the quota of value of goods and services received from certified suppliers	• The percentage of procurement from suppliers with quality certification has remained substantially stable. (see p. 112).
• Extend internet use to the procurement field	• The e-procurement project was launched in autumn of 2006. The system will be implemented in the holding company in 2007, and in the Territorial Operative Companies in 2008 (see p. 113).
• Check the status of implementation of the protocol stipulated with the organisations representing social cooperatives	• A meeting for verification and discussion has been set with Legacoop and Confcooperative. (see p. 108).
We shall...	
• Carry out communications activities with suppliers, regarding the Code of Ethics, following approval of the new Code by the Board of Directors. • Continue the e-procurement project. • Include a reward system into the supplier selection manual, based on whether the suppliers possess quality and environmental management systems. • Extend application of the tender award criteria according to the most economically advantageous bid. • Perform a feasibility analysis for the introduction of a system for green purchases. • Set out a procedure for verifying that suppliers regularly pay taxes (DURC – Tax Compliance Certificat).	

Breakdown

Pool of suppliers

(no.)	2005	2006
Goods	9,143	9,337
Services	9,387	9,886
Job orders	1,080	1,197
Total	**15,815**	**16,170**
of which suppliers who received at least one order during the year	**6,758**	**6,346**

The table provides a breakdown of suppliers by goods/service class. Because some suppliers belong to more than one class, the total for suppliers by class does not tally with the total for suppliers.

The pool of group suppliers includes approx. 16,000 businesses that provide goods (components for maintenance of industrial plants, materials, chemicals, vehicles etc.), services (waste management, information technology consultants, organisation consultants etc.) and job order work (grid maintenance work, industrial plant construction etc.). A number of pool suppliers belong to more than one class.
The data provided here, as with all the data in this section, refer to all group companies with which the Purchasing Department manages supplier relations via the SAP information system.[3]
In 2006, at least 6,300 suppliers received at least one purchase order. Most fall into the goods and services classes.
5.5% of suppliers regard works, while turnover for the works represents approximately 34% of the total acquired.

Supplies from social cooperatives

	2006
Social cooperatives (number)	38
Value of supplied goods/serv. (thousand Euro)	18,491
Persons facing hardship hired (number)	461

Among the persons facing hardship hired, workers employed for less than one year were also counted..

In November 2004, a memorandum of understanding was drawn up between Hera and the regional representatives of Legacoop and Confcooperative. The aim was to delineate mutual commitments regarding recourse to social cooperatives for activities not directly undertaken by Hera staff. On the basis of this memorandum, Hera must:

- promote stipulation of special agreements with consortiums of social cooperatives for direct contracts regarding environmental services of an entity below the EU threshold;
- produce a set of uniform regulatory and organisational conditions regarding the Hera job orders;

[3] This involves the following companies, in particular: Hera SpA, Hera Bologna, Hera Ferrara, Hera Forlì-Cesena, Hera Imola-Faenza, Hera Modena, Hera Ravenna, Hera Rimini, Famula On Line, Uniflotte, Ecologia Ambiente, FEA, Ambiente 3000, and Recupera

- include, in public invitations for tenders for assignment of services (of an entity above the EU threshold), score criteria that significantly foster work for persons facing hardship (through type b social cooperatives).

For their part, the consortiums are committed to:

- ensuring provision of work for persons facing hardship who are residents of the municipalities in which the services are to be provided or which are regulated by the health district for such persons;
- ensuring compliance of the law – or, when numbers are higher, compliance with stipulated conventions – with regard to quotas of the disabled or persons facing hardship provided with work opportunities;
- ensuring recruitment and application of national labour agreements for working persons facing hardship;
- providing incentives for cooperatives taking part in customised job opportunity projects for persons facing hardship;
- fostering quality certification of member cooperatives.

In the first verification of the progress of implementation of the Memorandum, both parties expressed their desire to share the methods for monitoring contracts assigned to social cooperatives starting from 2007.
In 2006, the value of the main supplies requested from social cooperatives approached the 18.5 million euro mark. The main role of the cooperatives in question is that of providing job opportunities for persons facing hardship.
Hera maintains relations with social cooperatives in all of its areas of operation, specifically in the field of management of urban hygiene services, with the most consolidated, structured relations in Forlì, Cesena, Modena and Rimini.
The current agreements with Hera Forlì-Cesena led to the hiring of 147 persons facing hardship in 2006. Hera Rimini has agreements providing employment for 75 persons facing hardship. In Hera Modena, 108 persons facing hardship were hired. Hera Ferrara has several agreements, for the hiring of a total of 40 persons. In Hera Imola-Faenza, the average number of persons facing hardship amounted to 11 in the environmental services sector alone. In Hera Ravenna, 18 people are employed. Hera Bologna hired 42 people. Lastly, the agreements signed by the parent company allowed for the hiring of 20 people.

The services entrusted to the social cooperatives in Forlì-Cesena and Rimini
A consortium of social cooperatives in the Forlì-Cesena area, Consorzio Formula Ambiente, was awarded the tender for the activities of collection, transport and sweeping of solid municipal waste on behalf of Hera Forlì-Cesena, for the next three years. This agreement may be extended for another two years. 80 persons facing hardship are involved in the customised employment projects. The projects identify training, accompaniment and tutoring plans which will be able to make the best use of each person's abilities. While this programme involves individuals facing, sometimes serious hardships (22 with civil invalidity, 24 with mental difficulties, 14 drug addiction, 9 differently-able, etc.) each project was able to reach more than adequate levels in carrying out the activities regarding waste collection and manual and mechanised street sweeping.

In 2006, in Hera Rimini, as well, 72 persons facing hardship were employed in the above projects, within the waste management and parks services, thus confirming a policy through which Hera Rimini, over the years, has increased the number of workers employed through social cooperatives.

Raw material supplies

The natural gas sold by the Hera Group in 2006 in the areas in which it is operational was mainly (75%) purchased from ENI Gas & Power. Approx. 14% was purchased Enel Trade, 3% from other minor national operators and 8% via Hera Trading (which, in turn, mainly purchased gas from VNG of Leipzig and ENI).

As regards the electricity market, sales to final customers were 70% covered by bilateral purchases from other operators; the remaining 30% was covered by purchases on the electricity market. The methods for trading electricity, both via the electricity exchange and, more generally through bilateral agreements do not allow for tracing the sources of energy in order to be able to certify the type of production upstream.

Of the share traced outside the energy market, 11% of purchases are through energy import contracts (however, for 2006, these type of purchases do not require certification of use of renewable sources) and 2-2.5% of purchases are direct from small energy producers using renewable sources (essentially, production initiatives which produce electricity from biogas from landfills and/or treatment.

As regards the water sector, in 2006, the Group ensured approx. 78% coverage of needs by withdrawals from its own plants (springs, river and lake withdrawals, well fields): the remaining 22% was provided by Romagna Acque and other minor suppliers. Romagna Acque has many shareholders that are also municipal shareholders in Hera. It also manages the Ridracoli dam in the province of Forlì-Cesena.

Organising procurement at Hera

The Hera Group's procurement structure has two organisational levels: Procurement Management Division (Hera SpA) and various Procurement Management Business Units established in each Territorial Operative Company. The top level engages in qualification and assessment of suppliers, guidance and coordination, procurement planning and management via Group agreements, tender bids for the assignment of assets, services and works above the EU threshhold, procurement for the Divisions of Hera SpA, as well as advisory services both on a Group and subsidiaries level, while making sure operations are conducted in line with economic and financial strategies and objectives.

The lower level engages in procurement for Territorial Operative Companies. It coordinates its actions on the basis of requisites laid down by the Procurement Management Division, and deals with identification of needs and stock management**.**

With regard to supplier qualification, the Supplier Qualification Department:

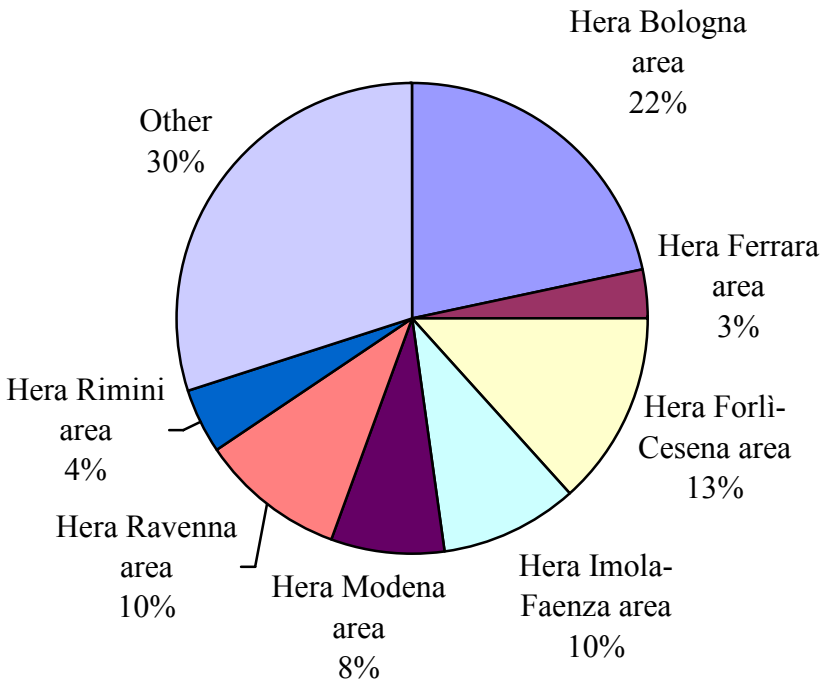
- sets forth procedures and guidelines;
- manages the process of qualification and assessment of suppliers;
- manages a qualified suppliers/businesses databank;
- processes reporting for the purpose of qualification.

Operations within local communities

Suppliers (breakdown by geographic area)

(no.)	2005	2006	% in 2006
Hera Bologna area	3,141	3,161	19.5%
Hera Ferrara area	835	860	5.3%
Hera Forlì-Cesena area	1,559	1,600	9.9%
Hera Imola-Faenza area	824	867	5.4%
Hera Modena area	1,573	1,701	10.5%
Hera Ravenna area	946	987	6.1%
Hera Rimini area	1,416	1,585	9.8%
Total area	*10,294*	*10,761*	*66.5%*
Other provinces of Emilia Romagna	441	453	2.8%
Other Italian regions (Regioni)	4,932	4,795	29.7%
Other European States	105	113	0.7%
Other	43	48	0.3%
of which countries at risk	*0*	*0*	*0.0%*
Total	**15,815**	**16,170**	**100.0%**

Value of supplies (breakdown by geographic area)



Also in 2006, we note the positive impact of Hera Group procurement processes on the areas in which the group is operational, and on local communities. One positive indicator consists in the locations of supplier businesses. More than 65% of Hera

suppliers were made up of businesses based in the area covered by Hera (the value of orders generated for these suppliers comes to approx. 70% of the total).
In 2006, the Hera Group issued job orders worth 406 million euro to businesses based in the same area as that covered by Hera.
No Hera suppliers are based in countries "at risk" with regard to respect of fundamental human rights.

Qualification and assessment of suppliers

Supplier assessment has been implemented at Group level, including Hera Modena for 2006.This process involves quality controls regarding technical, economic and organisational aspects. Controls are currently conducted on delivery of goods. With regard to services and job orders, controls take place during performance of the tasks assigned (six-monthly reporting). In 2006, the Group carried out inspections at the premises of goods suppliers. In some cases, conduct which was not fully compliant was found, highlighted and corrected in a short time, working closely with the supplier. Subsequently, the effectiveness of the corrective actions was verified.
When selecting and assessing suppliers, Hera also considers such aspects as safety measures, compliance with environmental regulations, and Social Responsibility. These aspects will become increasingly important in the future and will contribute to enhanced service quality. However, greater economic commitments are also required.

Qualified suppliers (breakdown by type of certification)

(no.)	2004	2005	2006
Quality certification (ISO 9001)	666	1,046	1,400
Qualification by certificate on execution of public works (SOA)	139	277	418
Environmental certification (ISO 14001-EMAS)	41	100	155
Lab analysis quality certification (SINAL)	20	23	29
Measurement instrument calibration quality certification (SIT)	6	13	21
Occupational safety (OHSAS 18001)	3	10	18
Social certification (SA 8000)	0	3	3

Not including Ferra companies (data for 2004). Not including Modena companies (data for 2005).

Procurement from qualified suppliers (value breakdown by type of certification)

(thousands of Euro)	2005	2006	% of total
Quality certification (ISO 9001)	249,558	347,580	59.8%
Qualification by certificate on execution of public works (SOA)	133,666	154,313	26.5%
Environmental certification (ISO 14001-EMAS)	6,200	89,340	15.4%
Lab analysis quality certification (SINAL)	1,303	1,617	0.3%
Occupational safety (OHSAS 18001)	0	550	0.1%
Measurement instrument calibration quality certification (SIT)	175	274	-
Social certification (SA 8000)	0	0	-

Data for 2005 do not include Modena area companies.

The considerable increase in the number of certified suppliers is the result of direct actions undertaken by the company via systemic inclusion of this requirement in its public invitations for tenders or via a request prior to compliance on the part of

suppliers. This increase was also the result of a growing awareness on the part of enterprises that greater quality is a component of competitiveness.
A particularly noteworthy development is the increase in the number of suppliers with quality certification (+133%), environmental certification (+ 50%) and safety certification (+80%). In 2006, work was carried out to standardise the tender bids for the supply of goods, services and works, with specific reference to environmental certification.
A system of corporate monitoring and external monitoring of suppliers was implemented for the purpose of verification of compliance with requested quality levels.

The e-procurement project
E-procurement is a software platform which enables the improvement of calling for tenders and transparency in the selection of suppliers. Through this platform, the supplier can be qualified, obtain documentation and send his bids directly through his computer, connected via internet. Suppliers will be gradually acquired through this system, with the objective of becoming fully operational within 2008.

Terms of business

The terms of business applied by the Hera Group aim to provide guarantees with respect to competitiveness, correct conduct, compliance with the corporate Code of Ethics and financial compatibility. Decidedly market-oriented components are price, delivery times and logistical considerations (where applicable).
In October 2006, the general contract terms and conditions contained in the Group tender specifications for bids on works, services and supply and installation were reviewed.
Some of the changes are as follows:

- an article was added regarding compliance with environmental provisions in the execution phase of the works which are the subject matter of the tender, together with the obligation to deliver an Initial Environmental Analysis during the bidding phase.
- the indications regarding tenders, deriving from the subscription of the Hera Group supplementary collective labour agreement, were implemented, including, specifically, the obligation to notify the labour unions, in case of contracts for services, of the name of the contracting company and the collective labour agreement applied to personnel;
- the obligation was inserted for the contractor to fill out and deliver to Project Management the specific accident report forms and annual summaries of the accidents occurring on-site;
- it was rendered obligatory in all Hera tenders for the personnel of the contracting company to use ID badges;
- the DURC (Tax Compliance Certificate), which certifies tax compliance is requested from all contractors, before the settlement of each payment for services rendered to the Hera Group.

Attention to quality and respect of the environment in choosing suppliers
In April 2006, the Hera SpA Board of Directors approved the revision of the Supplier Selection Manual, which establishes the rules that the Group must follow in assigning works, services, and supply. It was decided that the criteria of obtaining the greatest discount shall not be the main method to be followed when assigning a contract. It was also established that all suppliers, during the qualification phase, shall be required to accept the regulations contained in the Code of Ethics.
Starting in 2006, Hera has progressively introduced, in awarding the most significant tenders regarding environmental services managed, the criteria of the most cost-effective bid. In these tenders (i.e., tenders for assigning environmental services in the area managed by Hera Forlì-Cesena, and the assignment of sweeping services in Bologna), at least 40 points out of 100 are assigned by applying the criteria of quality, security and environmental protection. Following the taking effect of legislative decree 163/2006 in the matter of public tender offers, Hera required all bidding companies to present, together with the economic bid, an analysis justifying the prices offered.

Times of payment as per contract
Times of payment as per contract are set by Group guidelines at 120 days. However, we must note that – during a decidedly adverse period for suppliers – overall management of relations with suppliers shows appropriate duration of contracts more in line with the investments that may be required.

Supplier relations

Information and communication
The internet site includes a section dedicated to suppliers, providing access to public invitations for tenders and application forms for inclusion in the list of suppliers. In 2006, the internet site featured 45 public invitations for tenders. Approx. 210 suppliers applied for inclusion in the list of suppliers.

Litigation with suppliers
At the end of 2006, there were 48 pending cases of litigation with suppliers, of which 35 involved considerable amounts. The cases mainly concerned issues regarding public invitations for tenders.

Public Administration

Hera is determined to maintain its commitment to correctness of conduct and to quality of services provided. Hera sees this commitment as the outcome of full compliance with regulations and laws. In collaboration with public administration bodies, institutions and universities, Hera invests in innovation, technological development and research.

Objectives and performance

We said we would...	We have...
• Implement uniform periodic reporting targeting all water and waste regulatory authorities on water and environmental services	• Annual, uniform reporting on water services was implemented for all the water and waste regulatory authorities. Uniform reporting on environmental services will be activated in 2007.
• Engage administrative bodies (above all, in the smaller municipalities) through the efforts of our Territorial Operative Companies	• The Chairman and Managing Director held a road show to present the strategic plan of the company to the Mayors of the shareholder municipalities. The relational tools for interaction with the shareholder municipalities were strengthened, and the model of the Local Shareholders' Committee was defined. (see p. 118)
• Conduct a satisfaction survey regarding our Newsletter Sindaci (Mayors' Newsletter) and extend newsletter coverage to the Modena area	• The Newsletter Sindaci (Mayors' Newsletter) was also extended to the area of Hera Modena. The satisfaction survey was launched in February 2007. (see p. 118)
We shall...	
• Implement uniform periodic reporting targeting all water and waste regulatory authorities on water and environmental services • Improve the Newsletter Sindaci (Mayors' Newsletter) using the results of the satisfaction survey.	

Breakdown

Hera is a service provider for 180 municipalities (nearly all are Hera shareholders).The area covered by Hera is regulated by seven Water and Waste Regulatory Authorities (ATO) with regulatory mandates covering the waste management and water services. The energy sector (gas and electricity) is regulated by the Electrical Energy and Gas Authority (AEEG), an independent regulatory and control authority for the sector instituted by law no. 481/1995.

The research and development activities undertaken by the Group entail collaboration with various bodies (universities, research centres such as ENEA and CNR, public bodies, other companies). These activities are conducted via partnerships or quite simply by sponsorship.

Corporate crime prevention

In its relations with institutions and public administration bodies, Hera is firmly committed to ensuring full transparency in its dealings, as well as clarity and correctness, in order to avoid partiality, falsehood or ambiguity in interpretations, or interpretations that might prove misleading institutional operators with whom the company has dealings regarding various issues.

In December 2004, the Group's Board of Directors approved 17 protocols for managing the corporate crime problem areas referred to in legislative decree no. 231/2001. These protocols set forth the principles, roles and responsibilities which the entire staff of Hera must adhere to in managing activities at risk as per Decree 231 (such as sponsorship initiatives or donations).

The Group's Code of Ethics also specifies that benefits may not be decided on, or promises made, by administrative officers, workers or collaborators outside the group in favour of public officials or of persons managing public services (e.g. the representatives of authorities or local government authorities), in order to further their own interests, the interests of others, or the interests of Group companies. No gifts of any kind may be made to officials or others involved in public service duties, that might compromise their independence in decision-making processes.

Innovation and technological development

Also in 2006, the Group's research activities chiefly concerned the optimisation of network management, the environmental monitoring systems, the recovery of energy and materials from waste, and technological development in renewable sources.Leading research projects during 2006 concerned:

- **Progetto CO_2:** this project was started up in 2005, with the objective of reducing sludge from wastewater treatment and greenhouse gas emissions. It involves experimentation of an innovative technology for capturing CO2 issuing from exhaust gas produced by any combustion process and its use in the process of anaerobic digestion of sewage sludge. In 2006, the initial phase was completed with positive results: Conclusive tests demonstrated the capacity to capture up to 70% of CO_2 in emissions treated; Activities continued with the second stage, relating to the use of the captured CO2 in order to reduce the sludge contained in the digesters (- 20%) and produce a greater quantity of methane gas (+ 30%).
- **Emerging Pollutants Project**. The presence of pharmaceutical compounds in the water is considered to be one of the most important environmental problems in the last decade. These are pharmaceuticals and their metabolites belonging to various treatment categories, used in medicine and veterinary practice. The problem is perceived both in Europe and in the United States. Pharmaceutical products, intact or metabolized, are excreted and end up in the sewage system, passing via the treatment plants where they can escape decomposition, and end up

in the water in our environment. Accordingly, Hera has put together a research project which will commence in 2007, to set up accurate, sensitive and rapid analytical methods for determining which compounds, and to what extent, are present in the waste waters and in those intended for human consumption.

- **Environmental Catalysis Project**. This project, set up in 2006, and which will commence in 2007, envisages checking for the use of traditional catalytic converters, used to reduce NOx from gas emissions, also for the reduction of dioxins.
- **Polluting Defence Project**. This project targets development and application of new instruments for remote quality monitoring of drinking water, wastewater and gaseous emissions. The objective is to monitor in real time several important water and air quality parameters, reducing pollution risks and laboratory analysis costs. After the positive experience in on-line monitoring of the potable water treatment plant in Val di Setta (Bologna), and Ravenna, in 2006 installation of a similar instrument began at the Ferrara plant (Pontelagoscuro), for the purpose of monitoring the efficiency of the water treatment processes.
- **Electro-osmotic reclamation of sewage sludge**. The aim of the project is to apply the electrokinetic techniques used for reclaiming polluted land, so as to improve the features of sewage sludge. The initial tests carried out on a micro-prototype produced significant results in terms of the removal of pollution. Experimentation will continue during 2007 on a large-scale prototype.
- **Progetto Ferrara Acque**. Actions designed to support the management of the Ferrara water system via application of state-of-the-art technological solutions (mathematical simulation models and forecasting models for refurbishment of water pipes). During 2006, the mathematical model of the network was developed and the first measures for division into districts implemented. Effective leakage detection campaigns have also been carried out, availing of acoustic instrumentation.
- **Progetto X-water**. Remote reading trials for water meters applied to a pilot section of the distribution network. This project aims to provide indications on the applicability of remote reading to the recording of physical no account water. By controlling the water balance of the district daily, it was possible to precisely record the volumes of incoming and outgoing water, thereby permitting prompt intervention in the event of breakage and thus leakage.
- **Automatic Leakage Detection Project**. The project has come about as a natural development of the X-Water project and involves the study of innovative systems for the automatic detection of no account water to be used together with the remote reading system.
- **Progetto Fuel-Cell**. Construction of plants for distributed production of electricity and heat through combustion cells fuelled by methane or hydrogen. During 2006, a polymeric-membrane cell prototype was created, fuelled by reformed methane.

Dialogue with municipalities

The administrators of the shareholder municipalities are major stakeholders in Hera since they are majority shareholders and also constitute a link between Hera and the areas with which Hera is operational.
Senior management therefore organise monthly meetings with Mayors of the areas to exchange views and opinions. These meetings are an opportunity for assessing community services, performance and the strategies to be followed.
The traditional collaborative relationships between the Territorial Operative Companies are gradually taking on new, more structured forms.
Hera Bologna regularly holds monthly/bimonthly meetings with a Coordination Committe comprising the Mayors of the shareholder municipalities of Hera. In 2006, this model was also followed by Hera Rimini and Hera Forlì-Cesena (here more in the form of a shareholders' meeting, rather than a committee meeting), to reach substantial operations at the beginning of 2007. Hera Ferrara is starting up this project, but in the meantime, periodic meetings are being held: specifically, with the Presidents of the Borough Councils, on the issue of environmental improvement. Hera Imola-Faenza holds meetings twice a year with the Mayors of its area, while Hera Modena is developing a slightly different model, called the *Municipality Panel*, which is intended to be used to organise institutional relations between the company and municipalities. Lastly, Hera Ravenna, also due to the small number of municipalities it services, is able to maintain constant contact with Mayors, Municipal Councils and Commissions.

The *Mayors' Newsletter*, a monthly publication sent via email to around 180 area mayors and aldermen, was lightened in terms of content (shorter articles) in order to make it easier to read, and sections on practical issues were added (length of works and location of worksites, investments planned for each worksite, etc.). At the beginning of 2007, a satisfaction survey was carried out regarding the newsletter.

Accords, agreements and memorandums
In order to jointly define the methods for the realisation and management of Hera plants and services, Hera develops accords with local authorities, and economic and citizens' associations. The subscription of these accords formally binds the parties to respect the regulations and schedules. These signed accords then take the form of agreements of memorandums of understanding, depending on the form considered most suitable by the signatories to ensure the fulfilment of reciprocal commitments and subsequent application. The agreements usually include forms of engagement and dialogue between the signatories, monitoring tools and actions for the disclosure of information regarding the works and services therein. The following are a few examples of the main elements of some agreements:

- Memorandum of Understanding for the "Via Segantini Thermal Plant", between Hera SpA, the Reno neighbourhood (Bologna and the Segantini Association, to monitor and access information on the operations and emissions of a new thermal plant for the purpose of integration and aid, to be developed within a district heating system. Meetings with the general public were held, in addition to technical meetings with a small number of attendees, and agreement was

reached to publish the data regarding the operations of the plant on the neighbourhood website every fifteen days (23 September 2005);

- Memorandum of Understanding on the "Expanding the WTE Plant", between Hera SpA, the Municipality, the Province of Ferrara, and the Circoscrizione Nord-Ovest (Northwest Advisory Board), which defines the characteristics for expanding the existing plant, environmental monitoring methods, methods for engaging the local community and environmental mitigation works. Specifically, this memorandum entailed the creation of a RAB (25 June 2003);
- The "New Co-generation plant" Agreement, between Hera SpA, Hera Imola-Faenza and the municipality of Imola, which sets out the characteristics of the new plant and the development of the municipal district heating grid, environmental monitoring methods, methods for engaging the local community and environmental mitigation works (including sustainable mobility activities). This Agreement also entails the creation of a RAB (19 December 2006);
- Memorandum of Understanding on "Inspections of Municipal Wastewater Sewage", between the province of Modena, the Modena Section of ARPA, and the operators of the water service (including Hera), which defines a plan of inspections and self-inspections (23 November 2006);Memorandum of Understanding on "Air Quality", between the province and municipality of Ravenna, Confindustria and the companies in the industrial zone of the area (including Hera), which defines the methods for monitoring area quality and for circulating the results (14 December 2006).

Monteveglio recycles
Monteveglio, in the province of Bologna, was awarded the prize "Comuni Riciloni 2006" (Recycling Municipalities 2006), created by Legambiente with the sponsorship of the Ministry of the Environment. In June 2006, the experimental door-to-door waste collection service was initiated: the amount of separated waste thus increased from 16% in 2004 to 62% in 2006. Since September 2006, 30% of households in Monteveglio have been equipped with household composters for the self-composting of organic waste.

Relations with authorities

Based on its founding law, the Electrical Energy and Gas Authority (AEEG) is legally entitled to conduct enquiries and investigations, and to initiate hearings, should operators be considered responsible for breaches of the terms and rules established by resolutions relating to this sector.

In 2006, the two formal hearings concluded positively for the Hera Group: one concerning alleged non-compliance with mandatory security standards and gas service quality standards at the Ferrara plant (Hera, resolution of 27 July 2005, no. 156) and alleged improper use of stored gas (Hera Trading, resolution of 23 February 2006, no. 37, concluded with the publication of resolution 278/2006). Recognising the validity of

Hera's arguments and the documentation produced to support its conduct, the Authority ruled to close the proceedings without implementing sanctions.
On 27 February 2007 (resolution no. 38/07) the proceeding initiated with resolution 257/2006 regarding the fulfilment of obligations deriving from the Consolidated Text of the Provisions on the Quality of the Electricity Service concluded positively. Within these proceedings, the Authority, working in conjunction with personnel from the Tax Police, carried out inspections at the operator's premises.

As of today, the proceedings initiated by resolution no. 163/2006 regarding compliance with the provisions of the Consolidated Text of the Provisions on the Quality, Security and Continuity of the Gas Service in the plant of Castelnuovo Rangone (the required documentation was sent to the Authority in December 2006).
Following the merger by incorporation of Meta SpA, Hera substituted Meta in the proceedings initiated by the Authorities on 9 September 2004, with resolution 152/2004, regarding verifications of liability of operators in relation to the events of September 2003 (blackouts on the electricity grid). Meta initially, and then Hera provided documentation to the AEEG on the status of the plants and the measured taken to protect customers and operations. On disclosing the results of the preliminary investigation, on 22 February 2007, the AEEG ruled that the documentation produced by the operator did not exclude responsibility for the malfunctioning of the equipment for automatically reducing charge. This proceeding is currently underway.

In January 2006, Hera received an economic incentive from the AEEG, of approximately Euro 190,000 as a bonus for the quality of the electricity service provided. It was recognised that Hera's distribution service exceeds the quality standards of reference; Hera's service speaks to the quality and technological reliability of its electricity grids. The most significant figure: compared to the national trend, Hera had 65% fewer outages in the urban grids and 22% fewer outages in non-urban grids.

The Modena Water and Waste Regulatory Authority applied a sanction to Hera of Euro 253,000, which was then reduced following the presentation of countering statements, for the failure to clean drains in Modena in 2005. The penalties are set by the Agreement between the Water and Waste Regulatory Authority and the operator, in case of failure to reach the assigned targets.

Local Communities

Hera intends to take stock of the needs of the area in which it is operational. This approach translates into listening, dialogue and involvement actions targeting the leading local consumer and trade associations, environmental groups and schools.

Objectives and performance

We said we would...	We have...
• Promote the engagement of citizens resident in zones neighbouring waste disposal and energy production plants. Extend the experience derived from the RAB in Ferrara	• The RAB of the Imola plant will be launched in 2007. For the other plants (Bologna and Modena), different types of engagement activities have been implemented. (see p. 40)
• Conduct environmental communication plans: separate waste collection, energy and water saving	• Numerous campaigns were carried out to promote separate waste collection and water and energy savings, including the distribution of 1.2 million coupons for free low-consumption bulbs and approximately 2.5 million coupons for water flow regulator kits for water saving. (see p. 122)
• Continue organising environmental educational projects in area schools; design an environmental educational initiative, shared by the entire area covered by Hera, concerning natural resources saving.	• In 2006, environmental education activities in schools involved 37,600 students. The Hera Group network of educational activities, "Tuttigiùperterra", was created. (vedi pag. 125)
• Revamp the internet site, with particular attention paid to Corporate Social Responsibility and to the section dedicated to customers	• During the year, numerous improvements were made to the internet site. In October, the social responsibility section of the site was redesigned. The project to redesign of the entire site was begun, and will conclude in 2007. (see p. 124)
• Enhance the image of work sites, with the objective of minimising impacts, where possible, on the public at large	• The Hera worksite model was defined, which set out new placards, system of signs and barricades. The specifications defined in the Hera worksite model will be inserted into the new tender specifications. (see p. 38)
We shall...	
• Launch the RAB of Imola and participate in other citizen engagement initiatives in local areas, regarding the industrial plants managed by Hera. • Redesign the website, based on the results from the stakeholder engagement activities. • Continue the communications programme on separate waste collection and water and energy savings. • Organise tours of the Bologna waste-to-energy plant. • Circulate the Sustainability Report to local stakeholders, also within a specific event.	

Breakdown

In the area covered by Hera, there are nearly 2,7 million inhabitants. The provinces in which the company is operational host approx. 14,000 non-profit organisations. Every year, Hera works together with approx. 700 schools (involving approx. 38,000 students in environmental education activities). Hera develops projects with many associations.

Communication

Social and environmental communication
The most important communications project regarded the environment sector, aimed at increasing separated waste collection.
This resulted in the realisation of a communications campaign, under the slogan *Say, Do, Separate* focused on the recovery of waste. The campaign began with the broadcasting of three different commercials on television stations in the Emilia Romagna region, the placarding of posters in all the provinces involved, radio commercials and advertisements in the daily press. The most important moment of the entire campaign involved the creation of a series of scenic-scientific conferences, led by Mario Tozzi, a researcher for CNR and well-known television populariser of scientific news.

For Hera, Tozzi created the show *Trash: storie di recuperi, filosofia del naufrago, elogio del vuoto a rendere,* an involving story which is woven around scientific data and real examples to illustrate the various aspects of the problem of waste disposal, and to encourage a more sustainable lifestyle. Five free shows were held, on 5 dates from June to September in the main squares of Bologna, Cesena, Ferrara, Modena and Rimini, which were attended by about 10,000 people.
In addition, the single areas of the seven Territorial Operative Companies carried out extraordinary initiatives at the drop-off points to offer users further opportunities to drop off bulky waste, electrical or electronic waste and dangerous waste. The driving force of these single campaigns was an important communications campaign in dailies and posters placed throughout the area in order to sensitise users to come to the drop-off points.

Communications campaigns aimed at water and energy savings accompanied the distribution of low consumption bulbs and water flow regulators to be applied to taps.

No-dig works
The use of non-destructive technologies for laying new piping or replacing existing piping is greatly increasing. These technologies allow for working on piping without having to open digs. The reasons for using these technologies is that it is often difficult to execute these works, especially in urban areas with high-quality furnishings and road surfaces.

This type of work almost always provides social (smaller work-sites, limited damage to businesses) and environmental (reduction of noise and dust, sharp decrease in the use of intert substances, and, consequently, less extraction from quarries, and decreased use of bitumenous substances) advantages. As these advantages are difficult to quantify, they are never added to the technical and operating costs of the works.
In 2006, Hera carried out 5.2 kilometres of network substitution using these technologies.

Social and environmental communications costs

(thousands of Euro)	2006
Social communication	248
Environmental communication	1,663
Total	**1,911**

The figures include Aspes Multiservizi and its subsidiaries.

Eco-sustainable hotels and seaside resorts

Hera Rimini distributed to 200 hotels in the area containers for separate waste collection, and has created a special toll-free number for the needs of tourist businesses. It has also stipulated an agreement with Legambiente Turismo which provides for discount tariffs for Ecolabel hotels, which reduce their waste volumes and energy consumption. In addition, within the Dire, Fare, Differenziare campaign, 80 seaside resorts in Rimini have been equipped with containers for door-to-door collection of separate waste. The agreement with Legambiente Turismo was signed in March 2007, also with Hera SpA, and extended to a further 25,000 hotel beds in the Ferrara and Romagna areas.
Hera Rimini also collaborates with the Riccione Hotel Association to reimburse return tickets for families which choose to spend their holidays in Ecolabel hotels in Riccione.

Taking part in exhibitions and trade fairs

In 2006, Hera once again participated in Ecomondo, the international exhibition for the recovery of waste and energy and sustainable development, which is the Group's primary exhibition.
The main issue identified was the company's investment in advanced, new generation technologies currently being applied to the waste treatment plants and expansion plants. This is a strategic choice to protect the environment and the local area, aimed at improving the efficiency of these plants.
In Hera's stand, the focus was on communicating and illustrating Hera's commitment to combining environmental responsibility with technological quality in the strategic choices for waste management in the Environment sector, as well as pointing out its points of excellence. Large photos of open worksites regarding several waste-to-energy plants were accompanied by a video summary of *Natural Artifice*, the project developed in the areas of the Ravenna and Lugo plants, where operations were carried out to rebalance the ecosystem, with the planting of thousand of new species of trees. This project was also presented during a national workshop promoted by Federambiente.

Hera also participated in the Vetrina della Sostenibilità (Window on Sustainability) project, set up in the Emilia Romagna region, through 4 best practices: the RAB, separate waste collection, energy savings, and environmental education. Within the events organised in this project, the three latest educational notebooks were presented, published in collaboration with "Editoriale Scienza" of Trieste.
In the hall dedicated to education, a viewing area was set up, where Trash, the show by Mario Tozzi produced by Hera within the Say, *Do, Separate* campaign was shown.

Website

In 2006, various actions were undertaken, both to enrich the content of the website and to analyse the effectiveness of web communication in relation to the requirements of Hera's stakeholders.As regards the implementation of the site, the following were the most significant steps taken following an in-depth study to define the improvements needed:

- to disclose the company's commitment to CSR, in June, the Sustainability Report was published in html format, both in Italian and English; in November, the new Social Responsibility section was added;
- to improve the quality of institutional and financial information, in August the Corporate section of the site was revised, and further information was added to the English version;
- to increase the amount of useful content for customers on-line, new sections were introduced, dedicated to separate waste collection and the correct use of resources. An on-line version of HeraPiù magazine was also developed;
- to facilitate access to grids and networks by competitors, a new section on "Gas and Electricity Distribution", designed following the indications of the AEEG.

As regards the analysis of site users' expectations, an in-depth, widespread study was carried out to identify the most suitable improvements to be made. A study on the user's experience of the website was carried out through the analysis of 5,000 on-line questionnaires.

Hera's webranking

In the Webranking 2006 classification, which evaluates the quality of on-line communications of the largest companies by market cap, the Hera site shot up by numerous positions, reaching 8th place in 2006 (it was in 54th place in 2004 and 21st place in 2005), and maintained, as in the two previous years, the highest score for accessibility of the website for differently able users.
Hera also achieved good results in the Labitalia classification, which analyses the websites of Italian public utilities, reaching 4th place.

Website hits

(no.)	2004	2005	2006
Pages viewed (monthly)	162,858	355,101	408,280
Hits (average monthly)	51,083	111,456	185,235

Monthly hits for selected sections of the website

(no.)	2005	2006
Sustainability	15,291	6,002
Investor relations	6,899	13,398
Customers	15,534	40,251
Suppliers	3,018	4,762
Kids	652	1,013

Environmental education

In 2006 a Hera Group project on environmental education was initiated, entitled *Tuttigiùperterra*, the Hera Group network of educational activities, for the purpose of coordinating local area environmental education projects. This coordination aims at:

- homogeneous recording of data regarding these activities in order to measure geographical extension and results;
- monitoring of the quality ratio of the quantity of resources invested compared to the results in terms of objectives;
- verifying how well the activities promoted meet the real needs of schools, children and teachers. For this purpose, 10 focus groups were held (8 among children at all levels of school, and 2 among teachers, located throughout the provinces of the area and differentiated by geographical area). The results are currently being analysed. The results of the focus groups will be the basis for planning future activities.
- promoting Group initiatives that meet the common needs of the local areas, and concentrate and rationalise the financial investments made by the company.

The first project of this type, entitled *The Science Well* involves the diffusion of scientific culture in schools and to adults, promoted in collaboration with the "M. Golinelli" Foundation of Bologna, has planned meetings throughout the areas served by Hera.

In April 2006, the first meeting dedicated to scientific culture was held, within the International Kite Festival in Cervia. In the meeting for high school students, special guests were the astronaut Guidoni and the designers of the Kite Wind Generator, a patented system for exploiting wind energy using kites, which was awarded the "M. Calderoni" prize sponsored by Hera.

Meanwhile, the activities planned in the projects of the Territorial Operative Companies continued, with the specific features consolidated in each respective area. The publishing project Materalita di Ravenna was confirmed in collaboration with "Editoriale Scienza" publishers. The Ravenna centre for environmental education "La Lucertola" was also confirmed. Within this project, the three latest educational notebooks were presented at "Ecomondo", and a further three are planned for 2007. These notebooks are distributed with the Hera brand in bookstores throughout Italy.

The activities of the *Centro Ambiente* in Rimini are currently ongoing, managed in collaboration with the theme park, "Italia in Miniatura", integrated with a drop-off point. These activities are managed by an environmental education cooperative.

In order to communicate with adolescents, using suitable, comprehensible language, collaboration with BLOG Students Magazine has been initiated. This is a monthly magazine for high school students in Bologna. Over 20,000 copies of the magazine are distributed in the high schools of Bologna, Casalecchio di Reno, S. Lazzaro and Imola. This collaboration involves permanent advertising and editorial space dedicated to Hera in the magazine, and the creation of a comic strip drawn by Sandro Staffa and written by the Mirada Association of Ravena. This will come in the form of an insert in the magazine and will probably become an ongoing publishing project. This idea has been directly proposed for the opinion of students.

The environmental education lab in Ferrara

Don't throw it out, play it, *Playing with Trash* and *Educational Paths* are three projects involving the realisation of didactic laboratories dedicated to the construction of musical instruments by recovering materials from waste, and guided tours of the Hera Ferrara plants. For the 2005-2006 school year, these projects involved a total of approximately 300 classes, 6,000 students and 450 teachers. These projects concluded with two large events, Piazza Aperta and Estate Bambini.

Environmental education projects

(no.)	2004/05	2005/06
Schools involved	781	659
Students involved	33,505	37,622

For an eco-logical future!

In school year 2005-2006, this project, led by the Ufficio Educazione Ambientale, the Local Agenda 21 of the municipality of Ravenna, and Hera Ravenna, involved numerous schools of each level and type for the purpose of developing responsible conduct in relation to issues regarding waste reduction and recycling. The actions regarded separate waste collection in schools, the organisation of meetings on issues of recycling, and the creation of "re-use markets" within the schools. The schools which adhered to the project expanded their commitment to the towns, by launching a campaign for sensitising people regarding separate waste collection.

Media relations

Hera news items (national press review)

%	2004	2005	2006
Favourable or highly favourable articles	42.8%	77.9%	91.2%
Neutral articles	54.1%	21.1%	8.6%
Critical or extremely critical articles	3.1%	1.1%	0.2%
Total articles (no.)	**318**	**285**	**420**

The Group's visibility increased, above all on the national level: qualitative/quantitative press analysis showed a significant increase in the number of articles (from 285 in 2005 to 420 in 2006), most of which were favourable or highly favourable (91.2%).

Hera news items (local press review)

%	2004	2005	2006
Favourable or highly favourable articles	14.9%	42.1%	45.7%
Neutral articles	56.4%	39.6%	33.1%
Critical or extremely critical articles	28.7%	18.3%	21.2%
Total articles (no.)	**2,887**	**3,243**	**3,834**

Also for 2006, Hera's treatment in the local press has improved further, in quantitative terms (3,834 articles in 2006 compared with 3,243 in 2005), accompanied by a progressive improvement in tone. 46% of articles were favourable or highly favourable, compared with 21% critical articles.
These improvements, both in quantitative and qualitative terms, are certainly the fruit of increased dynamism of the company, as well as a series of actions taken to cement relations with the press, including the planning of periodic press briefings and the organisation of guided tours of the plants, with a view to increased transparency.
During 2006, a line of direct contact was tested with citizens and Hera experts, who appeared at press offices, and answered questions in real time. One of the aspects that certainly contributed to the improvement in the media's conduct towards Hera is the promptness with which the company fulfils requests for information, above all on issues regarding services. In this view, significant activities were carried out in order to expand the scouting process, advance management of critical issues/opportunities and increase the company's proactiveness.
The press kit, also available on-line, was redesigned and improved, and the entire press section of the internet site was implemented, so that Italian and foreign journalists can acquire all the information they need in real time.

Sponsorship and donations

Close relations with the local areas and its inhabitants are at the centre of the spirit with which the Hera Group makes its sponsorship choices, Searching out partnerships with companies, authorities and prestigious public and private bodies.

In the cultural arena, Hera has supported actions and events on the national level, such as the Festival of Philosophy in Modena, the season of the Bologna Community Theatre, the exhibitions of Giaquinto in Cesena and of Amleto Montevecchi in Imola. In a more local context, Hera contributed to the following initiatives: Imola in Musica (the Imola Music Festival); Ferrara Sotto le Stelle (A Night in Ferrara); la Notte Rosa di Rimini (Pink Night in Rimini); the project for the restoration of dislocated historical ceramics in the urban area in collaboration with the International Museum of Ceramics in Faenza; Le Città Invisibili (The Invisible Cities) (readings by Lella Costa of Calvino's text of the same name in the Fiera District of Bologna).

Sponsorship

(thousands of Euro)	2004	2005*	2006
Recreational activities	327	344	191
Culture	328	486	565
Sport	388	315	350
Social	111	71	149
Environmental	70	93	108
Other	110	124	62
Total	**1.334**	**1.433**	**1.425**
Of which to local communities	*1.269*	*1.375*	*1.366*
Of which to areas not served by Hera	*65*	*58*	*59*

* Pro-forma data including the Meta Group.The figures for 2006 include Aspes Multiservizi and its subsidiaries.

There are significant collaboration in cycling, which is very popular in Italy, and has a wide fan base in our region, (for example, the "Coppi-Bartali" race, the "Giro dell'Emilia" race, and the "Coppa Pantani" race). Furthermore, Hera was a partner of the Final Four of volleyball and the Final Eight of basketball, held in September 2006 in Forlì.

Donations

(thousand Euro)	2004	2005*	2006
Recreational activities	79	80	0
Culture	29	55	56
Sport	2	0	3
Social	273	328	263
Environmental	35	2	3
Other	260	115	58
Total	**678**	**580**	**383**
Of which to local communities	*651*	*554*	*354*
Of which to areas not served by Hera	*27*	*26*	*29*

* Pro-forma data including the Meta Group.The figures for 2006 include Aspes Multiservizi and its subsidiaries.

At Christmas, together with the training and agriculture board, CEFA (European Committe for Training and Agriculture), an international voluntary work NGO, we took a new approach to solidarity by promoting a project for water withdrawal and water resource management in the Puntland region in Somalia. The project envisages the construction of 24 water lines, 30 wells for itinerant herd husbandry, 300 hygiene structures and other health structures in 100 villages. In 2006, 7 water lines and 18 wells were built.

Associations and Hera membership

Hera belongs to “Sistema Confservizi”, the grouping of associations and federations representing the interests of local public services. “Sistema Confservizi” includes the sector federations such as Federutility and Federambiente, and regional federations such as Confservizi Emilia-Romagna.
The Group is also a member of AIRU (the Italian association for Municipal Heating) CIG (The Italian Technical Gas Association), APCE Reti gas (gas grids), Impronta Etica (an ethics association), the Nimbry Forum and the World Energy Forum (Italian chapter). It contributes to research activities regarding the public services sector conducted by leading institutions (IEFE, AREL, the local public services forum of Nomisma, the Florence School of Regulation).

Pending legal proceedings

At the close of 2006, there were 122 pending cases of litigation (excluding litigation with employees, customers or suppliers, covered in other sections of this report), regarding heterogeneous cases which mainly involve claims for damages connected with Hera’s main operations.
At the end of 2006, there were also 55 criminal law proceedings pending. Most of these proceedings regard non-compliance with environmental requisites or regulations, without significant damage to the environment. Lastly, regarding the total litigation pending, 20% involve active proceedings in which companies in the Hera Group take on the role of plaintiff.
In addition, 10 fines were contested, relating to violations of environmental regulations revealed by the competent regulatory bodies, for which the related sanctions were paid, for a total of approximately Euro 13 million.

The Environment and Future Generations

The area in which Hera is operational is not merely a geographic entity. Above all, it is the principal source of wealth, socially and environmentally.
Hera therefore believes its commitment to responsible management of natural resources must be put into practice on a day-to-day basis by improving corporate performance, adopting increasingly efficient technologies and promoting renewable energy sources.

Objectives and performance

We said we would...	We have...
• Reduce use of landfill as a means of disposal for municipal waste, while increasing separate waste collection and waste-to-energy treatment. Our objective is, by the close of 2009, to recover (by separate waste collection and waste-to-energy treatment) 85% of collected waste and to dispose of only the remaining portion via landfill (following pre-treatment, selection and biostabilisation)	• In 2006, municipal waste treated via landfill without pre-treatment amounted to 24%, compared to 29% in 2005. (see p. 163)
• Set guidelines for development of separate waste collection to reach 35% in 2007 and monitor implementation by Territorial Operative Companies.	• Guidelines for the development of separate waste collection were defined (SGR). In 2006, separate waste collection reached 33.5%. (see p. 163)
• EMAS registration: obtain registration for 6 more waste treatment and disposal plants during 2006	• External verifier ended positively the verification for EMAS registration. (see p. 29)
• EMAS registration: extend Hera Ferrara EMAS registration to the integrated water service	• The activities aimed at extending EMAS registration to the integrated water service are currently underway. (see p. 29)
• ISO 14001 certification: obtain certification for Hera SpA and the Territorial Operative Companies	• In December 2006, ISO 14001 environmental certification was granted to Hera SpA and all of the Territorial Operative Companies. (see p. 29)
• Formulate new procedures for disposal and treatment of sludge from wastewater treatment	• Feasibility studies were performed for the application of current technology (drying, burning, biostabilisation, wet oxidation) and experimental technologies (non-conventional drying). (see p. 172)
• Extend the district heating service by selecting and implementing initiatives for heat recovery from renewable sources	• Connected volumes increased by 12% compared to 2005. Energy from renewable sources, similar sources and waste-to-energy increased from 39% to 46%. (see p. 142)
• Set guidelines for collection of RAEE (waste from electrical and electronic appliances).	• The guidelines for collection of RAEE (waste from electrical and electronic appliances) were defined in 2006, though the application of these regulations has been postponed to July 2007. (see

	p. 167)
• Promote initiatives for the production of energy from renewable sources and for reduced energy consumption	• In 2006, several plants were built for the production of electrical energy from renewable sources (photovoltaic plants, biogas, and hydroelectricity). A project was implemented to reduce energy consumption in company premises. (see p. 139)
• Implement the water loss research and reduction plan: for 22% water loss in 2008	• Grid losses in 2006 amounted to 23.4% compared to 24.9% in 2005, with specific improvement in the areas of Bologna, Ferrara and Forlì-Cesena. (see p. 147)
• Extend greenhouse gas emissions monitoring and reporting to all plants.	• A test was carried out to evaluated greenhouse gas emissions of treatment plants. In 2007, a plan will be developed to extend this monitoring activity. (see p. 159)
• Reduce atmospheric emissions of company fleets (by conversion to methane gas, biodiesel, hybrids, etc.): the objective is to achieve 20% of the fleet consisting in low environmental impact vehicles in 2009.	• The significant increase in the use of biodiesel led to an increase in the number of low environmental impact vehicles: 25.4% in 2006 compared to 13% in 2005. (see p. 157)

We shall...

- Reduce use of landfill as a means of disposal for municipal waste, while increasing separate waste collection and waste-to-energy treatment. The objective is, by 2009, to reduce the share of municipal waste directly disposed via landfill to 15%.
- Increase separate waste collection: reach 35% in 2007 and 40% in 2009.
- EMAS registration: obtain registration for 8 more waste treatment and disposal plants during 2007
- EMAS registration: extend Hera Ferrara EMAS registration to the integrated water service
- Continue the implementation of the water loss research and reduction plan: reach 22% of water loss in 2008 and 21% in 2009.
- Extend district heating, also through the use of renewable sources: start up, in 2007, the installation of a heat pump in order to optimise the use of the geothermal source in Ferrara, and define projects in other local areas.
- Progressively increase the number of vehicles using fuel with low environmental impact (methane, biodiesel, electricity), to reach 40% of vehicles with low environmental impact in 2009.
- Reduce energy consumption in company premises by 10%.
- Start up the plant for the treatment and subsequent recovery of waste from waste-to-energy treatment.
- Carry out feasibility studies on mobility management actions in the areas of Ferrara, Imola, Modena and Rimini.

Environmental impact of the activities managed by Hera

In this section, we will first describe the main environmental issues related to our operations, and the results achieved with the development of the environmental management system.

Main environmental issues

For the energy services, the main environmental issues are:

- efficiency of gas, electricity and heat distribution grids;
- production of electricity and thermal energy from renewable sources (use of landfill and wastewater treatment plant biogas, photovoltaic energy) and from

assimilated sources (co-generation and turboexpanders) and waste-to-energy transformation.

For the water services, the main environmental issues are:

- limiting subsidence;
- efficiency of water network and of potability plants;
- reintroduction of water into the environment (sea and rivers) following process downstream from collection by sewerage systems and required treatment.

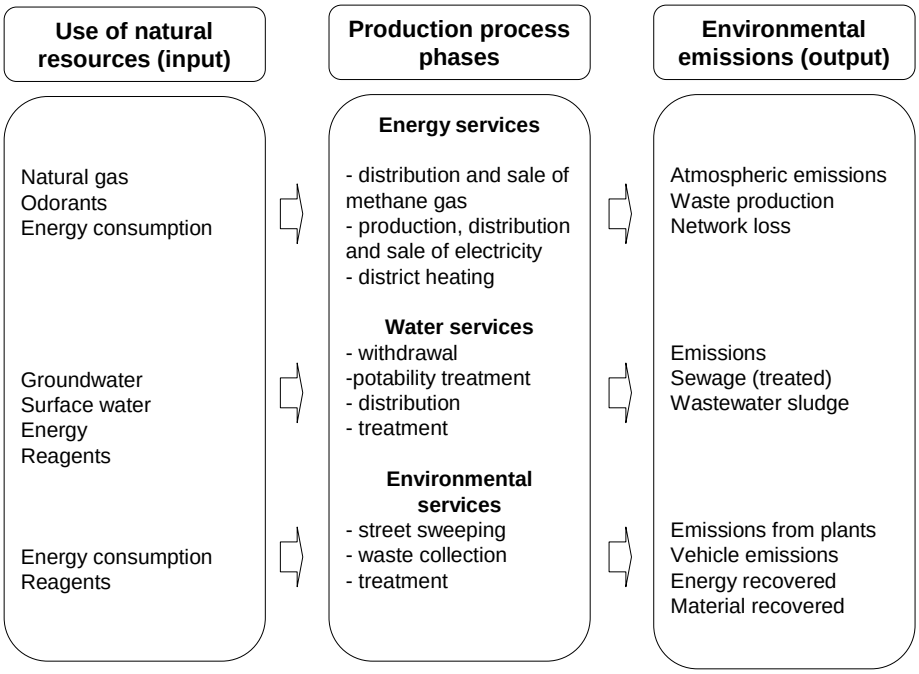
With regard to subsidence, Hera works toward reducing groundwater collection by using plants fed by surface water as frequently as possible, although this entails higher potability treatment costs or greater procurement costs (as for supplies provided by Romagna Acque).
To limit the environmental impact of wastewater, the sewer system in coastal areas is equipped with mechanisms regulating discharge into the sea in the event of heavy rainfall. Tanks are also being built to collect runoff water to be transferred to treatment plants. The main treatment plants are equipped with odour treatment systems using bio filters. All plants are equipped with: 24-hour a day staffing, inspections on a daily basis, or 2-3 times per week, depending on plant size. Wastewater, too, is constantly and carefully controlled before reintroduction into the environment on the basis of a control plan specifying number, frequency and type of analysis.

Sustainability of waste management sector activities mainly regards:

- increasing separate waste collection, followed by recovery of materials;
- reduction of landfill waste disposal, in compliance with the provisions of the Ronchi decree, and recovery of energy from waste (waste-to-energy treatment and biogas).

Increased separate waste collection enhances the efficiency of downstream waste treatment and recovery of material and energy, as well as the reduction in landfill volumes. With regard to disposal methods, the Group's plants will enable the Group to reduce the disposal of waste in landfills to 15% of the municipal waste collected by 2009.

Environmental management of Hera's operations



The first step in the process which began about two years ago, and which led to Hera obtaining ISO 14001 certification in 2006 was environmental analysis. The diagram above summarises the most important aspects identified within the main production processes.

Following the environmental analysis, an environmental management system was developed, meaning the total objectives, procedures and operating instructions aimed at controlling and improving environmental impacts of company operations.

The environmental management system, which has been applied for several months, is undergoing continuous improvement, in order to bring it to full effectiveness. The work performed in these months has led to significant results:

- identification of significant impacts and the consequent definition of specific operating instructions in order to keep the impacts under control, both in normal operating conditions and during emergencies:
- the systematic insertion of environmental analysis among the input data for planning and design;
- recognition and complete evaluation of the acoustic impact of the plants located throughout the area (small treatment plants, gas pressure reducer stations);
- definition of new environmental quality requirements within standard specifications, and the initiation of new methods for controlling the environmental impact of works and services provided by suppliers (various control sheets have been developed: network management worksites, street cleaning and waste collection, operation and maintenance of water treatment plants, applied from July 2006);
- close attention, throughout the organisation, to new legal regulations and to the analysis of their correct application to company operations;
- implementation of various training initiatives regarding the environmental impacts of the company and the correct methods for managing these impacts (management of waste proceeded, basic training for all workers, specialised

training for all technicians, etc.) thus increasing the involvement of employees in the certification process;

- measurement of dangerous substances or materials present in company plants/structures.

The improvement programme within the environmental management system also sets out new targets, such as:

- immediate updating of management methods in case of significant changes in environmental impact due to technical or organisational changes;
- the circulation of the best techniques also due to the progressive standardisation of management and operations;
- definition of plant standards, broken down based on the various acoustic zoning classes, with verification and adjustment, if required, of the existing plants;
- improvement and gradual standardisation of the methods for controlling environmental impacts of the works and services carried out by suppliers, with inspections of each supplier on at least a monthly basis;
- further information provided and sensitivity initiatives regarding environmental issues, with specific training of technicians in charge of inspecting suppliers.

Energy production

Distinguishing features of electrical and heat energy production by the Hera Group are the use of a variety of sources that minimise environmental impact and reduce pollutant emissions, the attention paid to energy saving, and the use of innovative plants.
Hera manages turboexpanders that produce electricity by exploiting gas pressure differentials. Its district heating plants, including the plant in Ferrara, are also fuelled by a geothermal source. Hera also manages waste-to-energy treatment plants fuelled by solid municipal waste.
For the future, it intends to increase the use of renewable energy sources, not only increasing the power of its plants, but also by acquiring new plants for the production of photovoltaic and hydroelectric energy.

Electricity produced (gross)

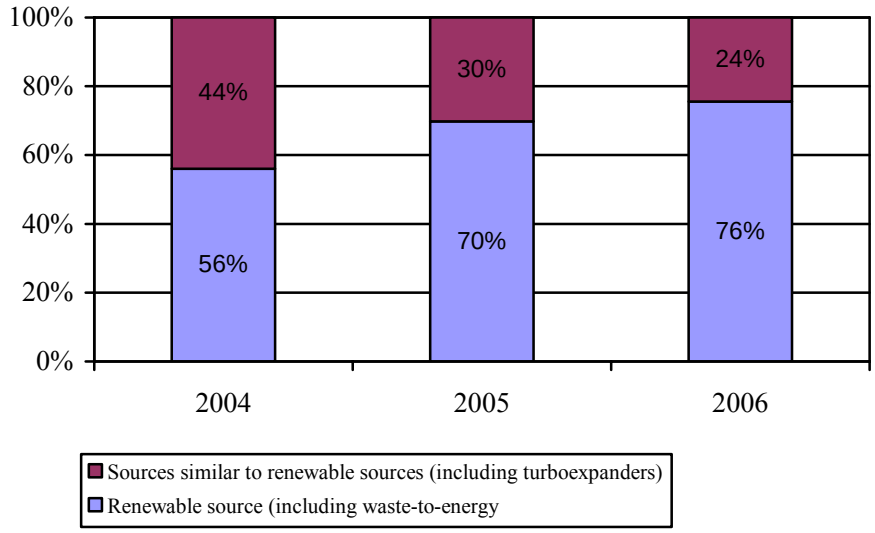
(MWh)	2004	2005	2006
Waste to Energy plants	158,360	260,476	306,074
Cogeneration	124,594	102,217	94,550
Combustion of landfill biogas	10,666	9,618	15,298
Turboexpanders	11,107	16,596	9,846
Combustion of wastewater treatment biogas	2,571	2,335	1,654
Hydroelectricity	1,204	1,536	0
Total	**308,502**	**392,778**	**427,422**

The data for 2004 and 2005 differ in part from that published in the 2005 Report, as the electrical energy production plants which are not owned by Hera have been excluded, even though they are fuelled with biogas from landfills managed by Hera. Photovoltaic plants with peak power less than 50 kW have also been excluded.

Legislative decree 387 of 2003 defines the biodegradable components of municipal and industrial waste a renewable energy source.

Law no. 10 of 1999 regulates production of electricity by assimilated renewable source plants. Among these sources, the law includes co-generation plants, understood as combined production of electricity and heat. Although the definitions are not precise in regulatory measures, production of electricity by turboexpansion has been considered as assimilable with renewable sources since, without recovery, the energy would be dispersed.

Total electrical energy produced



Electricity produced (gross) (breakdown by plant)

(MWh)	2004	2005	2006
Frullo Energia Ambiente (BO) waste-to-energy plant	59,391	103,903	146,955
Ferrara waste-to-energy plant	11,904	10,253	11,359
Forlì waste-to-energy plant	8,805	12,912	12,203
Modena waste-to-energy plant		30,403	28,065
Ravenna waste-to-energy plant	31,733	32,943	33,273
Ecologia Ambiente waste-to-energy plant		21,936	22,098
Rimini waste-to-energy plant	46,527	48,126	52,121
Total from waste-to-energy	*158,360*	*260,476*	*306,074*
Bologna co-generation	50,352	44,854	39,637
Ferrara co-generation	2,794	2,593	2,178
Forlì-Cesena co-generation	1,556	1,316	2,428
Hera Imola-Faenza	69,892	51,664	48,749
Modena co-generation		1,790	1,558
Total from co-generation	*124,594*	*102,217*	*94,550*
Tre Monti Imola (BO) landfill	2,822	432	0
Caruso Modena Landfill		289	95
Spilamberto (MO) landfill		748	2,552
Alfonsine (RA) landfill	2,001	942	510
Ravenna 1C landfill	5,843	7,207	5,887
Nuova Geovis (BO) landfill	n.d.	n.a.	6,254
Total from landfill biogas combustion	*10,666*	*9,618*	*15,298*
Bologna turboexpander	840	6,360	804
Ferrara turboexpander	3,688	4,196	3,288
Forlì turboexpander	3,456	2,990	2,889
Ravenna turboexpander	3,123	3,050	2,860
Modena turboexpander			5
Total from natural gas turboexpansion	*11,107*	*16,596*	*9,846*
Bologna waste water treatment plant (biogas)	922	923	212
Cesena waste water treatment (methane)	1,538	270	373
Cesena waste water treatment plant (biogas)		1,110	1,047
Ravenna waste water treatment (methane)	111	32	22
Total from waste water treatment biogas combustion	2,571	2,335	1,654
Cavaticcio Bologna hydroelectric plant	1,204	1,536	0
Total from hydroelectric plants	*1,204*	*1,536*	*0*
Total electricity produced	**308,502**	**392,778**	**427,422**

The data for 2004 and 2005 differ in part from that published in the 2005 Report, as the electrical energy production plants which are not owned by Hera have been excluded, even though they are fuelled with biogas from landfills managed by Hera.

The considerable increase in electrical energy produced is primarily due to the incorporation of the Modena area company into the Hera Group and the Ecologia Ambiente plant, and the coming on stream of the new waste-to-energy plant of Frullo Energia Ambiente Bologna (since 2005, then fully operational from 2006).
In 2006, two new cogeneration plants came on stream: one in the municipality of Castelbolognese (RA), managed by Hera Imola-Faenza, and one in the municipality of Forlì. In both cases, these plants serve the new district heating networks currently under development.
In 2006, these plants were not yet fully operational, as well as the new gas turboexpander in Modena, which is still in the initial inspection phase.
The calculations for 2006 also include the production of electricity from biogas from the landfill managed by Nuova Geovis (BO), which is entitled to the emission of green certificates.

63% of the electricity produced benefits from CIP 6 incentives, or from the right to the emission of green certificates.

New mini-hydroelectric plant in the province of Forlì-Cesena
Within the first few months of 2007, one of the two mini-hydroelectric plants planned on the Para stream will become operational. These plants have been realised using cutting-edge technology; they are completely automated and equipped with next generation turbines and electronic equipment which enable the systems to operate in complete autonomy. Due to the average flow of the stream of 640 litres of water per second, an annual production capacity of 770,000 kWh can be estimated, which is equal to the consumption of public lighting in the municipality of Verghereto.

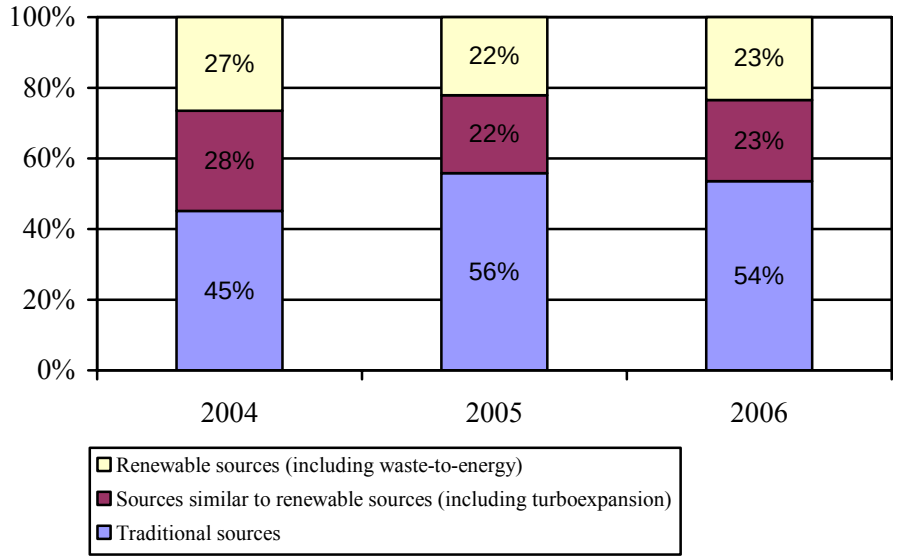
Thermal energy produced (gross)

(MWh)	2004	2005	2006
Waste to Energy plants	49,936	40,261	47,612
Geothermics	77,461	76,096	66,599
Cogeneration	136,325	116,613	112,606
Wastewater treatment plants	364	66	31
Thermoelectric power stations	217,793	294,342	262,180
Total	**481,879**	**527,378**	**489,028**

The data for 2004 and 2005 differ in part from that published in the 2005 Report, as only plants which produce heat for district heating, or as part of a combined production process of electrical energy and heat were considered. In addition, the quantities produced by the thermal cogeneration plants managed by Hera Imola-Faenza were also divided in a more correct manner.

The seasonal effect of 2006 caused a decrease in the thermal energy produced and provided to customers through the district heating network, as compared to 2005, due to the warmer weather, on average; an equal influence of this warm weather is clear on the combined production of electricity by several cogeneration plants, in the shorter time during which the plant was operational as a result of the lesser demand for heating.
In several specific cases (the Bologna turboexpander, the Ferrara cogeneration plant, the Cavaticcio hydroelectric plant), the lesser production can be attributed to extraordinary technical difficulties. The putting off-line of a geothermal well at the end of the year led to a reduction in the production of geothermal heat in Ferrara, despite the expansion of the user base served, which would have required an increase in production.

Total energy produced

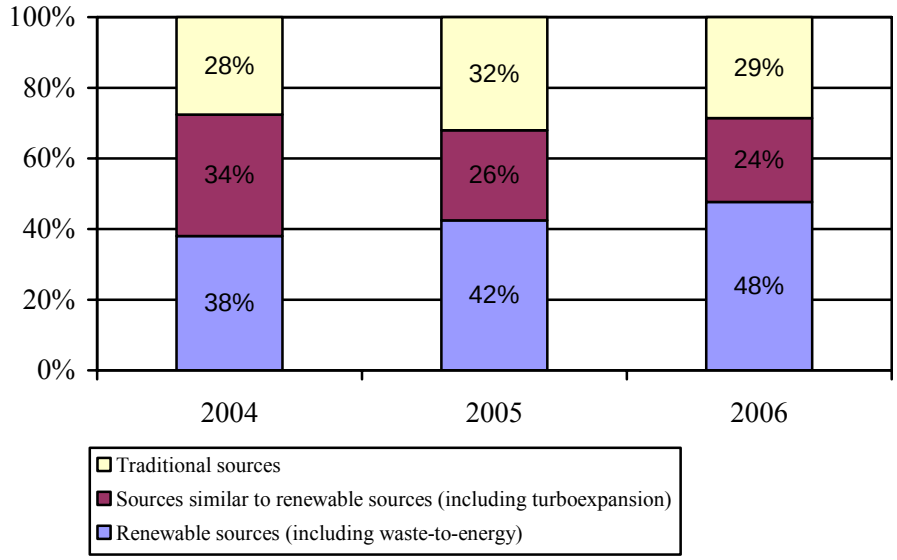


Gross thermal energy produced by plant

(MWh)	2004	2005	2006
Frullo Energia Ambiente (BO) waste-to-energy plant	46,046	34,247	39,287
Ferrara waste-to-energy plant	3,890	6,014	8,325
Total from waste-to-energy for district heating	*49,936*	*40,261*	*47,612*
Ferrara geothermics	77,461	76,096	66,599
Total from geothermics	*77,461*	*76,096*	*66,599*
Bologna co-generation	60,344	46,564	45,926
Ferrara co-generation	3,896	3,771	3,046
Forlì-Cesena co-generation	n.a.	1,766	2,365
Imola-Faenza co-generation	72,085	62,467	59,404
Modena co-generation		2,045	1,865
Total from co-generation	*136,325*	*116,613*	*112,606*
Ravenna waste water treatment (methane)	364	66	31
Total from waste water treatment biogas combustion	*364*	*66*	*31*
Bologna supplementary thermoelectric	116,518	90,520	63,560
Bologna thermoelectric		35,417	33,009
Ferrara thermoelectric	75,392	86,277	88,429
Forlì-Cesena thermoelectric	9,338	8,660	8,008
Imola-Faenza supplementary thermoelectric	16,545	30,667	27,323
Modena supplementary thermoelectric		4,257	4,223
Modena thermoelectric		38,544	37,628
Total thermoelectric power stations	*217,793*	*294,342*	*262,180*
Total thermal energy produced	**481,879**	**527,378**	**489,028**

The data for 2004 and 2005 differ in part from that published in the 2005 Report, as only plants which produce heat for district heating, or as part of a combined production process of electrical energy and heat were considered. In addition, the quantities produced by the thermal cogeneration plants managed by Hera Imola-Faenza were also divided in a more correct manner.

Total energy produced



Renewable sources

The year 2006 was also characterised by the development of the use of renewable sources in Hera plants. The following are some of the most important cases:

- development of geothermal power;
- construction of a new 200 kW photovoltaic plant at the Interporto of the municipality of Bentivoglio (BO);
- construction of a new electricity production plant using biogas recovered from the wastewater treatment plant IDAR in Corticella (BO);
- construction of a mini-hydroelectric plant in the municipality of Verghereto (FC), to be operational in 2007.
- coming on stream of an electricity production plant with the use of biogas from the landfill of Spilamberto (MO).

The photovoltaic plant in Bentivoglio

In February 2007, the photovoltaic plant developed by Hera in the Interporto di Bentivoglio (Bologna) achieved its first "parallel with the Enel grid". This technical term is used to define the moment that a new plant begins to input electrical energy it has produced into the grid.

The works for the creation of the largest solar photovoltaic plant in Emilia Romagna concluded in a few months (construction was begun in September 2006): The installed capacity is 202 kW, for predicted annual production of more than 230,000 kWh. 1,435 m^2 of solar panels were used, laid out on the cover of one of the industrial sheds of the Interporto, with a useful area of 5,400 m^2. Hera invested Euro 1.3 million in this project.

Energy consumption

Primary energy consumption by type

GJ	2004	2005	2006
Electricity	1,632,627	2,106,185	2,106,245
Methane for production	3,039,679	3,893,387	3,204,607
Methane for heating of premises	183,246	185,611	132,561
Fuel for vehicles	238,898	343,134	351,007
Waste-to-energy treatment	2,815,124	5,971,035	6,275,037
Total	**7,909,573**	**12,499,352**	**12,069,458**

The figures have been calculated using the conversion standards defined by the GRI G3 guidelines. The data refer to energy consumption by Hera SpA, Hera Bologna, Hera Ferrara, Hera Forlì-Cesena, Hera Imola-Faenza, Hera Modena, Hera Ravenna, Hera Rimini, Uniflotte, Ecologia Ambiente, Frullo Energia Ambiente, and Hera Luce.

Primary energy consumption by sector

GJ	2005	2006
Energy sector	9,767,242	9,209,837
Water sector	1,252,342	1,358,329
Environment sector	348,827	315,723
Other services	1,130,940	1,185,568
Total	**12,499,352**	**12,069,458**

The figures have been calculated using the conversion standards defined by the GRI G3 guidelines. The data refer to energy consumption by Hera SpA, Hera Bologna, Hera Ferrara, Hera Forlì-Cesena, Hera Imola-Faenza, Hera Modena, Hera Ravenna, Hera Rimini, Uniflotte, Ecologia Ambiente, Frullo Energia Ambiente, and Hera Luce.

In 2006, the gas distribution business in the municipality of Riccione was acquired, as well as the electricity distribution business in 17 municipalities in the north part of the province of Modena. These operations had less impact on energy consumption that the company operations carried out in the previous years (the entrance of companies operating in Ferrara and Modena). Since 2005, the trend in consumption has been generally affected by the development of the size of the Hera Group, due to the entrance of new companies, as well as a physiological increase in volume of business carried out. In 2006, the seasonal effect was significant compared to 2005, as warmer weather led to a decrease not only in primary energy consumption for Hera itself, linked to final use, but also in primary consumption linked to the provision of services, which are greatly influenced by seasonality, such as gas distribution and the production of energy for district heating services.

Production and objectives of white certificates

(toe)	2001-2005	2006
Production of white certificates	10,271	23,375
White certificate objectives	6,345	13,755

The production of white certificates in 2006 may be modified in the future on the basis of further requests for checks and certification relative to savings, which will be sent to the Authority for Electrical Energy and Gas with reference to the period in question.

All indicated values, except those which have already been certified, depend on savings certification by the Authority. The energy saving objectives for 2005 and 2006 of Hera and Meta were set by the Authority in accordance with the provisions of the ministerial decrees of July 2004, which set quantitative objectives, applying to electricity and natural gas distributors, for the purpose of increasing energy efficiency relative to end uses of energy.
Hera, as a gas distributor and as an electricity distributor (following the arrival of Meta), is subject to the obligations contained in the decrees, with an objective of production of Titoli di Efficienza Energetica (energy efficiency bonds) totalling 6,345 toe in 2005 and 13,755 toe in 2006.

Energy efficiency initiatives in collaboration with Unigrana
Hera provides its residential and business customers with the opportunity to effect energy saving actions in their offices and plants, in order to receive incentives, by obtaining white certificates. The collaboration with Unigrana of Modena was particularly significant. By implementing energy efficiency measures in the butter production process, the company was able to certify its energy savings achieved as a result of collaboration with Hera Modena. This was one of the first cases in Italy of white certificates issued for interventions in the industrial sector**.**

The main energy saving interventions of the Hera Group during the 2001-2006 period, with a view to achieving the yearly corporate objectives, derive mainly from the following actions:

- district heating with use of co-generation plants, fuelled by renewable sources, such as geothermics, and similar sources, such as recovered heat from waste-to-energy plants (solid municipal waste);
- production of heat by biomass-fuelled generators and high efficiency condensation generators;
- optimisation of ambient air-conditioning installations via remote management and high-efficiency generators;
- efficiency upgrading of public lighting installations;
- new natural gas turboexpansion plants;
- upgraded efficiency relative to electric motor controls with inverters.

In particular, 2006 was distinguished by:

- the involvement of over 1,200,000 final customers of Hera, through the direct distribution of compact LFC, low consumption florescent bulbs, and the distribution of coupons through “Hera Più” magazine for low consumption bulbs and water flow regulator kits to reduce the consumption of water and energy;
- involvement of the various industrial companies to promote upgrading the efficiency of process cycles, in buildings and energy production plants, also through cogeneration.

In addition, all municipal shareholders of Hera were involved in activities focused on water savings and energy savings in municipal sports facilities. 87 municipalities were involved in this initiative, located within all the provinces served by Hera, through the installation of over 11,000 flow reducers for showers. Hera also carried out an

informational campaign to sensitise the municipal shareholders on this issue. Meetings were held to illustrate and promote the actions that each single municipality can perform in order to improve the energy efficiency of its buildings and plants, and obtain incentives through white certificates.

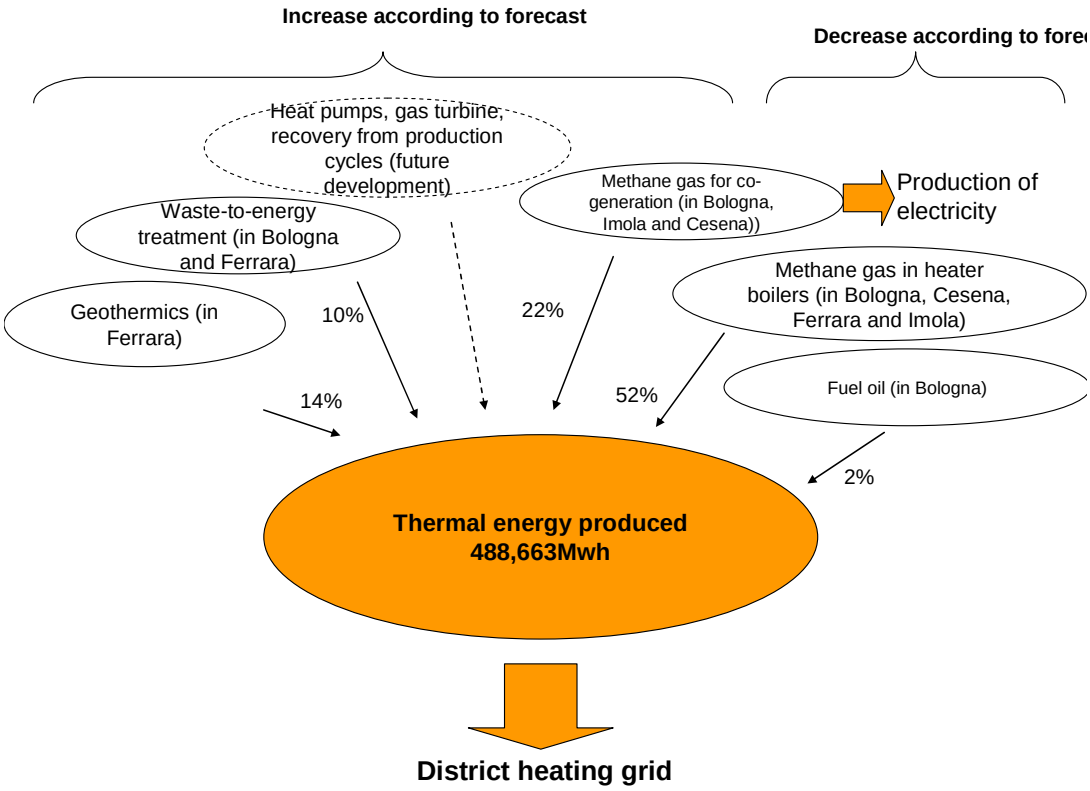
Public lighting system
Over and above its main energy, water and environment sector services, Hera is also a provider of "supplementary" services including public lighting, managed via the company, Hera Luce S.r.l., with head offices in San Mauro Pascoli (Forlì-Cesena). Hera Luce is the number two operator in country. It manages approx. 305,000 light points and ensures public lighting efficiency in 57 municipalities (for 24 of these municipalities, it also manages the traffic light installations). Hera's management of public lighting is directed toward improving the service by reducing capacity power, and consumption levels, through the gradual replacement of incandescent and mercury vapour lamps with other long-life, high luminous efficiency lamps and overall upgrading of technical and equipment conditions. It is planned, by 2007, to replace approx. 3,800 traffic light units with LED units for an estimated energy saving of 72% (investments totalling Euro 1.9 million).

District heating

District heating is one of Hera's main services, consisting in the sale of heat for customer home heating, as an alternative to the traditional boiler. The production of heat is concentrated in just a few central installations, which are more efficient and better controlled than home boilers. Heat reaches homes from these installations in the form of hot water (approx. 90°C) which is introduced into the domestic heating system via (non-polluting emission-free) heat exchangers.
Customer benefits consist in increased safety (no gas), lower maintenance costs (no domestic boiler), and the freedom to independently regulate the temperature of the home. For cities, district heating provides a solution to air pollution problems via replacement of home boilers (frequently fuelled with gas-oil or methane). It is estimated that the installations managed by Hera led to carbon dioxide savings totalling 63,000 tonnes in 2006.
The proposed development of district heating in the Industrial Plan is of considerable significance. Considerably greater volumes connected are envisaged, up to an increase of approx. 54% (at the end of 2009) with respect to the current volume. This will be made possible by upgrading current plants and by development in areas not covered as yet.
Development of district heating will mainly be based on renewable sources, with significant impacts on energy and environmental performance.
It was forecast that the energy produced yearly could rise from 489 GWht in 2006 to 763 GWht in 2009. The increase in energy produced, equal to +56%, will be sustained by energy recovery, without implementing the use of primary energy. This will allow for considerably reducing polluting emissions, tripling the emissions of CO_2 avoided.
For a clearer picture of the benefits, it is estimated that the reduction of nitric oxide resulting from the use of the district heating service managed by Hera is equivalent to

the amount of pollution caused by 25,000 automobiles which each travel 20,000 kilometres per year.

Sources used for district heating



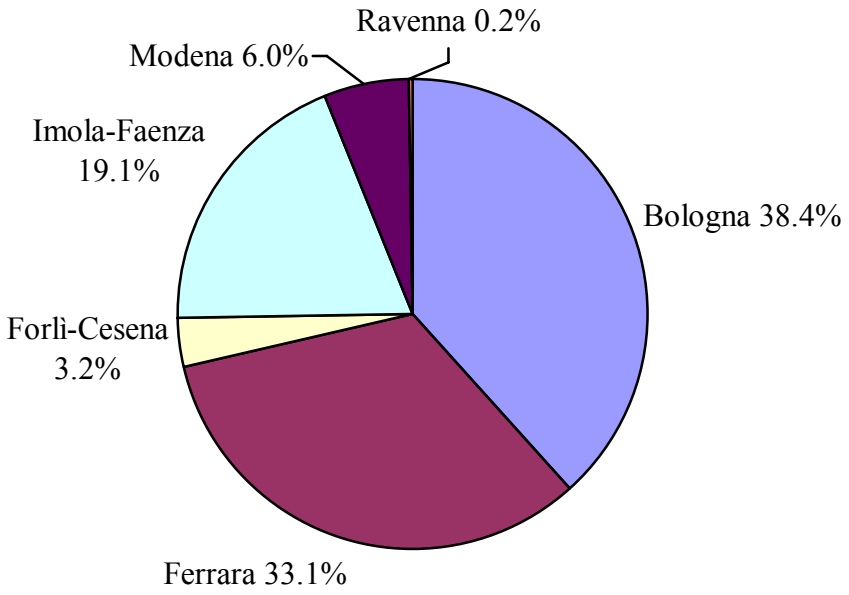
The new plants under construction are to be extensively based on energy recovery from production plants and use of currently unexploited low-temperature energy sources, through the use of heat pumps.

District heating data

	2004	2005	2006
Thermal energy sold (MWh)	395,258	460,188	425,850
Volumes served (thous. m^3)	12,044	14,330	14,798
Housing unit equivalents served (no.)	40,145	47,764	49,326

Housing unit equivalents served were calculated on the basis of an average apartment volume of 300 m^3.

Volumes served by area (2006)



The start-up of district heating in Ravenna
Since October 2006, the new district heating plant serving the old city centre and the new urban developments south of the Bassette area of Ravenna began operations. In the first case, the thermal plant located in the former courthouse building will serve some of the most important public building in the town, Teatro Alighieri, Palazzo Merlatto and the building where the municipal demographic offices are located. It is planned to connect a total of 2,000 residential units within 2009.

Production and distribution of water
The supply sources used by Hera for its raw material, or raw water (to be treated and distributed to users), vary in nature. The volume introduced into the grid in 2006 totalled approx. 300 million cubic metres. Many offtakes are from groundwater sources (64 well fields). There are also 11 major surface water sources.
The rest of the water is taken from springs or is procured from third parties. The waster from Romagna Acque is collected in the Ridracoli reservoir and treated for potability at the Capaccio plant in Santa Sofia (Forlì-Cesena).

Potability treatment will vary according to the origin and quality of the water at the source. Process steps include chemical and physical water drive, usually adopted for surface water (elimination of suspended solids, separation of micro pollutants, elimination of pathogens and micro-organisms) and simple filtration and disinfection (applying to deep wells and springs in some cases). The treatments provide guarantees to the user as to chemical and physical suitability of the product distributed, in compliance with current regulations.

The remote control project for network services

On 26 April 2006, the project for remote control centralisation of the network services and emergency call centre was approved. Remote control of the gas, water, sewage, treatment and district heating services will be centralised in Forlì, which the remote control centre for the electricity service will be created in Modena. The future remote control centre will be operational 24 hours a day, and will monitor and manage the networks and plants, and receive emergency service notifications.

The remote control centre will use an expert system for managing the procedures for operating and monitoring the plants and networks, through the analysis of alarm signals, and coordination with external systems such as LIMS (Laboratory, Information & Management Systems), emergency services, and the Territorial Information System.

This project has a term of 4 years, with half-yearly reporting starting from December 2007.

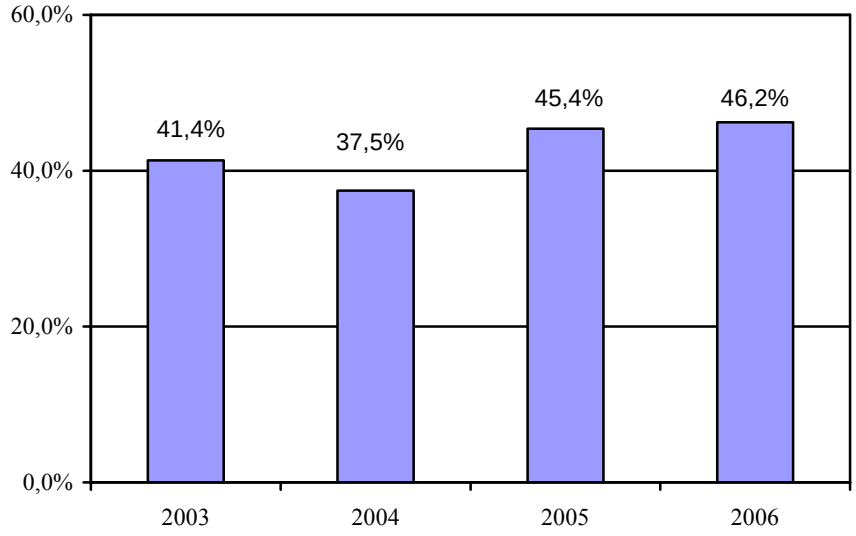
Once completed, the centre will be one of the largest in Italy in terms of geographical area covered number of services, and type and number of plants involved.

Water introduced into the grid (breakdown by source)

thousands of m^3	2004	2005	2006
Groundwater	97,931	137,272	139,620
Surface water	88,118	83,779	84,878
Springs	9,346	12,003	12,170
All Hera sources	**195,395**	**233,054**	**236,668**
Romagna Acque and other minor sources	66,053	69,277	65,307
Total	**261,448**	**302,331**	**301,975**

Romagna Acque is a surface water source.

Groundwater withdrawals as a percentage of total withdrawals



Water introduced into the grid (breakdown by source and area) (2006)

thousands of m^3	Hera Bologna area	Hera Ferrara area	Hera Forlì-Cesena area	Hera Imola-Faenza area	Hera Modena area	Hera Ravenna area	Hera Rimini area
Groundwater	51,107	8,456	7,799	9,641	34,176	161	28,281
Surface water	38,215	23,264	2,680	1,588	1,203	15,665	2,264
Springs	4,386	0	1,749	1,231	3,204	0	1,601
All Hera sources	**93,708**	**31,720**	**12,228**	**12,460**	**38,583**	**15,825**	**32,145**
Romagna Acque and other minor sources	0	-9	22,547	12,785	1,040	17,896	11,047
Total	**93,708**	**31,711**	**34,775**	**25,245**	**39,623**	**33,721**	**43,192**

Romagna Acque is a surface water source.

The reduction in groundwater withdrawal in 2004 in linked to the entrance of the Ferrara area into the Hera Group. This area withdraws most of its water consumed from superficial water sources. In 2005, the entrance of Hera Modena lead to a worsening of the percentage, given that in the Modena area, groundwater withdrawals make up 86% of the total.

The Hera Group has always worked toward reducing groundwater withdrawal. It has therefore increasingly had resource to surface water offtakes. This is a necessary measure, since groundwater withdrawal is the main cause of the land subsidence noted throughout the Emilia Romagna region. Hera monitors the level of the subterranean groundwater used for water procurement.

In the last few months of 2006, Italy was hit by a long period of drought, which led to an increase in the collection of groundwater to compensate for the lack of surface water. Despite this, the changes in piezometric levels were quite low.

Water grid components

%	2004	2005	2006
Plastic	45.1%	48.6%	49.5%
Cement asbestos	28.4%	26.1%	25.6%
Steel	16.0%	16.2%	16.6%
Cast iron	6.7%	6.0%	6.0%
Other materials	3.8%	3.1%	2.3%
Total	**100.0%**	**100.0%**	**100.0%**

Distribution grid extension is approx. 23,500 kilometres. Where possible, interconnections and links are provided in order to provide for supply continuity also in cases of temporary interruption of service of one or more pipes.

No account water (real and procedural)

%	2005	2006
Hera Bologna	24.7%	21.8%
Hera Ferrara	38.1%	36.3%
Hera Forlì-Cesena	19.6%	15.8%
Hera Imola-Faenza	21.4%	21.7%
Hera Modena	29.1%	28.9%
Hera Ravenna	19.0%	21.4%
Hera Rimini	21.1%	20.3%
Total	**24.9%**	**23.4%**
Of which real loss (estimate)	**16.9%**	**15.4%**

What is water loss?
Water loss may be real no account water (caused by breakage of lines or hydraulic equipment etc..). Alternatively, it may be procedural or apparent no account water (meter errors, errors in estimated presumed consumption as at 31 December, unrecorded internal consumption, illicit consumption). Illicit consumption consists in water reaching the end user which is not recorded or billed.

Water loss is calculated as the difference between the water introduced into the water system during the year and the water accounted for as provided to customers during the same period: this figure is estimated at 31 December of each year based on customers' historical consumption, as it is not possible to carry out a single reading of all metres on 31 December. In 2006, Hera started up estimation practices via a new customer management information system and via a single method applying to four Territorial Operative Companies (extension to the other three Territorial Operative Companies is planned for).
Investigation carried out in Bologna and Forlì into the efficiency of meters revealed that the estimated incidence of meter faults accounts for 4-5% of no account water loss. It is reasonable to suppose that the estimated reading as at 31 December, unrecorded internal consumption, and illicit consumption contribute 3-4% to no account water. Procedural no account water is therefore estimated at approx. 8%.
In addition, for the correct operation of the water system, in some cases it is necessary to periodically wash the pipes and tanks, generally with water mixed with pressurised air, to remove the sediment that naturally builds up on pipe and tank walls. The volume of water used for these operations is estimated at about 0.8% of the total volume of water introduced into the grid per year.
Water loss is a problem of growing importance in Italy and around the world. The Hera Group has drawn up a water loss research and reduction plan for all areas in which it is operational.

Grid water loss reduction initiatives in Ferrara and Modena
"Advanced zooming" is an innovative technique for locating water loss adopted by Hera Ferrara. This technique involves an initial phase of pre-localisation of the sections of the grid where the loss is likely to be located, through the installation of dozens of acoustic sensors over a wide area of the grid. These objects make it possible to drastically reduce the number to pipes to be inspected through the use of another sophisticated instrument, called a correlator. Equipped with two acoustic sensors that are positioned on the extremities of the pipe to be analysed, this instrument allows for the precise

identification of the location of the breaǩ Then, digging and replacement of the deteriorated pipe is carried out.
In the area of Hera Modena, the project underway for the Municipality of Modena continues, for the division of the water system into districts. This process consists in dividing the distribution grid into water sectors, which are reliable and independent, called "districts". A system for continuous monitoring will be installed for these districts. The division into districts is planned to conclude within 2007.

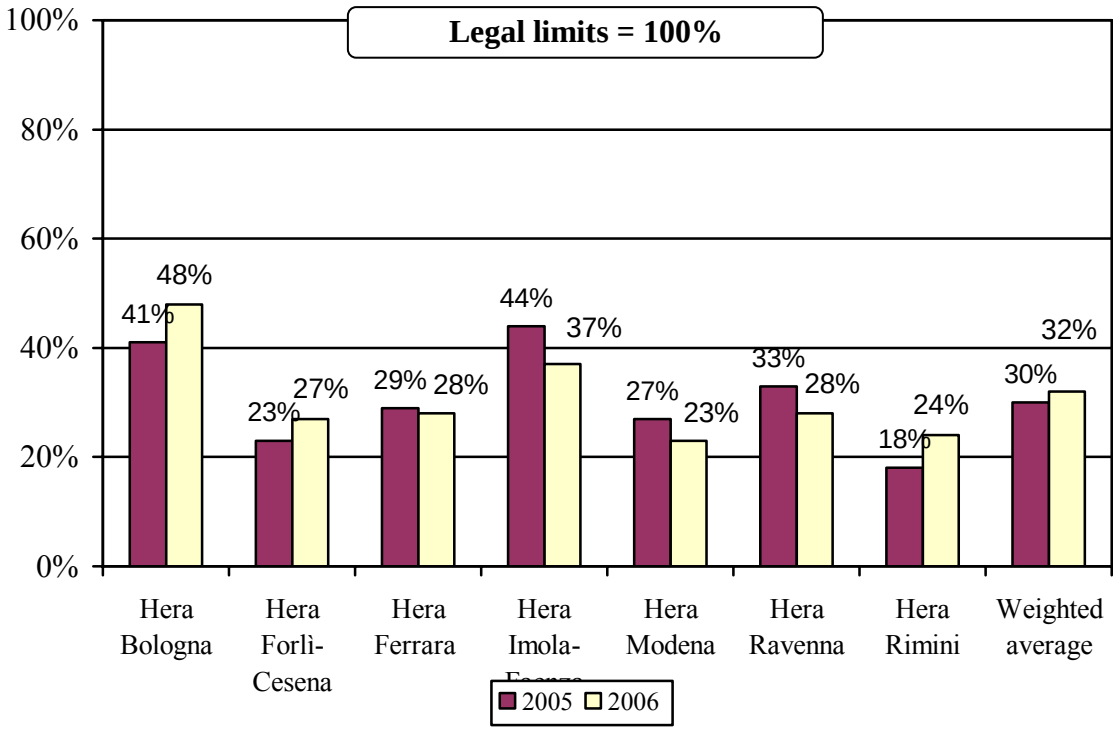
The final 2006 data demonstrate that while the volume introduced into the network is in line with the previous year, on average, water loss decreased significantly from an average figure equal to 23.4% of the volume introduced into the network, compared to a national average of 40.1% (source: water resources watchdog committee report to parliament, Relazione al Parlamento del Comitato di Vigilanza Risorse Idriche, 2005).
It is considered that the decrease recoded in Forlì-Cesena and the increase recorded in Ravenna may, to a certain extent, be the result of a correction of the values of volumes invoiced, while the overall positive results achieved can be linked to the start of operations set forth in the Water Loss Research and Reduction Plan, agreed with the Water and Waste Regulatory Authorities. The results achieved in Bologna were significant, with the creation of a further macro-district (Casteldebole-Borgo Panigale), where it was possible to reduce operating pressure and, through an extraordinary check, the volumes charged to customers. Other significant results include Ferrara and Modena, through the division of the network into districts and active search for water losses, and Forlì-Cesena, with the extraordinary campaigns for locating losses. Ferrara's performance was very positive, sustained by the local reduction in losses, even by up to 20% (i.e. Portomaggiore), as a result of the continuous campaign of focused search for losses.
Although the Hera water grid system is one of the most efficient in Italy, it was decided to look into the best performers internationally and to adopt the water loss management method developed by the International Water Association (IWA), approved by the World Bank Institute and still considered the reference standard worldwide. The objective we have set is to cut loss back to 15% by 2016, to comply with the indications set forth in the Piano di Tutela delle Acque (water safeguards plan), approved by the regional government authority, Regione Emilia-Romagna, at the close of 2005.
Physical no account water will be reduced and constantly monitored via division of the distribution network into specific sections and analysis of minimum night-time flow rates. Thus, where possible, operating pressure will be reduced. Action will be taken on "administrative" no account water, through the recording of volumes which have not yet been invoiced (i.e., technical uses), and through the improvement of measurement of volumes, mainly those provided to users, with a plan to substitute meters, which aims at reducing the average age of the meters installed and provides for the use of more precise meters.

Wastewater treatment quality

The Hera Group manages the sewerage services and wastewater treatment in 163 municipalities.

The sewage system is generally mixed (approx. 65% of the total). The service covers approximately 88% of the requirements expressed as inhabitant equivalents (meaning the sum of resident inhabitants, productive users transformed into inhabitant equivalents and presence due to tourism), compared to an average for the Region of 90% and a national average of 84% (source: Report to Parliament on the State of Water Services for 2005).
Wastewater treatment is carried out through 712 treatment plants, of which 14 have power equal to 100,000 inhabitant equivalents. The service covers 84% of the inhabitant equivalents in the area, compared to an average for the Region of 82%, and a national average of 75% (source: Report to Parliament on the State of Water Services for 2005).
Hera is involved in an intense programme to progressively adjust the sewage levels to the limits imposed by national regulations, according to the plan set by the competent Water and Waste Regulatory Authorities. This plan foresees the connection of sewer systems which were previously unconnected to the treatment system, as well as the upgrading and modernisation of the existing plants and the construction of new plants.
In 2006, the treatment process produced about 55 kg of sludge per inhabitant equivalent served. This sludge was disposed of through dedicated incineration, transfer to landfills and agronomic reuse, directly or following pre-treatment. In 2006, only 4% of sludge produced was directly reused in agriculture, as only this amount had the characteristics complying with the provisions of the Emilia-Romagna Region.

Compliance of treated water with legally established limits (optimal value <100%)



This indicator regards plants with more than 10,000 inhabitant equivalents and is calculated based on the ratio of measured concentration of BOD, COD, SST and NH4

The charge shows an average level of concentration of pollutants in 2006 of 32%, compared to a legal limit, set at 100%. This means that on average, the concentrations

of outgoing pollutants from the treatment plants are approximately 60% below the legal limits.
The concentrations of outgoing pollutants from the treatment plants remain quite low (about one-third of the maximum allowable limits). The results worsened for the area of Bologna, due to the decrease in performance of the Bologna water treatment plant in May, June and December. However, it remained within legal limits. In the Imola-Faenza area, improved performance was noted. The indicators for the remaining areas vary, remaining within a range of performance that was quite positive.

For the 26 largest treatment plants (selected among those with treatment capacity greater than 10,000 inhabitant equivalents), the most significant parameters that characterise the wastewater treated are reported, in particular: COD and ammonia nitrogen are indicators of the concentration of pollutants typically present in municipal wastewater, while BOD indicates the level of biodegradable pollutants.

Improvement of the treatment plants of Hera Forlì-Cesena and Hera Imola-Faenza
In November 2006, works began at the Cesena treatment plant for the realisation of a cutting-edge system for transforming biogas into electricity, with the consequent production of less carbon dioxide. The system uses a technology based on ultrasound to increase the production of biogas, which is then used to produce electricity and heat. The energy produced will amount to 1.24 GWh/year, equivalent to the amount consumed by 1,200 people in 365 days.
In May 2006, several important projects were finalised for the redesign of process management and the installation of coverings, also for the Forlì treatment plant, with significant reduction in impact on the surrounding environment, specifically in terms of odours.

At the Formellino treatment plant in Faenza, on-line instrumentation was installed which allows for monitoring the variables of wastewater in real time and carry out timely correction actions in the treatment process. The environmental value of this activity, which is innovative for the water treatment sector, is significant: continuous verification of parameters such as suspended solids in the tank, phosphorus, ammonia, turbidity of outgoing water, and the level of sludge, ensures the constant compliance of set parameters of the outgoing water, and allows for the optimisation and reduction of the use of chemical reagents.

Average concentrations for the year at the main plants (2006)

(mg/l))	Body of water receiving the treated water	COD (limit: 125 mh/l)	BOD_5 (limit: 25 mg/l)	SST (limit : 35 mg/l)	Ammonia nitrogen (limit: 15 mg/l)	Volumes treated (thous. m^3)
IDAR (Bologna)	Navile Canal	45.1	11.2	19.8	10.2	47,617
Anzola (BO)	Sanguinettola Bassa run-off or La vinello stream	25.7	7.0	12.1	10.2	1,428
Calderara (BO)	Dosolo run-off	26.6	5.8	13.5	3.8	909
Ozzano (BO)	Marzano River	27.3	5.9	10.3	3.3	835
S. Giovanni (BO)	Cavamento-Amola run-off	36.3	7.7	17.2	9.9	738
Gramicia Ferrara (FE)	Po di Volano	44.6	13.7	9.5	1.9	17,323
Cesena (FC)	Granarolo River	22.8	8.7	6.1	0.3	5,702
Cesenatico (FC)	Madonnina run-off	35.3	14.2	7.7	1.8	3,489
Forlì (FC)	Cerchia run-off	34.7	14.0	10.3	3.2	15,471
Savignano (FC)	Rubicone stream	30.9	12.4	8.4	3.0	5,076
Formellino (IF)	Lamone River	76.2	16.2	24.1	3.0	6,943
Santerno (IF)	Santerno River	45.4	5.0	18.7	8.0	3,345
Modena	Naviglio Canal	29.0	7.0	13.0	1.4	36,746
Ravenna (RA)	Consortile Cupa canal and Fagiolo run-off	39.7	7.3	12.3	6.3	16,827
Alfonsine (RA)	Sabbioni run-off	41.9	6.5	8.7	2.0	3,930
Bagnacavallo (RA)	Capucini run-off	28.6	4.2	8.2	0.6	1,324
Cervia (RA)	Consortile Cupa canal	28.5	3.5	6.4	2.3	5,931
Lido di Classe (RA)	Pergami canal	20.5	2.7	8.5	5.5	1,210
Lugo (RA)	Arginello run-off	51.8	8.8	11.9	1.4	6,945
Marina di Ravenna (RA)	Piombone run-off	25.5	4.1	16.6	1.6	1,404
Russi (RA)	Pisinello run-off	28.0	4.0	7.0	1.1	1,759
Rimini - Marecchiese (RN)	Marecchia River	24.3	11.3	9.9	4.1	12,277
Rimini – S. Giustina (RN)	Marecchia River	23.5	11.2	10.0	1.2	16,085
Riccione (RN)	Marano River	26.1	11.3	8.9	1.3	6,095
Cattolica (RN)	Ventina stream	28.8	11.3	10.2	1.4	6,883
Bellaria Igea Marina (RN)	Uso River	28.1	12.3	10.1	4.3	2,585
						228,877

The results of analysis for the parameters indicated do not show significant variations compared with previous years, and continue to be much lower than legal limits.
In all of 2006, there were only 25 instances of non-compliance reported by ARPA on samples of treated water analysed.

Constructed wetlands

The constructed wetland process involves use of a third party purification system of biological ponds and of macrophytic vegetation with the function of a "filtration ecosystem", enhancing the quality of already treated water
In these systems, plants pay a fundamental role in removing certain pollutants which are still contained, though in small amounts, in the wastewater treated with secondary treatments: suspended solids, organic substances, nitrogen, phosphorus, viruses and bacteria, and heavy metals.
These plants also contribute to the reclamation of borderline areas, creating natural environments and landscapes that are pleasing to the eye, and are often chosen as refuges for various species of birds, amphibians and reptiles. In these areas, it is often

possible to organise didactic tours to observe specific animal and vegetable species typical of wetlands.
Hera manages various plants for the creation of constructed wetlands in the provinces of Ferrara, Bologna, Ravena, Forlì-Cesena and Florence. In Ravenna, the constructed wetlands plants account for 14% of total smaller plants (less than 2,000 inhabitant equivalents); in Forlì-Cesena, this amounts to 8% in Forlì-Cesena, 3% in Ferrara and 2% in Bologna.

Finishing basins in Imola
The last phase of water treatment for processed water released by the Imola treatment plant is carried out through a natural "lagoon" treatment, in which the water is stored for a period in a series of 5 basins. Within the finishing basins, composed of a series of basins with a volume of approximately 416,000 m^3, the action of micro-organisms and algae contributes to improving the water quality. The creation of these basins has resulted in the reclamation of the local area, by recovering former quarries, and the reduction in the level of bacteria, total nitrogen and total phosphorus without the use chemicals.

Atmospheric emissions

Atmospheric emissions generated by waste-to-energy plants

Atmospheric emissions generated by waste-to-energy plants

(t)	2004	2005	2006
Dust	10.6	6.3	4.8
Hydrochloric acid	9.2	5.7	5.0
nitric oxides	483.9	467.3	469.0
Sulphur oxide	33.7	17.3	15.5
Carbon monoxide	33.8	32.3	35.9

The data is calculated using continuous measurement systems which are subject to the approval of the control bodies at the moment of authorisation for operation of the plant. The procedures used by the single plant systems for collecting and calculating the volume of substances emitted are not completely standardised.

All the plants for the treatment and disposal of waste managed by the Hera Group are constantly subjected to analysis and monitoring so that all significant environmental aspects can be pinpointed and managed by means of best available technologies. These activities are conducted in full compliance with regulatory provisions. The environmental management systems adopted are certified by external agencies. A considerable number of actions are undertaken with the collaboration of many public institutions and control agencies as part of our efforts to secure further scientific and statistical means and data dedicated to the provision of satisfactory plant performance ratings relative to environmental safety at locations.
Control of waste-to-energy plants regards, firstly, process parameters and emissions impacting the air, water and soil, followed by an assessment of environmental emissions via an integrated approach.

Within this context, prevention measures become a priority area. The main objective is pinpointing the best technological and management options for minimising, on the one hand, consumption of materials and energy, and, on the other, the environmental impacts of the entire process life cycle.
Precise information is provided regarding the properties of the source of emission. The implemented environmental monitoring systems are then used to follow up emitted pollutants and assess their impacts via analysis of environmental matrices and statistical processing of acquired data for the purpose of establishing possible cause-effect relations linking emissions of appropriately selected environmental indicators to their presence in the surrounding environment.
Organic and inorganic macro and micro pollutants are the environmental indicators sought in environmental matrices of various kinds (air, dry and humid atmospheric depositions, soil and subsoil, animal and vegetable bioindicators, and surface water and groundwater masses), in order to create extensive databanks to obtain as complete and as realistic picture as possible of the environmental stress caused.
Monitoring systems of this kind have been used to varying extents at all Hera Group waste-to-energy plants for a number of years: in Modena since 1989, in Ravenna since 1994, in Rimini since 1997, in Forlì since 2000, in Bologna since 1999, and in Ferrara since 2001. Analysis of results obtained and of analogous study cases, and comparison of the levels of contaminants determined in each environmental and process matrix with normal environmental quality standards, point to no significantly dramatic environmental quality problem areas in the geographic zones considered Since January 2006, on the basis of an agreement reached with the municipalities of Castenaso and Granarolo dell'Emilia, the Bologna provincial office, Sezione Provinciale, of the regional environmental protection agency, ARPA, has published on its internet site the data regarding the self-inspection relative to the emissions of the Bologna waste-to-energy plant.

ARPA Project "Supervision of Waste-to-Energy Plants"
In November 2006, ARPA presented a project for the organisation of system of environmental supervision and epidemiological study of the areas surrounding waste-to-energy plants operating in Emilia-Romagna.
Understanding that awareness of the problem and its extension is a critical step towards "scientifically correct" communications, and defusing conflict, the proposed project is intended to respond to the requests for further, more concrete information on the matter.
The general purpose is to set up a monitoring system which will allow for real-time evaluation of the trends in environmental pollution of the areas surrounding the plant, exposure and related effects on health.
This project is the result of ARPA's experience acquired in the Region: as regards Hera, at the Bologna and Forlì plants. The study carried out at the Bologna plant allowed for the estimation of the following emissions of the plant compared to other sources on the level of the entire Province:
- carbon monoxide (CO) for 0.14% of the total (traffic approx. 93%);
- dust for 0.99% of the total (traffic approx. 74%);
- nitric oxides (NOx) for 1.7% of the total (traffic approx. 59%).
The study was developed with reference to the data from various sectors (civil, industrial and traffic) contained in the "Air Quality Management Plan" approved by the

Province of Bologna and other evaluations carried out on the plant upon termination of the two monitoring campaigns of 1998-2000 and 2005—2006.

The plants of Hera Group, which make it the largest operator in Italy, amount to six plants for the treatment of non-dangerous waste and one for the treatment of dangerous waste, located throughout the area served. Since its creation, Hera has focused on making its plants more efficient, by:

- the use of identical electro-mechanical components in various plants;
- use of the same reagents (reduction in procurement costs);
- integration of the maintenance team under a single department (production efficiency);
- reduction of environmental impact, and systematic control of such impact (renovation of plants, use of standardised systems for recording and analysing emissions, and moving towards standardisation of emissions monitoring campaigns);
- creation of standard operating procedures, consistent with the Group's integrated QSE system, in order to standardise management systems (increased operating efficiency and ISO 14001 environmental certification, and gradual EMAS registration – for plants since 2004);
- activation of initiatives aimed at the recovery of treatment waste;
- publication of emissions data on the internet.

Waste-to-energy emissions on-line

Starting from March 2007, the emissions of the waste-to-energy plants of the Hera Group can be monitored daily by anyone interested.
A new section of the internet site www.gruppohera.it provides daily reports on atmospheric emissions of the waste-to-energy plants in Bologna, Ferrara, Forlì, Modena, Ravenna and Rimini.The data, monitored 24 hours a day by control systems in the plants, has always been made available to ARPA, the regulatory authorities, and all those who request it. Now, anyone can easily access our reports, quickly and at any time.
For Hera, it is important to provide this on-line tool, because it contributes to the transparency of management, highlights our attention to technological innovation and confirms, on an objective basis, that Hera's commitment goes beyond compliance with the law.

Remote control of waste-to-energy plants

This project plans for a plant monitoring and control system, for the purpose of having at hand all the management and environmental information connected to the plants in a centralised, standardised way, and in extremely short times.
The project involves the creation of a control room in Rimini, where all data regarding plant operations (production of steam, electricity, process parameters, emissions values, etc.) will be sent through the company fibre optic network. Here, once processes and suitably viewed, the data will be analysed by a team of technicians who will identify trends, for the purpose of identifying, codifying and circulating the best management techniques to all operators running the plants.

The project also included the implementation of a model for controlling the overall environmental impact of the plants, called SIMDET. This system enables the real-time evaluation and quantification of effects of plant emissions on the soil.
SIMDET automatically receives, in real time, both the plant emissions data and the meteorological data required for the mathematical models of dispersion of pollution in the atmosphere. The system then maps the effects on the soil within the entire area served by Hera.

Concentrations of atmospheric emissions of waste-to-energy plants (2006)

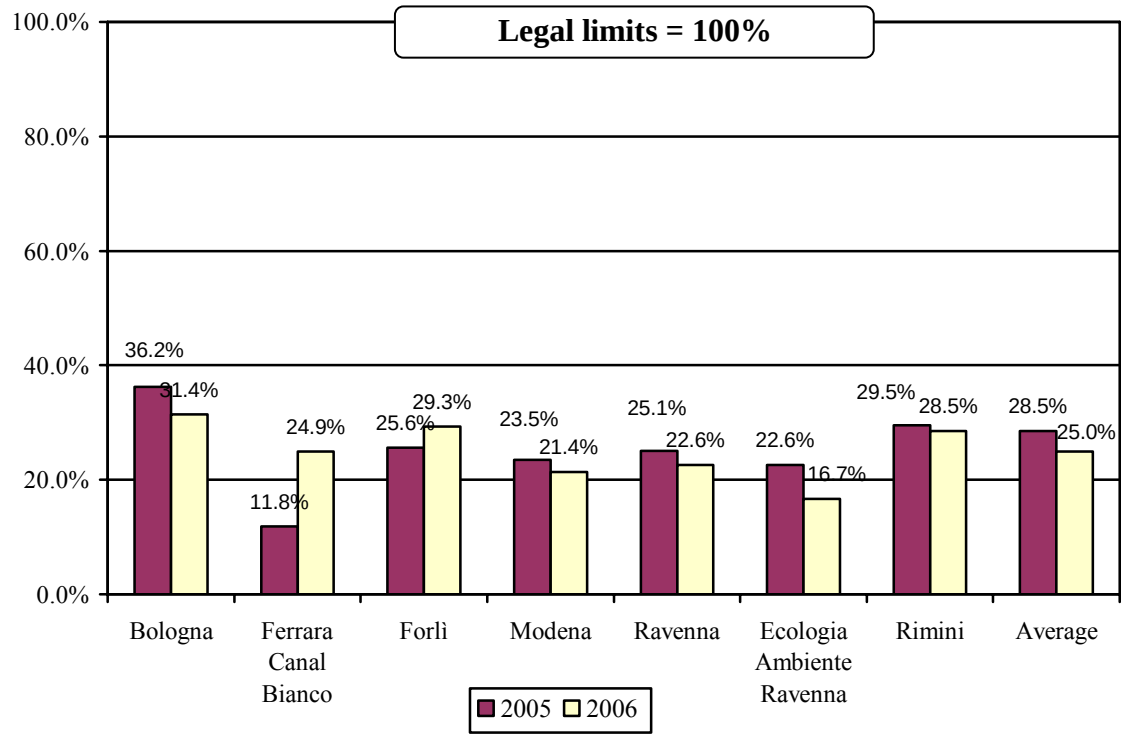
(mg/Nm3)	Legal limit (daily average)	Bologna[1]	Ferrara	Forlì	Modena	Ravenna	Ravenna Ecologia Ambiente[2]	Rimini
Dust	10	1.2	1.9	4.3	0.9	0.9	0.3	1.5
Hydrochloric acid	10	0.4	0.7	2.2	0.8	0.05	0.3	4.7
Nitric oxide	200	82.7	142.0	125.4	174	168.6	102.1	137.3
Sulphur oxide	50	7.4	7.8	3.6	1.0	0.3	3.0	2.8
Carbon monoxide	50	14.2	6.0	5.9	0.6	9.2	1.6	3.0
Total metals	0.5	0.030	0.080	0.117	0.006	0.06	0.01	0.09
Aromatic polycyclic hydrocarbons	0.01	0.00005	0.0010	0.00218	0.00013	0.0008	0.00003	0.00126
Dioxins and furans(ng/Nm3)	0.1	0.006	0.016	0.026	0.003	0.01	0.01	0.004
Total organic carbon	10	0.9	0.3	3.5	0.9	0.2	1.5	1.7

The legal limits refer to legislative decree 133/2005.
[1] The legal limits for the waste-to-energy plant in Bologna are lower than those for the other plants. Dust: 5, Hydrochloric acid: 5, Nitric oxides: 150, Sulphur oxides: 25, Carbon monoxide: 35.
[2] The legal limits for the Ecologia Ambiente waste-to-energy plant in Ravenna differ from those for the other plants. Nitric oxides 150, aromatic polycyclic hydrocarbons: 0.0001.

What are nanoparticles?
Particulate matter, suspended particulate matter, atmospheric dust, powder, and total suspended dust (TSD): these are synonyms which identify the group of substances suspended in the air which, accumulating in the lower layers in variable quantities and qualities from place to place, form the pollutant with the greatest impact on the quality of air in urban areas.
Nanodust, or nanoparticles, is a subcategory of particulate matter which is extremely small, composed of all solid an liquid particles dispersed in the atmosphere, with a diameter less than 0,1 micron.
Particulate matter is produced by natural sources (erosion of rocks and sand blown by the wind, fire and water dispersed in the air), or anthropic (traffic – engine emissions, residue from tyres or combustible oils, wearing of the asphalt, heating plants, industry— cementworks, foundries, waste-to-energy plants, open air quarries and mines, wear of building and construction materials, even the cooking of foods and cigarette smoke).

Several studies conducted in California and Great Britain have estimated that emissions of ultra-fine particles by waste incineration plants contribute by 1-2%, compared to the contribution of traffic of 40-60% and industrial activities and fixed energy production plants, including domestic, at 23-32%.

Compliance of waste-to-energy emissions with legally established limits (optimal value <100%)



The indicator is calculated on the basis of the ratio of the mean of the daily averages of concentrations of dust, hydrochloric acid, nitric oxide, sulphur oxide, carbon monoxide to the legal limits.

The various Hera Group waste-to-energy plants fall well within the limits set by current laws. The best environmental systems used are directed toward ongoing improvement, leading also to falls in certain emission parameter values.
On average, the concentrations of atmospheric emissions of the waste-to-energy plants amount to 25% of the legally established limits, or the authorisations, when more restrictive. This means that on average, concentrations are 75% lower than legal limits.

Atmospheric emissions generated by district heating

Atmospheric emissions generated by district heating

(t)	2005	2006
Nitric oxides	129.4	118.7
Sulphur oxide	11.9	4.4
Carbon dioxide	135.699	124.957

The data regarding 2005 differ from that published in the 2005 Report due to the updating of the estimation parameters from Corinair 1999 to Corinair 2004.

Atmospheric emissions generated by district heating

t	Nitric oxides	Sulphur oxide	Carbon dioxide
Bologna	49.6	3.6	49.051
Ferrara	26.5	0.8	21.603
Forlì-Cesena	6.7	0	4.985
Imola-Faenza	25.6	0	41.002
Modena	10.2	0	8.265
Ravenna	0.1	0	51
Total	**118.7**	**4.4**	**124.957**

To ensure comparability of 2005 and 2006 data, the 2005 emissions were recalculated applying to the quantity of fossil fuels the same parameters and criteria used for 2006.
Compared to the previous year, emissions of pollutants decreased (-8% for nitric oxide and carbon dioxide, -63% for sulphur oxide) both due to the seasonal effect which led to a decrease in the demand for heat energy, and due to the different composition of sources, which aimed at minimising the use of combustible oil in favour of the use of thermal energy produced by waste-to-energy plants.

Atmospheric emissions avoided by district heating

(t)	2006
Nitric oxides	13.8
Sulphur oxide	137.1
Carbon dioxide	62.580

The emissions avoided are calculated as the difference between emissions that would have derived from traditional plants (considering a thermal plant fuelled for 35% by gas-oil and for 65% by methane, and an electricity plant with average emissions for Italy), compared to emissions from district heating plants for the same amount of energy (heat or electricity).

Corporate fleet

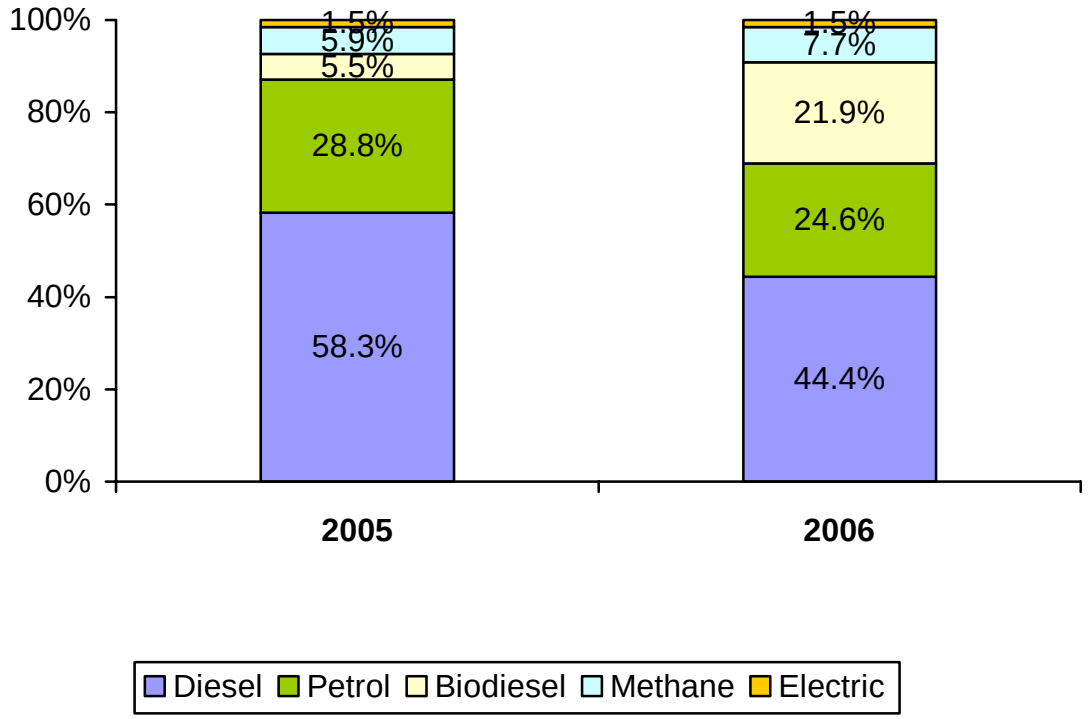
Hera's entire fleet is managed with a view to optimising vehicle management and technological development while paying constant attention to the question of the environmental impacts: atmospheric emissions, noise, etc. The guidelines followed are the same as those of previous years. In addition, new vehicles are assigned to the activities requiring the longest distances of travel in order to reduce the number of kilometres travelled by the vehicles which pollute the most.

Fleet (no. of vehicles)

(no.)	2004	2005	2006
Diesel	1,397	1,826	1,203
Petrol	951	1,214	1,035
Methane	162	231	339
Biodiesel	126	130	348
Electric powered	92	92	73
Total	**2,728**	**3,493**	**2,998**

Non-circulating vehicles being disposed of were not included.

Kilometres travelled by vehicles



146 new vehicles joined the fleet in 2006 (108 are methane-fuelled). These vehicles substituted the same number of vehicles which did not comply with the most recent regulations.
In 2006, the number of vehicles fuelled by biodiesel increased and, at the end of the year, specifically involved vehicles with diesel engines of the Hera logistics centres in Bologna (Frullo), Forlì, Ravenna and Rimini. It is planned to extend the use of biodiesel to Ferrara in 2007. The biodiesel used is a mix composed of 75% gas-oil and 25% esterified rape seed oil. The use of biodiesel reduces the emissions of particulate matter by approximately 50% and leaves the emissions of carbon monoxide and sulphur oxide substantially unchanged. The reduction in the emissions of carbon dioxide (greenhouse gas) are directly proportionate to the 25% share of biological product in the mix.

Mobility Management
In 2006, Hera consolidated the actions directed towards reducing the environmental impact (traffic, atmospheric emissions, noise, energy consumption, etc.) of the commuting of Group staff at the Bologna area Berti Pichat and Frullo locations.
Awareness and facilitation actions were conducted to reduce private car transport and increase use of less environmentally harmful means of transport. These actions consisted in promotion of commuting by public transport and bicycle. At the close of 2006, more than 166 staff members took advantage of special conditions for a 50% discount on the purchase of yearly bus and train tickets (+10% compared to 2005). For the use of bicycles, special conditions were offered (up to a maximum payment of 50 euro per person for the purchase of a bicycle and accessories or for maintenance).

The shuttle bus service between Stazione Centrale (Central Station), Berti Pichat and Frullo runs regularly, eight times a day. It is operated for the benefit of commuters to the two premises, while also providing an internal mobility system for staff mobility during working hours between Frullo and Berti Pichat. The service is entirely free for all Group staff members.
Yearly monitoring data of the Hera headquarters in viale Berti Pichat reveal that, between 2003 and 2006, the number of cars used for commuting per 100 employees has fallen from 74 to 65, a reduction of more than 10%, and a decrease of over 200,000 km travelled per year. This is a highly significant result since the 950 staff members based at the Berti Pichat location include many shift workers, and senior and other management team members. The nature of the tasks of these operators works against use of public transport. Car travel has been replaced mainly by bus and train travel and, to a lesser extent, by use of bicycles and the company shuttle service.
For 2007, increased use of the incentives provided is planned. More specifically, we will attempt to define an agreement with the municipality of Bologna for a new company shuttle bus to serve the Roveri area, an industrial area where approximately 40 Group employees operate.
In 2007, feasibility studies will be complete aimed at defining mobility management activities for the Ferrara, Imola, Modena and Rimini premises.

Greenhouse gas emissions

International agreements (the Kyoto Protocol above all) and EU Directives agree on the intention of controlling and progressively decreasing atmospheric emissions of greenhouse gas, which is capable of holding infrared radiation from the sun , thus increasing the quantity of thermal energy held within the earth's atmosphere.
These substances are generated through the process of oxidation of carbon; nonetheless, if the carbon originates from biomass, this has null effect on the global effect, while if the carbon is of fossil origin, it produces greenhouse gas once it is oxidised and emitted into the atmosphere. The greenhouse gas emissions of the Hera Group plants are evaluated based on this principle, taking into account the fact that methane has a greenhouse effect which is 21 times greater than that of carbon dioxide.
For example, composting has null effect, as it only oxidised carbon from carbon dioxide biomass. On the contrary, landfills, though the biodegration process acts almost completely only on the biomass, generates methane, in addition to carbon dioxide, which as a significant greenhouse effect.

Kyoto Protocol compliance ratings

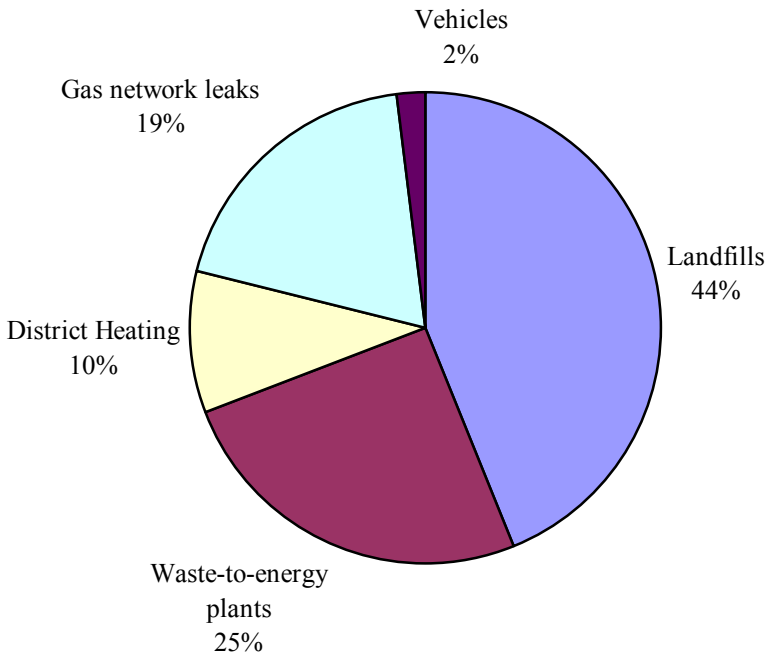
(t)	2005	2006
ACER Barca (Bologna) power station	135%	76%
ACER Pilastro (Bologna) power station	1341%	277%
COGEN (Bologna) power station	77%	62%
Ecocity (Bologna) plant	88%	84%
San Giacomo (Bologna) power station	147%	127%
Montericco (Imola) power station	93%	88%
Centrale integrativa (Ferrara) (supplementary power station)	224%	238%
Ecologia Ambiente (Ravenna) plant	118%	108%
Average	**107%**	**95%**

The Kyoto protocol compliance rating (%) indicates permitted quantities divided by real emissions. A value over 100% indicates that the level of authorised emissions has been exceeded.

Eight Hera plants have greenhouse gas emission permits. These plants are located in various areas: Hera Bologna (5 plants), Hera Ferrara (1 plant) Hera Imola-Faenza (1 plant), Hera Ravenna (1 plant, managed by Ecologia Ambiente). With the exception of the plant managed by Ecologia Ambiente, these plants are practically all methane gas-fuelled and provide urban district heating. In some cases, this service combines with electricity production (co-generation plants). Elsewhere, this service combines only with heat production.
Hera aims to extend district heating since this is a service which reduces pollution (it replaces small home or condominium boilers, some still running on gas-oil or fuel oil). However, gradual extension of this service, which requires increased thermal energy production levels, led also to measures being taken against the most highly developed district heating grid service plants (above all, Ferrara). These measures were based on mechanisms of calculation of emission quota allocation on the part of the national allocation plan (PNA – Piano Nazionale di Allocazione) during the first year of functioning of the Emission Trading regulations.
During 2006, following substantial modifications to the Ferrara district heating plant, due to the installation of 3 new boilers, the request was submitted for updating the levels of emissions authorised. The request was accepted, but the decree which confirms the integration of the quotas for 11,110 tonnes for the three-year period 2005-2007 has not yet been released; therefore, these amounts were not yet counted.

In 2006, the plants operating under the Emission Trading regime emitted approximately 15,000 tonnes fewer than the authorised limit, also as a result of significant interventions. With the approval of the National Allocation Plan 2008-2012, a reduction of 13% in authorised emissions is expected, compared to the Plan 2005-2007.

Breakdown of total greenhouse gas emissions (2006)



The greenhouse gas emissions shown in the chart represent the main sources of emissions linked to Hera's operations. In detail, below we define the components included and several exclusions:

- landfills: methane from biogas which is given off by the landfill matter, plus carbon dioxide from the combustion of tapped biogas;
- waste-to-energy plants: carbon dioxide from the combustion of waste, from which quotas were taken for the presence of biodegradable substances;
- district heating: carbon dioxide from the combustion of methane to fuel the district heating grid, with methodological application of the calculation set forth by Emission Trading.
- gas leaks: calculated as the difference between the methane input into Hera stations and the methane invoiced to customers; thus, this calculation includes physical losses (due to breakage of pipes) and administrative or apparent losses (errors in meter measurement, errors in estimates of consumption at 31 December);
- motor vehicles: carbon dioxide from the use of fuels.

Waste collection

The Hera Group is a major player in the field of municipal waste management. Waste management is conducted by local operators in Italy on the basis of concessions lasting on average approx. 10 years. Hera manages this service in the areas regulated by 7 Water and Waste Regulatory Authorities (including Florence, under the Firenze ATO, for a small portion of the Tuscan Apennines), corresponding to the pertaining provinces

in which Hera is operational. Hera thus covers an area made up of 133 municipalities, with approx. 2.3 million inhabitants. In addition, the commercial operations of 10 municipalities are managed (Hera carries out collection services, not disposal services), including three in the Marche and 7 in the province of Modena. Total municipalities served by Hera in 2006 amounted to 143.
The area covered by Hera has the highest per capita waste production rates in Italy (Emilia Romagna's waste production rate was 666 kg per inhabitant in 2005 vs. the Italian average value of 539 kg).
The non-separate and assimilated waste collection service consists mainly in bin emptying. The bins are distributed throughout the area. Collection is mainly by means of side-loading waste compactors. The waste from non-separate collection is transferred for disposal either immediately or following temporary storage in transfer stations.
Temporary storage enables optimised transport to disposal plants, while separation allows for reducing the amount sent to the landfill.

Municipal waste collected

(t)	2004	2005	2006
Separate waste collection	355,875	452,773	487,968
Non-separate waste collection	904,736	1,157,705	1,123,605
Total	**1,260,611**	**1,610,478**	**1,611,573**

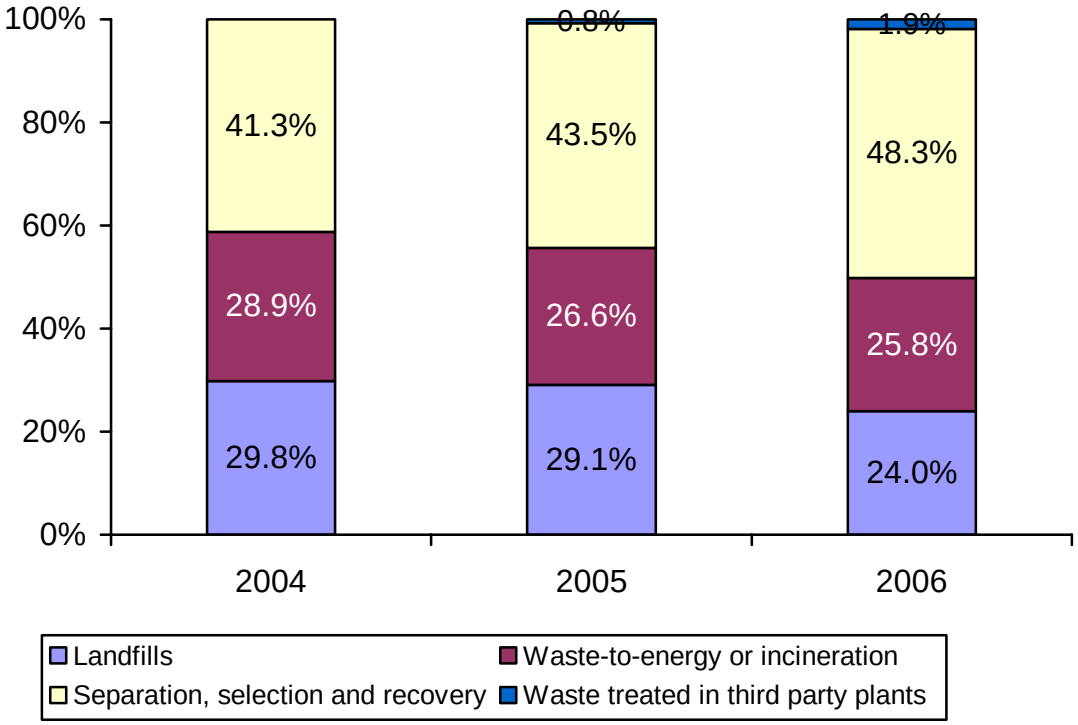
Municipal waste collection (breakdown by Territorial Operative Companies)

(t)	2004	2005	2006
Hera Bologna	318,294	380,736	380,596
Hera Ferrara	96,742	99,546	96,202
Hera Forlì-Cesena	252,808	252,797	263,075
Hera Imola-Faenza	127,732	128,190	131,467
Hera Modena		254,493	236,374
Hera Ravenna	222,742	233,794	236,892
Hera Rimini	242,293	260,922	266,967
Total	**1,260,611**	**1,610,478**	**1,611,573**

In 2006, there was no significant increase in waste collected. There was a variation in the waste collected in the Modena and Forlì area due to a change in the composition of municipalities served. The change in Rimini is due to an increase in waste deriving from the shore.

The underground drop-off point in Riolo Terme
In November 2006, an underground drop-off point in the municipality of Riolo Terme was created and began operations. The new underground drop-off point enabled the elimination of 6 large bins (3,200 litres) and thus significantly improved the urbanistic impact of the waste collection system on the entire area involved. The creation of this drop-off point led to a drastic reduction in the impact on traffic, gaseous emissions of vehicles and the wear-and-tear on high-quality roadways.

Non-separate municipal waste collected (breakdown by destination)



Levels for waste collected by Hera and subjected to landfill disposal have fallen: from 29.8% in 2004 to 24% in 2006. This reduction corresponds to an increase in the waste subject to separation, selection and recovery, partially deriving from the increase in separate waste collection.
In 2006, the percentage of waste treated in the waste-to-energy plant or incinerated decreased mainly as a result of the closure of the Conchetta incinerator in Ferrara (the only waste incineration plant without energy recovery).

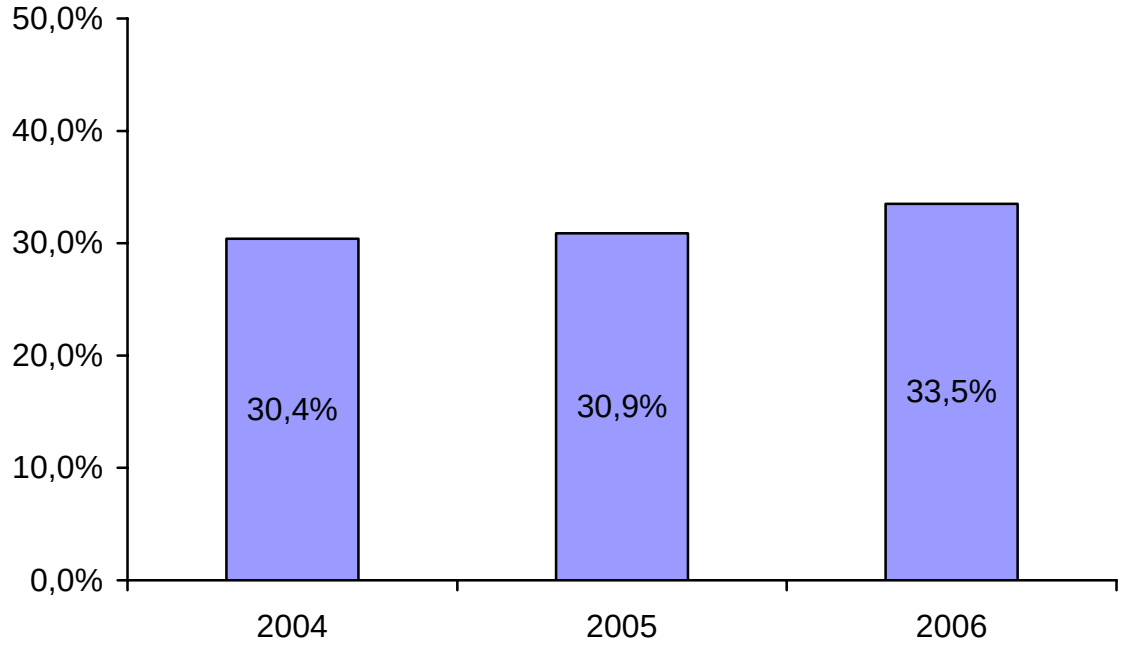
The Hera integrated waste management system (WMS)
The organisational model for Hera's separated waste collection system is characterised by:
- a collection system using differentiated bins throughout the area, primarily targeted to residential users and small, non-residential users throughout the area;
- a door-to-door waste collection service for production and commercial businesses, targeted to users which produce specific waste or those within specific urban areas;
- a system of collection through the Equipped Drop-Off Points, which are complementary to the other systems, and which complete the services provided to businesses and targets which are not served through the other systems.

This system can lead to the achievement of 50% of waste being separated, with limited impact on costs, and thus on the tariffs for customers.
Hera manages door-to-door services in numerous municipalities, for the collection of organic waste, glass and tins, paper and cardboard, and systems for large users such as commercial or industrial businesses.
Hera intends to further develop the door-to-door collection services in any areas where it can increase the volumes of separate waste collection without affecting the cost and efficiency of the service, the quality of the environment and operations.

Separate waste collection

With regard to separate waste collection, the group carries out both single materials collection (paper, glass, aluminium, plastic, humid fraction, batteries etc.) and mixed materials collection (dry fractions). Over the last few years, levels for separate waste collected have risen. This enables more efficient treatment following collection, also in terms of economic use (production and recovery, and energy). It also reduces landfill, thereby limiting environmental impacts.
Separate waste collection is implemented both in the road circuits and the residential collection, through the use of bins, "igloo" bins and other types of containers. A further system for separate waste collection is implemented through drop-off points, which are dedicated areas equipped with containers, open to the general public, for users to drop-off specific types of waste, which are then collected for suitable recovery or disposal.
Within the area managed by Hera, there are 114 drop-off points. In 2006, 3 new drop-off points were activated within the Territorial Operative Companies of Imola-Faenza, Bologna and Modena. Customers who bring separate waste to the drop-off points, within the municipalities of the TIA, are entitled to a discount linked to the quantity of material dropped-off.
Since 1997, when the Ronchi decree was enacted, up to the present, the companies out of which Hera arose have raised the average levels for separate waste collection from 11% to 33.5% (net of quantities from sweep sweeping). In Italy, separate waste collection in 2005 amounted to 24.3% (Source: Rapporto APAT 2006).

Separate waste collection



The separate waste collection level was calculated while taking into account the "progetto di DPCM sulla raccolta differenziata del 5/6/97" (prime minister's decree on separate waste collection project of 5/6/97) which takes from the total of separate waste collected "a 10% quota corresponding to street sweeping

waste, since it cannot be recovered in any way". The percentage is calculated excluding waste from the shore, and including assimilated waste delivered for recovery by the producer.

Separate waste collection (breakdown by Territorial Operative Companies)

%	2004	2005	2006
Hera Bologna	26.0%	25.5%	27.4%
Hera Ferrara	36.3%	36.8%	37.7%
Hera Forlì-Cesena	23.0%	26.6%	30.2%
Hera Imola-Faenza	26.1%	28.2%	30.7%
Hera Modena		26.8%	34.2%
Hera Ravenna	41.0%	42.4%	43.1%
Hera Rimini	22.8%	23.5%	27.4%

The percentage is calculated including the quantities of waste deriving from road sweeping, and excluding the waste from the shore. Among the separate waste collected, assimilated waste delivered for recovery by the producer is also included in the calculation. The differing criteria for assimilation laid down by the Water and Waste Regulatory Authorities and municipalities may be responsible for quota differences from one area to the next. The percentage of Hera Modena for 2006 was calculated excluding the quantity of municipal waste from the municipalities where only the commercial activities are managed. The percentage for Hera Rimini was calculated including, in agreement with the Rimini Water and Waste Regulatory Authority, also certain amounts of special waste collected through separate collection.

"Sustainable" municipal half-way house in Ferrara

This is a project of the province of Ferrara, the Environmental Inspectorate, with the collaboration of various institutions and associations, including Hera Ferrara. This project involves about 80 inmates of the municipal half-way house in via Arginone in various activities, including a writing contest on the issue of sustainability and a series of educational seminars on ecological issues. Hera's contribution involves separate waste collection from this structure, with specific collection of used batteries. It is also planned to install an equipped drop-off point inside the structure.

The main purposes of separate waste collection

The recovery of **paper and cardboard** avoids deforestation and allows for saving water and energy. Paper is recycled and reissued into the circuit of consumption in the form of wrapping paper, paper pulp, and packaging cardboard. Any type of paper can by recycled into cardboard, excluding laminated paper, oiled, sandpaper and carbon paper.

Plastic is a more significant problem for the environment, as, when it is no longer used, it remains unchanged over time and is not biodegradable. The plastic collected in the bins for separate waste collection is sent to recycling plants, and can be used to produce benches, children's toys, automobile components, fibres for padding, joints and sockets for pipes, sweaters, sports gloves and ski outfits.

Glass is a material that can be recycled. This allows for significant savings of the energy and raw materials needed to produce it. Glass can be made into bottles, food jars, and window panes.

Aluminium is a metal which requires significant energy use to produce. In fact, production of an aluminium tin requires 20 times the energy used to recycle the same amount of material. The aluminium recovered is melted and reused.

Green waste comes from cuttings and prunings from parks and gardens. One collected, they are sent to a composting plant where, after they are mixed with other organic waste, the natural biodegration process is reproduced and accelerated under completely controlled conditions. Upon completion of the process, compost is created which is useful for fertilising the soil.

Dangerous waste (i.e., batteries, drugs, paint, etc.) is sent for disposal to specific plants equipped with suitable technology (controlled landfills, incinerators for dangerous waste, treatment plants).

Separate waste collection for large users in Modena

Under an agreement with local municipalities, Hera Modena has begun a project for door-to-door separate waste collection of paper and cardboard, for commercial businesses in the town centres of both Modena and the other municipalities, and for testing the collection of separate waste also for travelling merchants. The Modena Military Academy also actively collaborates in the process of separate waste collection: Hera Modena has set up a drop-off point outside the Academy. In 2006, this point collected 63 tonnes of separate waste, 57% of the total waste of the Academy. As a result, Hera decided to reward the Academy for its significant commitment.

Separate waste collection (breakdown by waste type)

(t)	2004	2005	2006
Paper and cardboard	68,481	86,052	98,313
Green waste	58,287	77,883	85,015
Glass	37,547	46,879	47,975
Organic waste	36,805	42,601	45,126
Plastic containers	7,260	10,084	11,080
Mixed materials	70,365	80,648	79,711
Bulky	51,363	65,838	35,913
Other	25,767	42,788	84,835
Total	**355,875**	**452,773**	**487,968**
Kg per inhabitant	**183**	**197**	**212**

In 2006, 212 kilogrammes of separate waste was collected per inhabitant, an increase of 8% compared to 2005. Hera's data is substantially in line with the volumes collected in the north of Italy (203 kilogrammes in 2005, source APAT Waste Report 2006) despite the fact that the percentage of separate waste collected in the north of Italy (38% in 2005) is greater than that for Hera.

Sand refining in the Ravenna area

In 2006, the mobile sand refining plant used for cleaning coastal areas of the municipality of Ravenna treated 23,872 t of material: 18,761 t of sand was recovered and used to re-sand the coasts of Marina Romea and Punta Marina; 4,807 t of non-reusable fractions was disposed in landfills and approximately 300 t of wood and other materials were recovered.

In 2006, the sand refining plant in Cervia processed approx. 8,450 m^3 of dirty sand: this plant recovered 6,450 m^3 of clean sand (76%), about 1,075 m^3 of shells (13%, sent for recovery to be used as supplements in poultry feed), approximately 700 m^3 of primary and secondary non-reusable fractions (non-reusable fractions of waste vary depending on the season and the level of rainfall, as well as the intensity of storms) and approximately 200 m^3 of fine sand and silt.

Material targeted for recovery (2006)

(t)	From non-separate waste collection	From separate waste collection	Total
Total waste collected	1,123,604	487,967	1,611,572
Total waste targeted for recovery	99,370	444,374	543,744
% of waste targeted for recovery	**8.8%**	**91.1%**	**33.7%**

Much of the material from separate waste collection must be discarded and earmarked for disposal insofar as it is mixed in with other waste and cannot be separated from it by the normal techniques adopted. Within mixed materials, the percentage of material which cannot be recovered reaches up to 50% of the waste collected in some areas.
In 2006, 91.1% of the waste collected separately was transferred to plants for recovery of materials. In addition, a portion of waste not collected separately is treated in mechanical separation plants. These plants generated approx. 100,000 tonnes of waste for recovery in 2006 (approx. 9% of total non-separate waste collected)
In terms of the effective recovery of material, single material collection (paper, glass, metal) has an insignificant share of material which cannot be recovered. A part of the non-recoverable share is made up of plastic, which requires selection in order to fall within the limits of the Consortium for Recovery of Plastic Packaging Materials (COREPLA).

Management of RAEE (Waste from Electrical and Electronic Appliances)
As regards RAEE, Hera has initiated an innovative project which allows it to take an active role in the integrated management of this type of waste (environmental and technical/economical certification and guarantees of all collection – transport – recovery processes), for the purpose of collecting and sending for recovery over 9,400 tonnes of electric and electronic equipment. Specifically, the Group set out formal guidelines, defining and standardising the methods for collecting and sending household RAEE to the drop-off points, and the drop-off stations located throughout the area. This was done in order to standardise and optimise the collection systems and the subsequent storage, transport and treatment phases, guaranteeing customer satisfaction and responding to the needs of the local areas.

Waste disposal

Waste treatment activities are conducted in order to recover materials to be reused in production cycles, to produce electricity and/or thermal energy, to re-introduce residues generated by treatment processes into the environment, and to obtain less hazardous landfill waste.

In 2006, the portion of waste directly disposed of by landfill was 38.4%, (this percentage decreased by 24%, considering only the municipal waste directly sent to the landfill); compared to the average value for the Emilia Romagna region of 54% and the average value for Italy was 60% (Source: "Rapporto Rifiuti APAT 2005"). Hera's

Environment Division manages treatment of solid and liquid, municipal and industrial waste (including hazardous waste). It does so by means of a complex system of plants and installations based on the most modern technologies. All the treatment plants managed by Hera (except the chemical and physical treatment plants of the Modena companies) have applied for integral environmental authorisation.
Hera uses mechanical separation plants, waste selection plants, and waste-to-energy plants. It also manages landfills for non-recovered materials or materials which cannot be recovered in the form of matter or energy.

11,317 tonnes of chemical reagents were consumed in disposal plants, 21% more than the previous year. This increase is linked to the lesser emissions of acidic pollutants (hydrochloric acid and sulphur oxide) from plant chimneys. In fact, the total quantities of hydrochloric acid and sulphur oxide emitted in all plants decreased by approximately 10% from 2005 to 2006, while maintaining the same quantity of total waste treated by all plants (approx. 2-3% less).

In EMAS registered treatment plants, water consumption amounted to 179,448 m^3, 24% more than the previous year. In some plants, part of this water is reused as, for example, it derives from the treatment systems adjacent to the plant, or because it is reused within the production cycle. In 2005 and 2006, the water reused amounted to approximately 20% of total water consumed.

Disposal of waste in Europe
The trends relating to waste disposal strategy adopted by the more advanced countries has been clear for years: more separate waste collection, greater use of waste-to-energy plants (energy recovery); less use of landfills.
Data from a Eurostat study reveals the differences between Italy and Europe: in 2005 in EU countries (15 European countries), 113 kg of waste was incinerated per capita, while in Italy this amount to only 62 kg.

Waste treated by type

(t)	2005	2006
Municipal waste	1,597,221	1,581,137
Special waste	2,172,129	2,250,865
Total	**3,769,350**	**3,832,002**

The increase in waste treated by the Hera Group derives from the development of the special waste market. The share of waste disposed of in waste-to-energy plants decreased slightly, following the closure of the Conchetta incinerator in Ferrara. The increase in waste disposed of via landfill is affected by the entrance of the plant managed by ASA in the scope of consolidation (excluding these plants, waste disposed of via landfill decreased by 4%).
For the future, a further increase in the share of special waste disposed of is foreseen, and an increase in the capacity of composting, selection and waste-to-energy plants.

The "Domocomposter" project in Rimini
Implemented in 2005 by Hera Rimini, the "Domocomposter" project continued to be successful and to attract the interest of the general public. In 2006, this project continued with the free distribution of a home composting kit, also in other municipalities in the Rimini area, providing a further 1,126 kits in addition to the 4,000 distributed in 2005.

Municipal and industrial waste (breakdown by plant type)

(t)	2004	2005	2006
Separation plants	256,124	8,975	36,871
Selection plants	195,373	284,845	307,514
Waste to Energy plants	451,257	614,010	597,583
Compost plants	269,613	300,482	335,227
Landfill	983,334	1,343,248	1,472,317
Stabilization and chemical and physical treatment	622,480	742,358	704,996
Plants of third parties	n.a.	475,432	377,495
Total	**2,778,181**	**3,769,350**	**3,832,002**

The data refer to plant inflow waste. Duplication may therefore be included. Some of the waste, for example, may be treated in selection plants and then targeted for landfill disposal following selection treatment. Since 2005, the outgoing waste from plants which were counted among the final use plants were subtracted from the quantities treated in the separation plants.

Progress of work on new plants
With regard to progress of work on new Hera waste-to-energy treatment plants, please note:

- Ferrara plant: start-up is planned for the second half of 2007;
- Forlì plant: start-up is planned for the close of 2007;
- Modena plant: start-up is planned for the first half of 2008;
- Rimini plant: The authorisation procedure concluded in December 2006; the project is being planned, and the acquisitions have begun of all electro-mechanical components.

The authorised disposal capacity of Hera's waste-to-energy plants will increase from 663,000 to 996,000 tonnes; and electricity produced will increase from 277 GWh to 592 GWh. An additional advantage derives from the fact that the new plants will be equipped with the most modern technologies in order to increase plant efficiency and reduce environmental impact.
The plant upgrading plan was also financed by a loan from the European Investment Bank. Before granting the loan, the EIB verified the environmental impact of the plan.
As a result of these upgrades, it will be possible to reduce the use of landfills for disposal of municipal waste without pre-treatment.

Porotto woods in Ferrara
Within the scope of its commitments undertaken by signing a memorandum of understanding with the Municipality of Ferrara and the Provincial Administration, Hera Ferrara created a public woods as an environmental compensation project to the upgrading of the Canal Bianco waste-to-energy plant.The size of the woods is 6 hectares. It is located between the residential centre of Porotto and the waste-to-energy

plant, and adds to the wooded area of approximately half a hectare previously planted in 2006. Over 5,500 plants and bushes were transplanted to the area.

Municipal and industrial waste disposal (breakdown by plant)

(t)	2004	2005	2006
Rimini waste-to-energy plant	126,027	123,897	125,543
Bologna waste-to-energy plant	179,686	188,075	199,451
Ferrara Canal Bianco waste-to-energy plant	38,841	35,880	39,504
Ferrara via Conchetta incinerator	20,501	21,806	0
Forlì waste-to-energy plant	41,483	43,224	50,247
Ravenna waste-to-energy plant	44,719	44,592	46,131
Modena waste-to-energy plant		106,640	103,707
Ecologia Ambiente waste-to-energy plant*	n.a.	49,896	32,999
Total waste-to-energy plants and incinerators	*451,257*	*614,010*	*597,583*
Civitella (FC) landfill	0	0	17,779
Busca (FC) landfill	136,956	165,081	131,972
Ravenna strada Romea km 2.6 (1C RA) non-dangerous landfill	181,476	199,282	234,982
Ravenna strada Romea km 3.8 (2B RA) landfill	705	10,007	1,402
Ravenna strada Romea km 2.6 (2C RA) dangerous landfill	1,360	22,025	4,169
Lugo (RA) landfill	47,404	47,892	10,390
Galliera (BO) landfill	23,728	69,101	157,965
Baricella (BO) landfill	116,072	90,503	41,862
Tre Monti Imola landfill	214,332	243,104	242,496
Il pago Firenzuola (FI) landfill	73,882	71,302	16,757
Ravenna strada Romea km 2.6, formerly 2B super (Sotris) landfill	15,000	15,876	18,983
Ravenna strada Romea km 2.6, formerly 2B super (Sotris) landfill	60,000	60,342	67,660
Ca' Leona (FE) landfill	5,321	0	0
Modena 1C landfill		263,249	198,097
Modena 2B landfill			21,488
Montefiorino landfill			2,274
Zocca landfill			22,787
Sogliano (external) landfill	107,098	85,482	103,525
A.S.A. landfill			177,730
Total landfill	*983,334*	*1,343,246*	*1,472,317*
Akron Coriano (RN)	23,999	47,183	43,574
Akron Mordano (BO)	28,499	41,183	47,846
Akron Lugo-Cotignola (RA)	77,940	75,669	52,404
Ferrara (Ecosfera)	36,935	38,827	36,974
Inert stores	n.d.	81,983	14,473
Other Hera plants			112,243
Other external plants	28,000	0	0
Total selection plants	*195,373*	*284,845*	*307,514*
Rimini	27,273	31,465	0
Romagna Compost (FC)	8,938	11,685	10,777
Nuova Geovis S. Agata (BO)	118,670	126,768	149,452
Nuova Geovis Ozzano (BO)	16,000	16,765	4,310
Voltana (RA)	0	17,025	0
Recupera Voltana (RA)			33,025
Recupera Rimini (RN)			34,904
Recupera Ostellato (FE)	98,732	96,775	102,759
Total composting plants	*269,613*	*300,483*	*335,227*
Forlì PTN chemical phys.	39,166	40,639	27,579
Ravenna chemical phys.	163,132	138,250	170,627
Ravenna sludge treatment	100,000	149,081	134,936

(t)	2004	2005	2006
Ecologia Ambiente chemical phys.	n.a.	26,381	51,850
Ecologia Ambiente dryer	n.a.	6,446	0
Alfonsine chemical phys.	30,326	28,504	16,952
Russi chemical phys.	17,049	14,741	4,916
Lugo Ravenna stabilization and chemical phys.	111,605	117,821	97,246
ITFI Bologna stabilization and chemical phys.	131,000	139,929	117,707
Sotris stabilization	13,800	12,500	16,982
Chifibi Ferrara plant	16,402	13,463	9,896
Modena Area 2 chemical physical plant			31,899
Modena Area 3 chemical physical plant			5,569
Modena CTIDA Area 3 chemical physical plant			1,739
Soloric plant Modena			17,098
Modena stabilization and chemical phys.		54,604	
Total stabilization and chemical phys. plants	*622,480*	*742,359*	*704,996*
WDF Ravenna	126,153	2,373	4,814
Bologna	115,450	4,733	2,275
Akron Tremonti separation plant		1,865	29,782
Forlì	14,521	4	0
Total mechanical separation plants	*256,124*	*8,975*	*36,871*
Plants of third parties	n.a.	475,432	377,495
Total plants of third parties	*0*	*475,432*	*377,495*
Total	**2,778,181**	**3,769,350**	**3,832,002**

* In 2005, including gaseous waste and other waste disposed of in other Ecologia Ambiente plants.

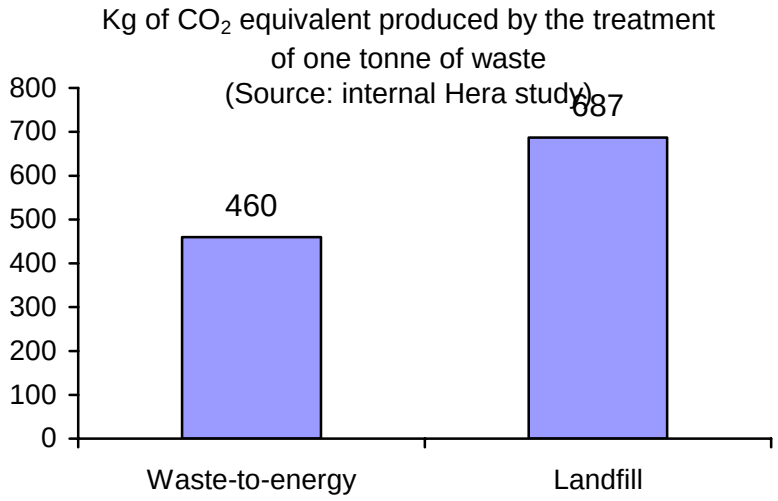
Environmental impact of landfills and waste-to-energy plants

National and international regulations unequivocally identifies the landfill as the waste disposal system with the greatest environmental impact, and expresses a clear preference for waste-to-energy plants for waste management.

A study carried out by Hera enabled an easily understandable comparative evaluation based on two fundamental aspects of waste management: the possibility of recovering energy and the emission of greenhouse gas.

Hypothesize the disposal of one tonne of waste in a new generation waste-to-energy plant, and one tonne of waste in a landfill, created and managed in compliance with current regulations, and equipped with energy recovery of the biogas produced.

The emissions of carbon dioxide, reduced by the share deriving from the disposal of the biodegradable portion of waste, are greater for landfills and smaller for waste-to-energy plants.



Also considering the production of electricity, and calculating an "Eco-scale index", which represents the

quantity of energy produced for the same amount of greenhouse gas emitted, the waste-to-energy plant is approximately three times more efficient than the landfill.

Post-closure management of landfills

The operations of a landfill do not cease with the transfer of the waste to the landfill (called the management period). In most cases, the post-closure management of landfills is much longer than the operational management period. Legal regulations require a post-closure management period of at least 30 years. During this time, the manager must control and guarantee the perfect operation of the barriers against groundwater pollution, transport, analyse and treat the leachate produced by the mass of waste, carry out analyses on the surrounding environment and ensure the covering of the landfill in order to seal closed the mass of waste. Lastly, according to regulations, post-closure management is accompanied and concluded through environmental restoration, by planting and re-naturalisation of the area in order to enable the use, even partial, of the area involved.

The total of these activities affect the overall cost of management of the entire life-cycle of the landfill and, as a result, also affect the disposal tariffs, for a variable quota of 15% to 30% of the total.

Waste produced by Hera

The activities managed by the Hera Group generate various waste types. On the basis of the characteristics relative to waste type, following production, the waste may be subjected to recovery processes (energy or material) or disposal (managed internally by the group). For example, waste from the maintenance of company parkland are treated in composting plants, and leachate from landfills is treated at chemical-physical-biological plants.

The table below provides the data regarding the main types of waste produced during the management of the integrated water service and waste treatment.

The full integrated water service process includes treatment and disposal of wastewater treatment sludge. Over the last few years, rapid changes in the regulatory scenario have seriously impacted wastewater treatment sludge management, both economically and logistically. As a means of disposal, agricultural sludge spreading was widespread up until just a few years ago. Nowadays, increasingly severe restrictions with regard to concentrations of substances (Emilia-Romagna Region, Decrees of the Regional Government no. 2773/2004 and no. 1801/2005) have led Hera to increase disposal by landfill or incineration, And to carry out research into new methods for final disposal of sludge. In 2006, feasibility studies were carried out regarding three areas:

- the application of current technologies: traditional drying and co-incineration of municipal waste at the waste-to-energy plant, incineration at dedicated plants;
- the application of technologies not used within Hera: biostabilisation, wet oxidation;
- the application of experimental technologies: non-conventional drying.

While waiting for the completion of feasibility studies and the realisation of the plant infrastructure required, for 2007, disposal methods are planned which will result in an increase in thermal treatment and dehydration, and a reduction in the use of landfills.

The reuse of sludge in agriculture following treatment is also expected to increase slightly.

Main wastes produced by Hera

(t)	2006
Sludge generated by water offtakes, potability treatment and distribution	112,959
Wastewater treatment sludge	168,394
Sand from water treatment	30,836
Ash from wastewater treatment sludge incineration	3,533
Other sludge produced by TOCs (sewer cleaning, septic tanks, etc.)	39,986
Other waste produced by TOCs	3,761
Electrofilter dust	14,885
Waste-to-energy plant waste	90,486
Solid waste from incineration	21,488
Sludge produced by chemical-physical-biological plants	42,239
Sludge treatment water	78,125
Separated oils produced by chemical-physical-biological plants	816
Surnatant from chemical-physical-biological plants	706,975
Leachate from landfills	212,032
Scavenging water/sludge	15,860
Fuel derived from waste	40,527
Non-reusable fractions from plants for selection and for the production of fuel from waste	113,876
Other waste from Environmental Division storage and plants	10,670
Total	**1,707,448**

The data from 2006 is presented in the table, without comparison to the previous years, because the items have been reclassified in such a way as to render comparison difficult.

The following are the disposal methods used for the main types of waste produced by the Group's operations:

- sludge generated by water offtakes, potability treatment and distribution: dehydration, landfill, reuse in environmental renovation works;
- dust from waste-to-energy plants: stabilisation and subsequent disposal in suitable controlled landfills;
- waste from waste-to-energy plants: disposal in suitable controlled landfills;
- surnatant from chemical-physical-biological plants: treatment in biological treatment plants;
- leachate from landfills: treatment in biological treatment plants;
- fuel derived from waste: transformed in a specific waste-to-energy plant of the Group;
- non-reusable fractions from plants for selection and for the production of fuel from waste: disposal in suitable controlled landfills.

Biodiversity

Starting in the 1980's, attention began to be focused on the concept of biodiversity, and the problems relating to the progressive loss of biological diversity due to human activities became the subject of numerous international conventions.

On the European level, the main framework regarding the protection and lasting use of biodiversity is represented by two EU Directives 92/43/EEC (commonly called the "Habitats Directive") 79/409/EEC (called the "Birds Directive").
The Habitats Directive, aimed at conserving biological diversity and, specifically protection a series of habitats and rare animal and vegetable species, requires the member states of the European Union to contribute to the creation of an ecological network called Natura 2000. Within this project, environmentally significant sites are identified, called Special Areas of Conservation (SAC), in addition to the Special Protection Areas (SPA), foreseen by the "Birds Directive".
Hera's waste disposal plants being upgraded and newly built are subject to the Environmental Impact Analysis (EVA) and study of effects on these areas. As of now, no significant effects on the sites of the Natura 2000 network and protected areas have been revealed, both for operating plants and those being built.
In the province of Ferrara, the two largest water collection plants (Pontelagoscuro and Stellata, on the Po river) are located within the Special Protection Area called "Fiume Po da Stellata a Mesola e Cavo napoleonico". Also in the province of Ferarra, the Ostellato composting plant is located within a Special Protection Area.
In the province of Ravenna, the Marina di Ravenna treatment plant is operated, which is located within the Special Area of Conservation SAC "Piallassa Piombone"; in addition, the Ravenna city treatment plant is also operated, which disposes of the wastewater treated within the SPA "Piallassa Baiona". Within these two treatment plants, in order to protect biodiversity, Hera carries out acute toxicity tests. In 2005 and 2006, these tests demonstrated that the water disposed of has a very low level of toxicity.

***Natural artifice* in the province of Ravenna**
At the Ravenna landfill, a project is coming to an end which involves forestation within an area of 41,000 m2. 20 hectares of new woods and approximately 4,000 m of new vines and bushes have been added, for a total of 24,000 new plants. An similar operation was carried out in Voltana di Lugo, where, in the landfill area, 300 new trees and 1,800 bushes were planted. It is planned to transform the current drainage into a canal with rows of trees and bushes, naturally developing, which will also become an ecological corridor connecting ecosystems which are currently interrupted by intensive farming. Around the landfill area, a wooded area of over 50,000 m2 was created, with approximately 4,800 new trees. At Hera Ravenna, the photography exhibition "Artifici Naturali" was set up at the city's Urban Center, alongside educational laboratories and games on the issue of protecting the environment.

Appendices

Glossary

AEEG
Italian Electrical Energy and Gas Authority, formed with law no. 481 of 14 November 1995.

ARPA
Regional Environmental Protection Agency. The system of Regional Environmental Protection Agencies currently includes 19 agencies throughout the country.

BAT
Best Available Technology is the most efficient and advanced industrially available technology which may be applied in technically valid conditions, capable of ensuring a high level of protection of the environment as a whole. It constitutes the baseline used by legislators when setting pollutant emission limits.

Biogas
Term used to refer to a mixture of types of gas (mainly methane) produced by natural bacterial fermentation (in anaerobic conditions, i.e. in the absence of oxygen) of organic residues from waste.

BOD
The term BOD (biochemical oxygen demand) is used to define the amount of oxygen consumed during a specific time period (5 days for BOD 5), at a given temperature, to biodegrade the organic matter present in the water (uptake of oxygen by micro-organisms). A high biochemical oxygen demand indicates intense biodegration of organic matter, and may infer the degree of pollution by biodegradable organic matter. Thus, this is an indirect measure of pollution levels. Its value is expressed in mg/l.

Bonds
Stock loan issued by a company It is a long-term loan: investors are guaranteed the right to annual interest payments at a fixed rate, with return of the capital at a set date.

CIP 6
Ruling no. 6/92 of the CIP (Interministerial Price Committee) concerning incentives for the production of electricity from renewable sources. It determined the tariffs and contributions for the production and sale to ENEL (national electric power utility) of energy from conventional, renewable and assimilated sources.

CIPE
Interministerial Committee for Economic Planning, responsible for laying down the framework for economic and financial policies.

COD
The term COD (chemical oxygen demand) refers to the amount of oxygen required for the complete oxidation of organic and inorganic compounds present in a water sample. Thus, this is an index for measuring the amount of pollutants, mainly organic, in the water. Its value is expressed in mg/l.

Code of Ethics
Document setting forth a number of principles and specifying conduct, commitments and ethical responsibilities to be put into practice by members of the Board of Directors, staff and collaborators of the company.
The Code may be described as a "Constitutional Charter" of a company, a charter of moral rights and duties that establishes the ethical and social responsibilities of all those who work within the organisation.

Cogeneration

Simultaneous production of electricity and thermal energy (in the form of steam).

Composting

Aerobid treatment (in the presence of oxygen) of biodegradable organic waste, whose final product is compost, a soil improver, which can be used in vegetable cultivation.

Corporate governance

The processes, policies, habitual practices, laws and institutions which influence the manner in which a company is managed and controlled. Corporate Governance also covers the relations between the various actors involved (stakeholders, those who have a vested interest of any type in the company).

CSR

Corporate Social Responsibility is the set of social, environmental and economic responsibilities that the company must take on to meet the legitimate expectations of stakeholders.

Dispatching (electrical energy sector)

Defined by the Bersani decree as: activities aimed at providing instructions for the use and the coordinated operation of production plants, the transmission grid and auxiliary services.

Dispatching (gas sector)

Defined by the Letta decree as: activities aimed at providing instructions for the use and the coordinated operation of extraction and storage plants, the transport and distribution network and auxiliary services.

District Heating

Transfer over distances of heat from thermoelectric power stations, co-generation plants or waste-to-energy plants through an energy vector (hot water, superheated water, steam).

EMAS

Regulation no. 761/2001 EC envisages adoption on the part of business concerns of environmental management systems based on policies, programmes, procedures and objectives directed toward improving the environment, and publication of an environmental statement, to be validated by the ECOAUDIT committee.

Ethical funds

This term is used to describe mutual investment funds that aim to choose commitments in shares, bonds and government securities using ethical selection criteria. These parameters are defined as exclusion/inclusion.

Focus group

A surveying technique based on discussion among members of a group of persons. The main aim is to conduct in-depth study of a specific issue in relation to given targets. Interaction between focus groups members provides the basis for the surveying action.

Geothermics

The science dedicated to problems relating to the internal energy of the Earth and to the practical applications of this energy source.

Green certificates

Certificates issued according to the provisions of article 5 of ministerial decree of 11 November 1999. All producers or importers must introduce into the grid a 2% quota of electricity produced from plants fuelled by renewable sources. Production of electricity from such plants takes place according to a regime whereby, for the first eight years, the certification of production from renewable sources (green certificates) has a value, by

right, of 100 MWh. Green certificates can be sold as a means of ensuring compliance with the obligation to introduce energy from renewable sources.

Greenhouse gas

These gases are transparent with respect to solar radiation, and prevent the dispersion of heat from the Earth, thus leading to the overheating of the atmosphere. Over and above greenhouse gases of natural origin, the main greenhouse gases produced by mankind are carbon dioxide, methane, chlorofluorocarbons and nitric oxides.

GRTN

Gestore della Rete di Trasmissione Nazionale. (National Electricity Transmission Grid Operator) Article 7 of the European Directive on the internal electricity market (96/92/EC) defines this as: the party responsible for the management, maintenance and, if required, the development of the transmission grid in a given area and the relative devices for interconnection to other grids, in order to guarantee the security of the supply. Article 8 assigns the grid operator the responsibility for dispatching from its power plants in its area, and the determination of use of interconnections to other systems.

Heat pump

This is a device capable of transferring heat from a body at a lower temperature to a body at a higher temperature, using electricity.

Inhabitant equivalent

The concept of the inhabitant equivalent was introduced to allow for comparing various types of sewage (urban, household, industrial) in terms of pollution. Using conversion factors, this term is used to estimate how many inhabitants would be required to produce (with normal domestic sewage) the same amount of pollution.

Generally, one inhabitant equivalent corresponds to 60g of BOD5 per day.

KPI

Key Performance Indicators are specific indicators selected on the basis of corporate information needs. They are used to conduct corporate monitoring. KPIs may be financial, production-oriented, commercial, environmental or social, or may regard more than one aspect.

Leachate

Substance obtained by filtering water and other liquid mixtures through waste.

Mobility Management

Refers to an internal corporate department in charge of managing staff commuting.

NH4

The term NH4 (ammonia nitrogen as NH4) is used to define the concentration of ammonia ions in water. It provides an index of biodegration of nitrogenous organic substances. Its value is expressed in mg/l.

NM^3

Normal cubic metre (volume of gas at 0°C and 0.1 Mpa).

NOx

Nitric oxides (mainly NO and NO2), gases produced by combustion of fossil materials. Nitric oxides contribute to the formation of ozone in the lower atmosphere and acid rain.

OHSAS 18001

The OHSAS 18001 (Occupational Health & Safety Assessment Series) standard is an internationally recognised benchmark for certification of workplace health and safety management systems.

PM10

Particulate matter, or dust, of a diameter of less than 10 microns from various sources (natural or generated by mankind). PM10 includes a variety of solid or liquid particles of differing characteristics. Given their smallness, they tend to remain suspended in the air.

Renewable energy sources

Renewable energy sources are: wind, solar, geothermal, wave motion, tidal, hydraulic, biomass, landfill gas, treatment process gas and biogas. Biomass means the biodegradable parts of products, waste and residues generated by farming (including vegetable and animal substances), forestry and associated industries, as well as the biodegradable parts of industrial and urban solid waste.

SA 8000

International certification standard regarding respect for human rights, respect for workers' rights, safeguards against exploitation of minors, and guarantees with respect to workplace health and safety conditions.

Services Charter

Corporate document setting quality standards for corporate services.

Social cooperatives

Cooperatives regulated by law no. 381 of 8 November 1991. This law breaks these cooperatives down into two types:

type A = cooperatives providing social, health and educational services.

type B = cooperatives operational within the production and labour sectors which have, among their members, a level of at least 30% who are disabled or otherwise face hardship.

Stakeholder

Stakeholders are persons with vested interests. They may or may not belong to the company of which they are a stakeholder, and they may have a bearing on the decisions, conduct or success of a company.

Subsidence

Sinking of the soil caused by lowering of the underground water table, in turn caused by withdrawal of groundwater at a faster rate than the natural recharging time.

Sustainability Report

An instrument which accounts for the impacts of corporate activities on three dimensions of sustainability: Economic, social and environmental.

Sustainable development

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs". (Brundtland, World Commission for Economic Development, 1987).

Toe

Tonne of oil equivalent. Conventional unit of measurement of sources of energy equivalent to 10,000 Mcal (= the energy obtained from combustion of a tonne of oil).

TSS

The term TSS (total suspended solids), which are the cause of the turbidity of liquids, means the total amount of suspended solids and filterable solids. This represents the total substances present in the sample following drying, at 105°C. Its value is expressed in mg/l.

Turboexpander

Machine that transforms energy of a given kind (e.g. potential energy) into mechanical energy, made available for use via a rotating axis. The resulting energy may in turn be

used for the production of other energy (e.g. by coupling an alternator to the turbine to enable the alternator to exploit the mechanical energy to produce electricity).

UNI EN ISO 9001:2000

International technical standard for certification of quality systems (also known as "Vision 2000").

UNI EN ISO 14001 Standard

International technical standard for certification of environmental management systems.

Waste

Legislative decree no. 22 of 5 February 1997 defines waste as "any substance or object which the holder disposes of or has decided or is required to dispose of". This decree classified waste based on its origin, as urban or industrial, and, according to the level of dangerousness, as dangerous or non-dangerous.

Waste-to-energy plant

Plants using waste as a fuel to produce heat or energy.

Water and Waste Regulatory Authorities (ATO)

The ATO water and waste authorities, based on law no. 36 of 1994, defines the local level or organisation of the integrated water services in order to overcome the fragmentation of management and to reach suitable sizes for the areas managed the regional law defines the borders of this area based on the water use basin.

WDF

Waste-derived fuel.

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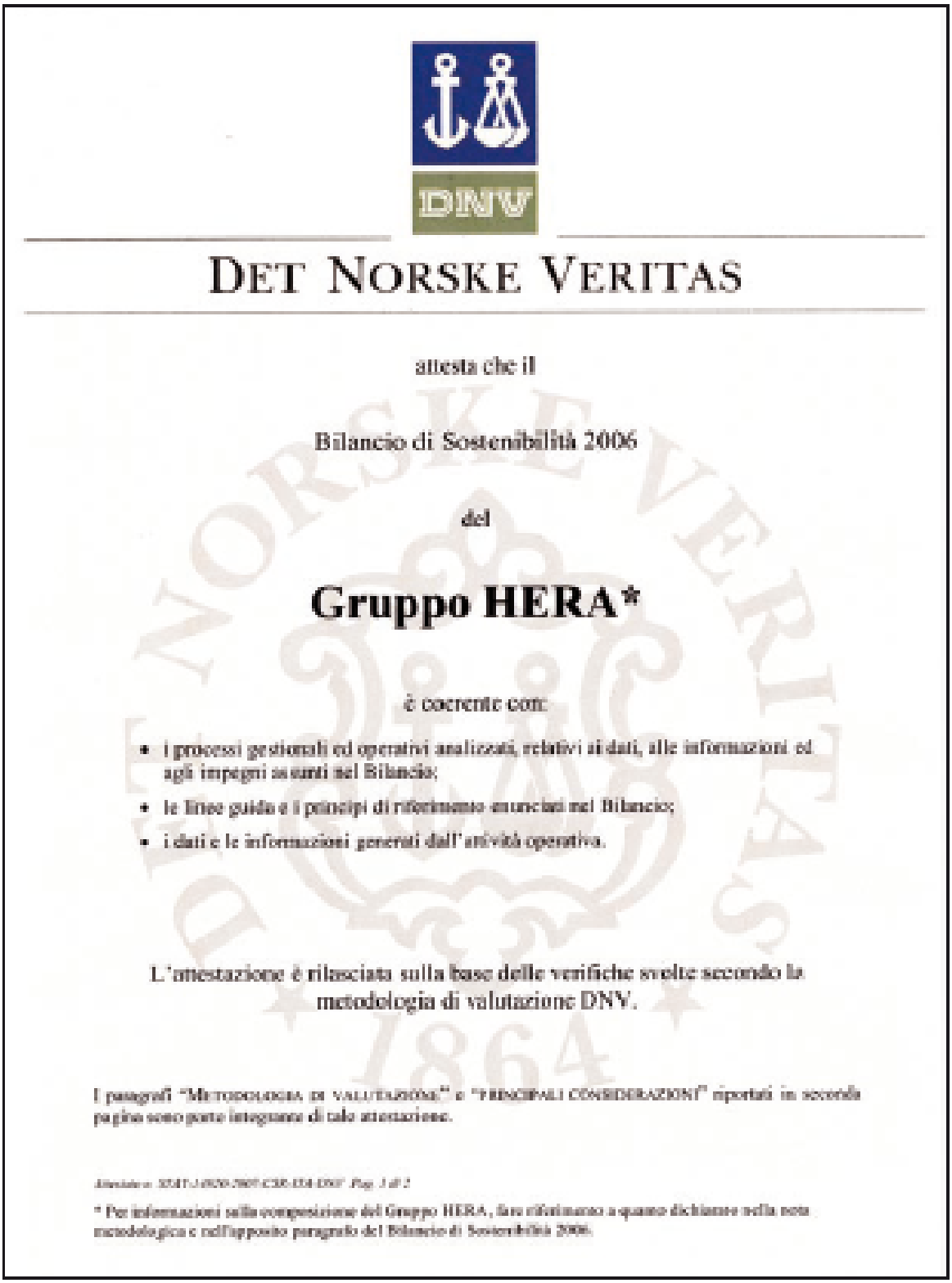

DET NORSKE VERITAS

attesta che il

Bilancio di Sostenibilità 2006

del

Gruppo HERA*

è coerente con:

- i processi gestionali ed operativi analizzati, relativi ai dati, alle informazioni ed agli impegni assunti nel Bilancio;
- le linee guida e i principi di riferimento enunciati nel Bilancio;
- i dati e le informazioni generati dall'attività operativa.

L'attestazione è rilasciata sulla base delle verifiche svolte secondo la metodologia di valutazione DNV.

I paragrafi "METODOLOGIA DI VALUTAZIONE" e "PRINCIPALI CONSIDERAZIONI" riportati in seconda pagina sono parte integrante di tale attestazione.

Attestato n. 3SAT-1020-2007-CSR-ITA-DNV Pag. 1 di 2

* Per informazioni sulla composizione del Gruppo HERA, fare riferimento a quanto dichiarato nella nota metodologica e nell'apposito paragrafo del Bilancio di Sostenibilità 2006.

DET NORSKE VERITAS

METODOLOGIA DI VALUTAZIONE

DNV ha analizzato i processi aziendali che hanno generato i dati riportati nel Bilancio valutato, quindi, come conseguenza di attività stabili e ripetibili.

La verifica si è basata su un esame documentale, interviste e visite presso le sedi operative, secondo le seguenti procedure:

- verifica a campione sui processi che sottendono la generazione, rilevazione e gestione dei dati quantitativi e qualitativi;
- verifica degli impegni della Direzione per lo sviluppo sostenibile;
- riscontro delle informazioni e dei dati tratti dai sistemi gestionali certificati;
- riscontro delle informazioni e dei dati economico-finanziari del bilancio 2006 certificato;
- verifica della completezza del Bilancio rispetto all'inclusione degli argomenti riscontrabili nelle migliori pratiche internazionali.

PRINCIPALI CONSIDERAZIONI

Le limitazioni definite dalle procedure di verifica sono riportate nel Bilancio. In particolare, non costituisce oggetto di verifica l'esattezza dei dati riportati in Bilancio.

In un'ottica di miglioramento continuo e di consolidamento dell'approccio, ed al fine di garantire un processo di gestione responsabile dei temi legati allo sviluppo sostenibile, si evidenzia quanto segue:

- Si raccomanda, per migliorare l'affidabilità del processo di reporting, di consolidare il processo di raccolta e validazione dei dati, in particolare per quelli forniti da società controllate.
- Si raccomanda di migliorare l'informativa sulla modalità di gestione dei vari argomenti trattati (*Disclosure on Management Approach*), al fine di permettere ai lettori una adeguata analisi delle performance.
- Stante la varietà di processi e servizi erogati, si ritiene interessante valutare la possibilità di individuare indicatori maggiormente rappresentativi dell'impatto globale esercitato da Hera.

Il Bilancio di Sostenibilità del Gruppo Hera è stato preparato in accordo alle GRI Guidelines version 3.0 (G3) ed al documento "*Application Level*" secondo il livello A+. Secondo la nostra opinione, il Bilancio è in linea con i contenuti ed i requisiti qualitativi relativi al **Livello di Applicazione A+**.

Agrate Brianza (MI), 2007-04-10

Det Norske Veritas Italia S.r.l.

Georgy Manager: Vittorio Manuppa

Det Norske Veritas Italia S.r.l.

Project Manager: Antonio Astone

Hera's suggestions for safety in the home

- When purchasing a gas-fuelled appliance, be sure that it has been **inspected and certified** by external bodies other than the producer, and affixed with the appropriate **brand.**

- For any works of installation, modification, expansion and maintenance of gas plants, as well as for installation and maintenance of appliances, refer solely to **certified installers.** It is absolutely forbidden to "Do-It-Yourself".

- If you smell **gas**, do not turn on any electric switches. Open the windows immediately, turn off all flames, close the main pilot light of the meter and call **Hera emergency services**, operating 24 hours a day.

- Periodically control that the **flexible tube** which carries the gas to each household appliance is fully intact. However, the tube must be changed every 5 years, even if it seems to be in an excellent state, within the expiration date printed on the tube itself.

- When you go out, also for a very short time, never leave the **stove** burning. When you place liquids on burners, watch them constantly: once boiling they can overflow and blow out the flame, causing dangerous gas leaks.

- The **flame** of the gas burner must be blue and a regular shape. If you note anomalies, clean the burners, brushing hard with an iron brush. If this does not resolve the situation, ask your installer to inspect and carry out maintenance.

- When you are gone from home for a long time, before leaving always remember to **shut off the gas.**

- The **boiler** must be accurately cleaned once a year: this way it will provide maximum security and maximum performance. Remember: a cleaner boiler is more ecological.

- The **flues** must meet specific construction criteria. A clear draught guarantees safety. Thus, each year, before turning on the heating, have a technician check the efficiency of the flue.

- It is indispensable that the **air** required for the regular combustion of gas can circulate in the rooms where the traditional type of gas-fuelled equipment is installed.

Hera eco-tips.

This detachable page of the Report contains tips for gas, electricity and water saving and advice on separate waste collection, for a more sustainable lifestyle.

GAS SAVING

- Regularly check boiler
- Choose a high performance boiler. Replace your old boiler
- Insulate hot water pipes crossing unheated areas
- Repair draughts in doors and windows.
- Place insulation between heaters and external walls
- Insulate your attic.
- Use double glazing.
- Do not cover your radiators with drapes, curtains, panels, etc.
- Apply thermostat temperature controls on your radiators
- Lower the temperature at night and, if you can, install an automatic temperature regulator
- Set the winter home temperature at max. 20°C.
- When cooking, use pan lids and moderate flame

ELECTRICITY SAVING

- Use daylight as much and as well as possible
- Use low-consumption bulbs
- Choose A, A+ and A++ or Energy+ household appliances (position away from heat sources).
- Use low temperature settings for your appliances (no more than 60°), and use them during evening hours.
- Always turn lights and appliances off when not in use (avoiding using stand-by mode).
- Refrigerator and freezer doors should be opened and closed quickly.
- Set fridge thermostat to medium.
- Set air conditioners to 20°C (winter) and to no more than 8°C less than the outside temperature (summer).
- Make sure your electric bathwater heater is maintained regularly.

WATER SAVING

- Repair any home tap leaks
- Choose a shower instead of a bath
- Choose differentiated toilet flush tanks
- Use washing machines and dishwashers when you have a full load; do not use half-load settings. Set temperatures low
- Apply jet-reducing water-saving tap heads
- Don't leave the water running when you don't need it while you're brushing your teeth, washing your hair, shaving or hand-washing dishes.
- Use containers for water reuse; the water you use to wash food or to cook pasta can also be used to water the plants, and the water used for cooking is excellent for washing the dishes
- Water your house plants in the evening. Night-water your garden (mist-spray.
- Always close your mains connection when away on holiday etc.
- When washing your car, use a bucket. Don't use a hose.
- When all taps have been closed, check to see if the meter is running up consumption. If it is, you probably have a leak.
- Never throw out the following in the toilet or sink: cotton buds, cotton balls, makeup removal disks, cigarette butts, condoms, stockings, pads, diapers, plasters or plastic materials, blades, razors, frying oil, animal or vegetable fat, food scraps, or hair. These types of waste can block and damage the mechanical parts of the treatment plant, increase volume and do not degrade over time, causing the obstruction of the water pipe.

SEPARATE WASTE COLLECTION

- Choose products with little packaging.
- When you can, use natural or biodegradable materials.
- Separate waste according to instructions from the local government authority.
- Crush waste for space saving.
- Separate newspapers and magazines from their cellophane wrapping.
- Remove the plastic "window" from envelopes.
- Never place in separate waste: plastic cups, plates and cutlery, CD cases, toys, waxed paper, plastic-coated paper (i.e. from cold-cuts). All of these materials should be included in non-separate household waste.
- Always put your waste in the right bag.
- Before throwing out glass, try to wash bottles and jars and remove their tops.
- Never place ceramic or terracotta, mirrors or bulbs in the glass bin.
- Wash plastic bottles (PET, PVC, PE) and detergent bottles, and crush them length-wise, closing them with their caps.
- Never leave bags, cardboard boxes or packaging of any kind on the ground beside bins or skips.
- Take bulky waste to your local ecological station or drop-off point, or call for free disposal arrangements.
- If you have garden, you might think of using your food scraps as compost.
- Take your waste to the bins in the evening (above all, during the summer months)
- Drink tap water. Save on waste.